angel Trains

Rail People
Real Expertise

INVESTOR REPORT

1st January 2020 - 31st December 2020

Trains

Rail People
Real Expertise

CONTENTS

GENERAL OVERVIEW

1. GENERAL OVERVIEW

Angel Trains Group (the "Group") performed strongly during the period with EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of £438.3m (2019: £419.2m).

The Group has maintained metrics consistent with the Baa2 credit rating throughout the period, confirmed by the Moody's credit update, which also highlighted limited re-lease risk in the medium term.

At 31 December 2020, the Group owned 4,279 vehicles (of which 157 are marked for disposal). This was lower than the 4,509 vehicles owned at 31 December 2019 owing to a number of life-expired vehicles being disposed of. During the year, 75 new vehicles were delivered, with a further 605 vehicles in the process of being manufactured and delivered.

The remaining new Hitachi bi-mode vehicles were delivered during 2020 and the contract to purchase 665 Bombardier Class 720 electric vehicles was migrated into the senior ring-fence during December 2020. The senior corporate structure was also re-organised to simplify the group during the year.

EBITDA 2020

£438.3m

New leases were entered into with nine franchisees (including two franchise extensions) and all vehicles with an economic value are leased.

In addition to the 157 vehicles marked for disposal, the Group has 2 vehicles which are off-lease but have no economic value and are to be retained for spares if no re-lease opportunity presents itself.

The Group shares the Government's vision for transport decarbonisation and its net zero target by 2040. In July 2019, the Rail Industry Decarbonisation Taskforce published its 'Final Report for The Minister for Rail.'

The study was commissioned in response to the challenge to remove 'all diesel only trains off the track by 2040', and is also linked to the UK Government's wider target (set by law) of net zero carbon by 2050 (as recommended by the Climate Change Commission).

> "The Group shares the Government's vision for transport decarbonisation and its net zero target by 2040."

Additionally, it is noted that the Scottish government has greater aspirations and is intending to achieve a net - zero greenhouse gas emissions target date of 2045, with Transport Scotland publishing in July 2020 its rail services decarbonisation action plan with a target date of 2035.

These targets will accelerate demand for, and innovation in, new technology self-powered multiple units, electric/battery bi-mode multiple units and further electric multiple units to support a wider electrification programme.

2040

UK Government's vision for transport decarbonisation and its net zero target

2035

Transport Scotland's rail services decarbonisation target date

SIGNIFICANT BUSINESS DEVELOPMENTS

2. SIGNIFICANT BUSINESS DEVELOPMENTS

2.1 New significant business developments to 31 December 2020

NEW TRAINS

Project management continued with regards to the following new trains, where acceptance was completed in the year:

- 3 x 5-car Hitachi AT300 bi-mode intercity trains (Class 802), leased to Hull Trains Company Ltd, a subsidiary of First Group plc.

Additionally, on 21 December 2020, the Group acquired the assets of Angel Trains Rolling Stock Limited (“ATRSL”). ATRSL was an SPV that was set up to acquire 665 Class 720 Bombardier Aventra vehicles. At 31 December 2020, 60 of the 665 vehicles that were procured for use in the East Anglia franchise had been delivered.

The senior group also signed financing facilities for the new Class 720 procurement, comprising of £430m of fixed rate notes and £397m of bank debt. The debt was not fully drawn and as a consequence of the migration net debt increased by approximately £390m.

The new electric fleet will reduce the proportion of diesel trains that the group owns, reduce the average age of the portfolio and provide a long-term revenue stream.

> Progress continues with the Group's innovative self-charging hybrid research and development project...

REFURBISHMENT PROJECTS AND FUTURE DEVELOPMENTS

The Group continued to engage with the supply chain to ensure the successful completion of modification programmes on all fleets, operating beyond 31 December 2019, in order to comply with Persons of Reduced Mobility regulations.

Approximately, 99% of the required units have been successfully completed. The remaining units have received dispensation to continue passenger service or were already undergoing modification and are expected to complete works during 2021.

In general, our suppliers continue to perform well under challenging circumstances and have not been materially affected by the Covid-19 pandemic. The Group continues to monitor the supply base in ensuring that their continued focus remains on quality and delivery of our projects.

Progress continues with the Group’s innovative self-charging hybrid research and development project in partnership with Magtec Limited and Chiltern Railways to convert an existing Diesel Multiple Unit (DMU) to a Hybrid, using battery technology. The comprehensive conversion works are currently being undertaken on a Class 165 trial unit with performance testing targeted for spring 2021 with the expected performance benefits of the trial being significant reduction in CO2, NOx, Particulate Matter and noise, coupled with an estimated fuel saving of 25% for train operators.

2.2 Re-leasing activity and current fleet utilisation

As at 31 December 2020, Angel Trains owned 4,279 rolling stock vehicles and 159 of these are presently off-lease and are expected to be scrapped or held for spares.

The following leases were extended during the year, as a result of short-term franchise awards/extensions;

- **London & Southern Eastern Railway Ltd**
  The franchise was extended from March 2020 to October 2021, extending the lease of 200 Class 465 and 86 Class 466 vehicles. In addition,150 Class 707 vehicles cascaded into the franchise in September 2020 from First MTR South Western Trains Ltd.

- **Great Western Railway Ltd**
  The franchise was extended from March 2020 to March 2023, extending the lease of 41 HST vehicles, 6 Class 150, 88 Class 165 and 63 Class 166 vehicles. An additional 19 HST vehicles were also leased as part of the extension.

- **Cross Country Trains Ltd**
  The franchise was extended from October 2020 to October 2024, extending the lease of 21 HST vehicles.

The following leases were extended or entered into during the year, outside of the refranchising process;

- **Abellio East Anglia Ltd**
  216 Class 317 vehicles were extended from various dates in 2020 up to various dates in 2021. Additionally, 84 Class 360 that were due to cascade to Abellio East Midlands Ltd in August 2020 were extended until February 2021. They will still cascade to Abellio East Midlands Ltd after this date.

- **Arriva Rail North Ltd**
  10 Class 153 vehicles were extended from December 2020 to May 2021.

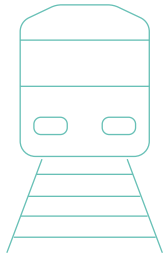
- **Keolis Amey Wales Cymru Ltd**
  30 Class 142 vehicles were extended from June 2020 to December 2020.

- **Keolis Amey Wales Cymru Ltd**
  4 Class 153 vehicles were cascaded from Abellio East Midlands Ltd; a lease was entered into from November 2020 to July 2021.

- **First MTR South Western Trains Ltd**
  150 Class 707 vehicles were extended from March 2020 to August 2020.

- **Abellio ScotRail Ltd**
  18 Class HST vehicles were extended from January 2020 to various dates until March 2023.

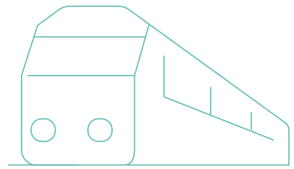
- **Abellio East Midlands Ltd**
  68 Class HST and 4 Class 153 vehicles were extended from January 2020 to May 2021.



4279

Rolling stock vehicles owned by Angel Trains

10



Leases were extended during the year

In October 2019, the Secretary of State announced that Arriva Rail North Ltd would cease to operate the Northern franchise from 1 March 2020. Under the operational control of the Operator of Last Resort (OLR), the franchise was renamed Northern Trains Limited and all existing leases were migrated, on the existing terms and expiry dates, to the new legal entity.

Furthermore, in October 2020, the Welsh government announced Keolis Amey would cease to operate the Wales and Borders rail services from 8 February 2021. Under the operational control of the Operator of Last Resort (OLR), the Wales and Borders rail services will be operated under a subsidiary Transport for Wales Rail Limited and all existing leases will be migrated, on the existing terms and expiry dates, to the new legal entity.

As a result of the Covid-19 pandemic, patronage levels decreased significantly, resulting in a majority of franchise train operators requiring financial assistance from the Government.

After an initial period of financial assistance under the original franchise terms, in September 2020, the Government announced that Emergency Recovery Measures Agreements ("ERMAs") would come into effect.

As part of these ERMAs, franchise agreements will be terminated and a revised termination date and subsequent National Rail Contracts (NRC), with optional extension dates will follow.

The table below shows the impact of the ERMAs, with the table reflecting the amended expiry dates.

The impact of the Emergency Recovery Measures Agreements - reflecting the amended expiry dates:

Franchise	Original franchise expiry (Extension option)	Revised expiry date due to ERMA	National Rail Contract period
Trans Pennine	August 2023 (April 2025)	May 2021	2 years' core 2 year extension option
South Western	August 2024 (June 2025)	May 2021	2 years' core 2 year extension option
Essex Thameside	November 2029 (June 2030)	May 2021	2 years' core 2 year extension option
East Anglia	October 2025 (October 2026)	September 2021	3 years' core 2 year extension option
West Midlands	April 2026 (April 2028)	September 2021	3 years' core 2 year extension option
West Coast Partnership	April 2031 (April 2034)	March 2022	4 years' core 2 year extension option
East Midlands	August 2027 (August 2029)	March 2022	4 years' core 2 year extension option

The table below summarises the Angel Trains fleet by lease counterparty at 31 December 2020:

Franchise Owner	TOC	Total Vehicles	Lease End Dates	Vehicles Leased	Franchise Type
Abellio	Abellio East Anglia Ltd Abellio East Midlands Ltd Abellio ScotRail Ltd	328 156 265 **Total: 749**	Dec - 21 / Oct - 25 Dec - 20 / Dec - 21 / Dec - 22 / Aug - 27 Mar - 22	7.67% 3.65% 6.19% **17.50%**	Franchise Franchise Franchise
Abellio, JR East and Mitsui	West Midlands Trains Ltd	**216**	Mar - 26	**5.05%**	Franchise
Arriva	Chiltern Railways Ltd Ltd Grand Central Railway Company Ltd XC Trains Ltd	97 50 21 **Total: 168**	Dec - 21 Dec - 26 Oct - 23	2.27% 1.17% 0.49% **3.93%**	Franchise Open Access Franchise
First Group	Great Western Railway Ltd First Transpennine Express Ltd Hull Trains	217 95 25 **Total: 337**	Mar - 23 Mar - 25 Dec - 29	5.07% 2.22% 0.58% **7.88%**	Franchise Franchise Open Access
First Group / MTR	First MTR South Western Trains Ltd	**823**	Aug - 24	**19.23%**	Franchise
GB Railfreight	GB Railfreight Ltd	**4**	May - 25 / Jul - 25	**0.09%**	Freight
Govia (Go-Ahead plc 65% / Keolis 35%)	London & South Eastern Railway Ltd	**436**	Oct - 21	**10.19%**	Franchise
Keolis / Amey	Keolis Amey Wales Cymru Ltd	**157**	Dec - 20 / May - 22 / Oct - 22	**3.67%**	Franchise
Rail Operations Group	Rail Operations Group Ltd	**5**	Jul - 24	**0.12%**	Hauler
Serco / Abellio	Merseyside Passenger Transport Ltd	**171**	May - 23	**4.00%**	Franchise
Trenitalia	Trenitalia C2C Ltd	**112**	Nov - 29	**2.62%**	Franchise
Department for Transport	Northern Trains Ltd	**368**	Dec - 20 / Mar - 25	**8.60%**	Franchise
First Group / Trenitalia	First Trenitalia West Coast Rail Ltd	**574**	Mar - 26	**13.41%**	Franchise
	Off lease with no future rent expectations* Marked for disposal**	2 157 **Total: 159**		0.05% 3.67% **3.72%**	* All off lease vehicles are life expired but opportunities are being explored ** Off lease, life expired with no future identifiable opportunities to release
GRAND TOTAL		**4,279**			

2.3 Significant Board/Management changes for the period ending 31 December 2020

The following significant changes of directors and officers in the Angel Trains Group of companies took place during the period, as opposite:

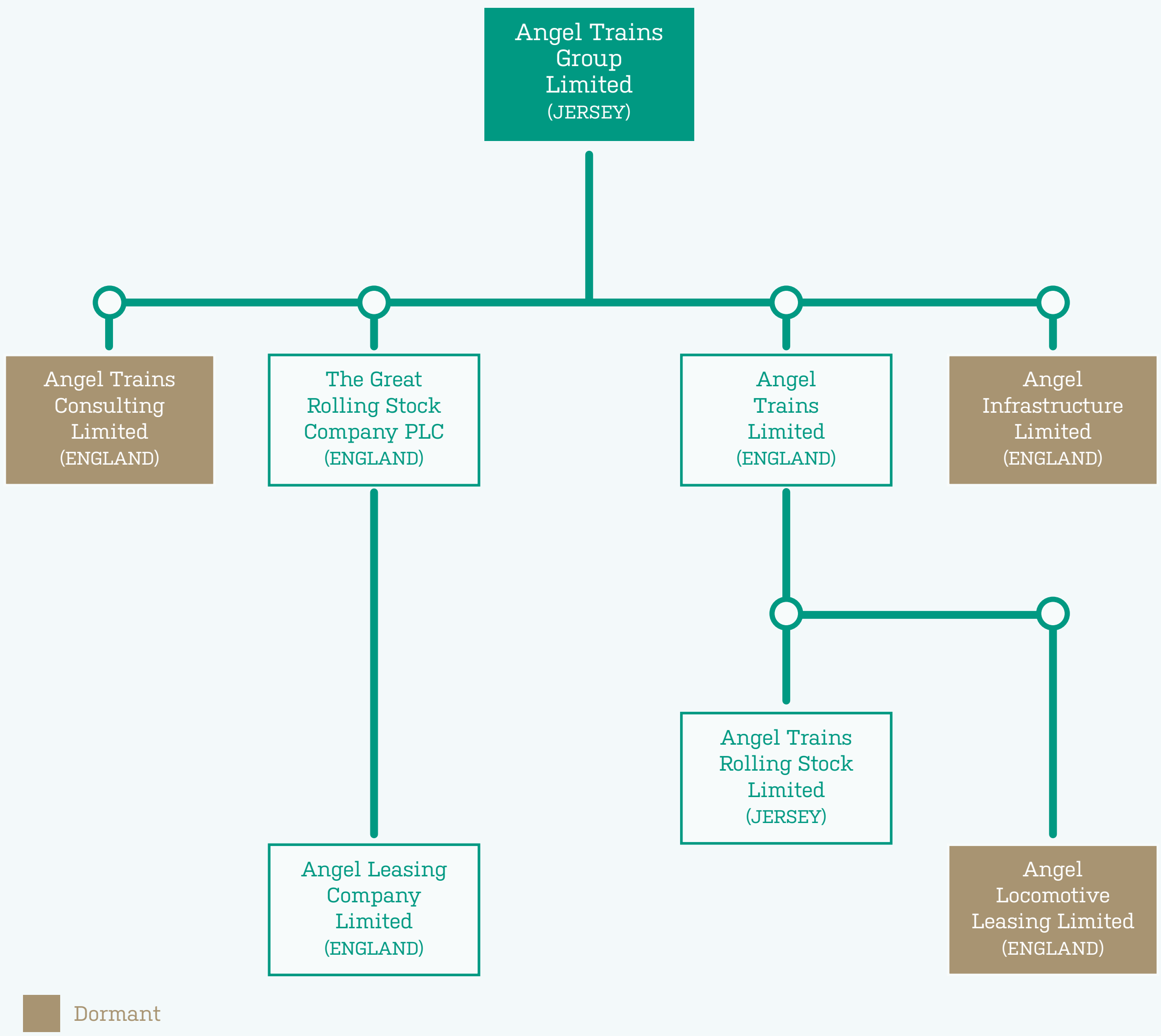
M Brown (appointed 12 July 2020)
N Karunatilake (appointed 21 July 2020)
B Pahari (resigned 21 July 2020)
K Tribley (resigned 21 July 2020)

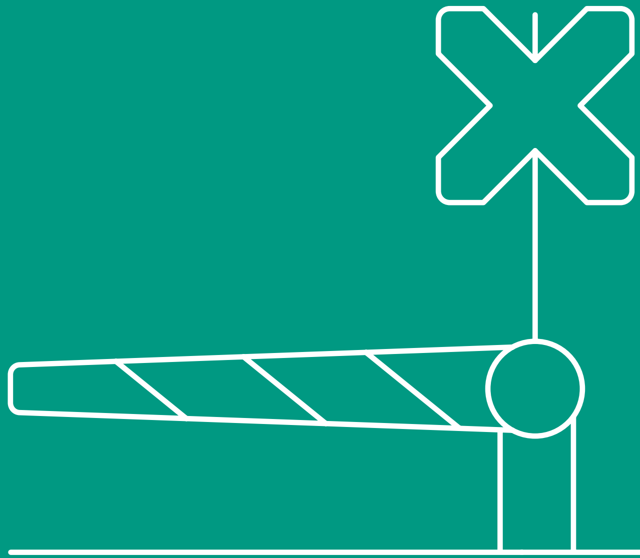
2.4 Corporate Restructure

During the year the Group struck-off a number of dormant companies and simplified the senior ring-fence structure.

The restructure will result in simplified reporting to the lending group and it should be noted that Angel Trains Group Limited is now the senior consolidated company (previously Willow Bidco Limited).

The revised senior ring-fence structure:





REGULATORY / GOVERNMENTAL DEVELOPMENTS

3. REGULATORY / GOVERNMENTAL DEVELOPMENTS

3.1 Significant announcements / publications by any regulator or relevant government department

On the 23 March 2020, the government announced the introduction of emergency measures to support and sustain necessary rail operations as train franchise operators faced significant revenue uncertainty as a result of the Covid-19 pandemic.

The Department for Transport temporarily suspended normal franchise agreements and transferred all revenue and cost risk to the government for an initial period of six months. Initially all franchise train operators transitioned onto Emergency Measures Agreements, ("EMAs") enabling greater flexibility and transferring revenue and cost risk to the government, where they continued to operate services day-to-day for a small predetermined management fee.

After the initial six-month period of financial assistance under the original franchise terms, in September 2020, the Government announced that Emergency Recovery Measures Agreements ("ERMAs") would come into effect. As part of these ERMAs, franchise agreements were terminated and a revised termination date and subsequent National Rail Contracts (NRC), with optional extension dates, became effective providing a future NRC programme to provide industry stability.

The Group has actively continued to engage with the Department for Transport and supported all train operators during this challenging and uncertain period for the UK rail industry.

Following the completion of the Williams Rail industry review in December 2019, the Group awaits the government publication of a White Paper on its recommendations with any reforms expected to be implemented as soon as practicable thereafter. The purpose of the Rail Review is to ensure that the United Kingdom's vital rail services continue to benefit passengers and that it supports a stronger economy. The 'root and branch' review will consider all aspects of the industry including greater train and track integration, regional partnerships and value for money.

The Group welcomes the Rail Review and participated in the initial industry-wide request for information. The Group will continue to support the review recommendations when published and believes its approach to embracing competition, fostering innovation and improving the customer experience through the continued involvement and participation of the ROSCOs is consistent with the review's objectives.

There has been a hiatus to a number of franchise competitions most notably South Eastern and Cross Country resulting in the cancellation of the competitions and the introduction of directly awarded franchises during 2020. However, with the advent of ERMAs and subsequent NRCs a significant level of activity is anticipated over the next three years with a majority of the NRCs incorporating extension options, which in our view, are likely to be exercised in a number of instances.

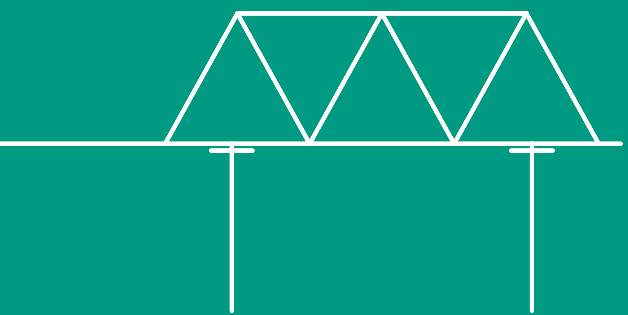
The full and long-term impact of the Covid-19 pandemic is still evolving. The Group will continue to work closely with the Department for Transport, customers and suppliers as the macro economic environment develops.

The Group's pre-existing contracts with train operators continue in force notwithstanding the amended contract expiry dates described above. The impact of the above announcements on the Group remains broadly neutral.

The table below summarises the forthcoming contract awards:

Franchise	Contract Commencement Date	Expiry Date	Extension Option
Essex Thameside	June 2021	March 2023	March 2025
South Western	June 2021	March 2023	March 2025
Trans Pennine	June 2021	March 2023	March 2025
East Anglia	October 2021	September 2024	September 2026
West Midlands	October 2021	September 2024	September 2026
South Eastern	October 2021 (or up to March 2022)	18 months to 72 months	None
Chiltern	December 2021	18 months to 72 months	None
East Midlands	April 2022	March 2026	March 2028
West Coast Partnership	April 2022	March 2026	March 2028

CAPITAL EXPENDITURE



4. CAPITAL EXPENDITURE

4.1 Material matters of capitalexpenditure including future commitments made during the relevant period

During the period the Group incurred capital expenditure of £246.1m (which includes Angel Trains Rolling Stock Limited which was purchased at the end of the year), mainly comprising of:

- Stage payments and capitalised interest for 15 Class 802 vehicles and 665 Class 720 vehicles.
- Modifications for Class 165/166, Class 15x, HSTs, Class 17x, Class 333, Class 390, Class 442, Class 444 and Class 450 vehicles.
- PRM and CSO work on Class 15x, Class 317 vehicles and HSTs.

CAPITAL EXPENDITURE

£246.1m

The Group had total capital commitments of £661.6m as at 31 Dec 2020, mainly comprising of:

- Stage payments and capitalised interest for 605 Class 720 vehicles.
- Retention payments for 120 Class 802 vehicles.
- Modifications to the Pendolino fleet for First Trenitalia West Coast.
- Modifications for the fleets on the West Midlands franchise.
- Modifications for the fleets on the Northern Rail franchise.
- Modifications to the class 360 fleet on the East Midlands franchise.
- Modifications across several fleets with various train operating companies (c£86m).

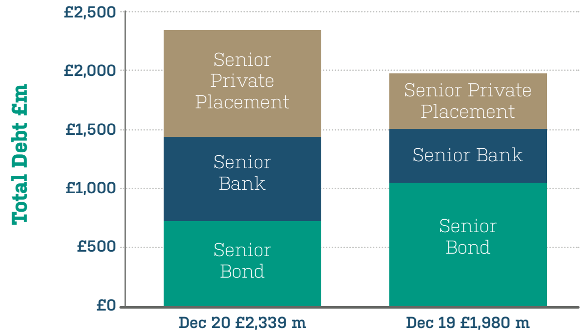
FINANCING

5. FINANCING

5.1 Total Senior debt outstanding at 31 December 2020

The £300m sterling public bond was fully repaid during July 2020. Additionally, the £350m Revolving Credit Facility was extended to October 2025 by the majority of the lenders (one bank opted not to extend and it has a maturity of October 2024).

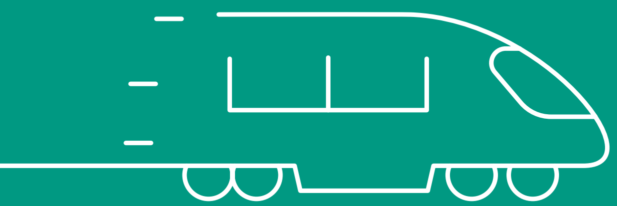
5.2 Senior Debt Facilities: December 2020 v December 2019



Total Debt Outstanding: The Great Rolling Stock Company PLC

Debt Type	Debt Facility	Balance Outstanding	Issue / Facility Limit	Maturity Date
Senior Bond	20-yr Amortising Bond	377,200,000	460,000,000	Apr-31
	25-yr Amortising Bond	377,200,000	500,000,000	Jul-35
	Total for Debt Type	**721,800,000**	**960,000,000**	
Senior Private Placement	Floating Rate Note (EMTN)	60,000,000	60,000,000	Dec-23
	US Senior Private Placement	30,000,000	30,000,000	Jun-31
	US Senior Private Placement	85,000,000	85,000,000	Nov-32
	US Senior Private Placement	200,000,000	200,000,000	Sep-34
	US Senior Private Placement	100,000,000	100,000,000	Nov-37
	Senior Private Placement	427,645,783	437,534,052	Nov-27
	Total for Debt Type	**902,645,783**	**912,534,052**	
Senior Bank	Revolving Credit Facility	0	350,000,000	Oct-25
	10-yr Bullet Debt	137,500,000	137,500,000	Nov-24
	15-yr Amortising Debt	116,875,000	137,500,000	Nov-29
	15-yr Amortising Debt	300,000,000	300,000,000	Oct-33
	10-yr Amortising Debt	160,034,037	396,5000,000	Oct-27
	Total for Debt Type	**714,409,037**	**1,321,500,000**	
Grand Total		**2,338,854,820**	**3,194,034,052**	

HISTORICAL FINANCIAL PERFORMANCE AND RATIOS



6. HISTORICAL FINANCIAL PERFORMANCE AND RATIOS

6.1 Update on financial performance for the year including ratios

EBITDA, the Group's key measure, for the period ending 31 December 2020 was £438.3m (2019: £419.2m). Revenue for the period was £518.2m (2019: £492.3m). The increase from 2019 is mainly due to an increase in capital rentals.

The new Class 802s were introduced in to passenger service and a new lease took effect for the Class 390s on the West Coast Franchise. This was offset in part by a reduction in maintenance lease rentals, as a result of a delay on related maintenance performance obligations that will now occur in the future.

The Group's total external senior debt at 31 December 2020 was £2,338.9m, compared to £1,979.7m at 31 December 2019. The net increase of £359.2m was due to £887.7m Amortising Debt drawn, partly offset by contractual repayments of £342.8m on bonds and bank debt, and a £185.7m decrease in the Revolving Credit Facility.

All senior floating rate debt remained economically hedged and no speculative derivatives were executed. The Senior Interest Cover ratio for the period 31 December 2020 was 3.5, compared to the financial covenant requirement of at least 1.5:1.The Senior Leverage ratio for the year ending 31 December 2020 was 4.8, compared to the financial covenant requirement of no greater than 8.5:1. The Group remains insulated from the direct impact of foreign exchange volatility and the senior debt is hedged for interest rates. All of our revenues are generated within the United Kingdom and they are denominated in Sterling.

6.2 Credit ratings

Moody's completed its annual review for 2020 and affirmed the Baa2 credit rating in January 2021 and confirmed that Angel Trains has limited re-leasing risk in the medium-term, stating that "During the January 2021 to December 2023 period, around 33% of vehicles are expected to come off-lease.

Out of these, around 40% are at the end of their lives. Therefore, only around 20% of the existing fleet will face re-leasing risk during this period, reflecting Angel Trains' strong recent re-leasing performance with higher risk fleets having already been cascaded."

> "Angel Trains has limited re-leasing risk in the medium-term."

OTHER BUSINESS MATTERS

7. OTHER BUSINESS MATTERS

Angel Trains has maintained Rail Industry Supplier Approval Scheme ("RISAS") certification in support of its provision of vehicle overhaul and engineering services. RISAS builds upon Angel Trains existing ISO 9001 approval for quality management.

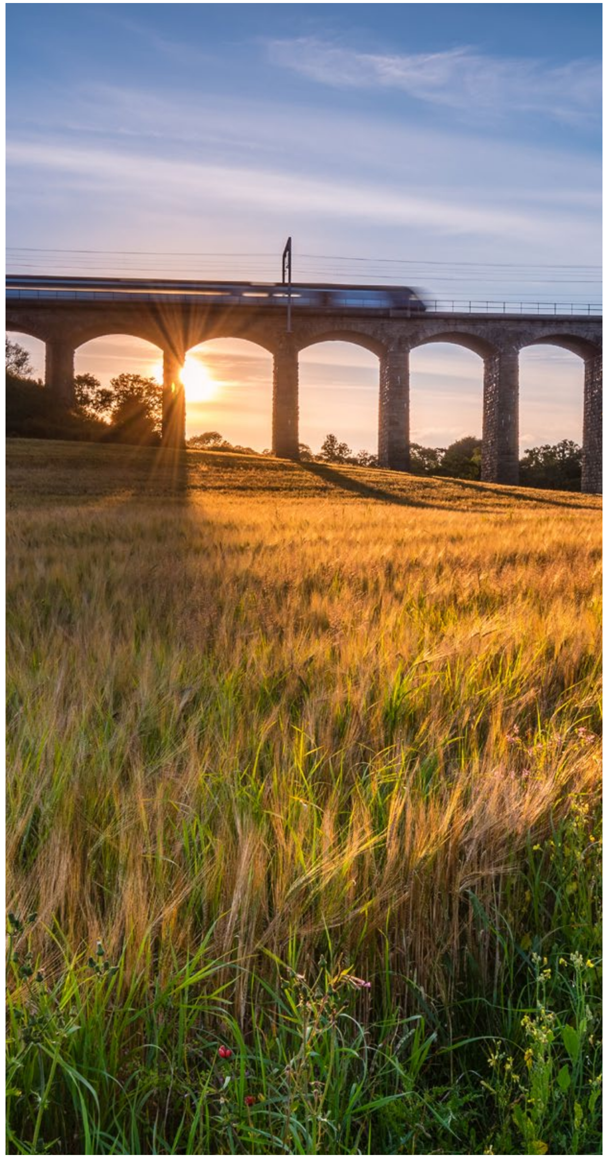
A corporate restructure was successfully completed in December 2020, streamlining the business for the future.

At the start of the pandemic employees made a smooth transition to working at home. We moved from an annual employee opinion survey to regular "pulse" surveys and completed six during the last year.

Participation has remained high, and it has been a useful way of getting direct feedback from employees during lockdown. We have introduced a range of initiatives to maintain employee wellbeing and morale whilst working remotely in ensuring that we continue to support our stakeholders.

The final survey in 2020 showed that employee engagement increased slightly to 8.7 from the previous year which significantly exceeded the overall global benchmark score of 6.7.

The Investors in People Gold accreditation has been retained, against the new higher standard, and there is an action plan for continued success at the next re-accreditation.



INVESTOR REPORT

1st January 2020 - 31st December 2020

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