

Investor Report

1 July 2013 – 30 June 2014



Rail People
Real Expertise

angel^{Trains}

1 GENERAL OVERVIEW

In the 12 months ending 30 June 2014, Angel Trains (the “**Group**”) delivered an increase in EBITDA of £2.3m on the previous 12 month period. There were two bond placements during the period and £135.3m of debt was repaid. Standard & Poor’s reaffirmed the Group’s credit rating as BBB/Stable.

The intense period of refranchising activity continued, with four short term extensions (as a result of the Department for Transport’s (“**DfT**”) Single Tender Action (“**STA**”) process) and one new lease entered into. Between now and 2019, most of the Group’s assets (85.8%) will be due for re-lease. However, a significant amount (c.41%) of the Group’s capital rent is protected by Section 54 undertakings until 2019, with a proportion continuing beyond that until 2025. The percentage of assets on lease at the end of the period increased further to 99.5% of the entire fleet.

The second *Long Term Rolling Stock Strategy* for the rail industry was published in February 2014. The report, produced by a cross-industry group comprising Angel Trains and the other ROSCOs, the Association of Train Operating Companies (“**ATOC**”) and Network Rail, underlines previous scenarios for the future size and makeup of the national rolling stock fleet. It estimates that based on future passenger demand, an increase in the size of the national fleet of between 53% and 99% will be required over the next 30 years. Between 13,000 and 19,000 new electric vehicles will be required over this period, with an average of between eight and 12 needing to be delivered every week. This contrasts with an average of just four per week in the five years to April 2014. For Angel Trains, this strategy provides confidence in the underlying demand for rolling stock and the long term sustainability of the ROSCO market.

2 SIGNIFICANT BUSINESS DEVELOPMENTS

2.1 *New significant business developments for the 12 months ending 30 June 2014*

New Trains

All 40 of the new Siemens Class 350/4 vehicles for First TransPennine Express (“**FTPE**”) (part of the contract signed in February 2012 with a capital value of £133m), were delivered on schedule between December 2013 and March 2014 and successfully entered passenger service with FTPE following driver training. The commencement of this lease with FTPE means Angel Trains now has vehicles on lease with *all* the franchised operators in the UK, as well as with two open access operators - a unique position amongst the ROSCOs.

The first of the 40 Class 350/3 vehicles for London Midland being built under the same contract were delivered in April 2014, with the remainder due for delivery by the end of August 2014.

Refurbishment Projects

The off-lease Class 317/7 unit that was refurbished and re-tractioned under the contract with Bombardier Transportation was launched on 28 November 2013. This unit subsequently entered passenger service with Abellio Greater Anglia, where it will operate for a trial period

of at least 6 months in order to gauge passenger feedback and to complete the final requirements of the contract. It is anticipated that the success of the trial will significantly increase the re-leasing prospects for this fleet and there has already been interest from a number of operators who attended the launch event in November 2013. This project demonstrates the Group's proactive approach to asset reliability and future remarketing and a similar approach will be considered for other fleets if deemed appropriate.

2.2 Re-leasing activity and current fleet utilization

As at 30 June 2014 Angel Trains owned 4,593 rolling stock vehicles, with a fleet utilisation of 99.5%.

The following leases were extended during the period, on existing or improved terms, as the result of short-term franchise awards/extensions;

- A total of 630 vehicles (Class 150, 153, 165, 166, 180 and HSTs) with First Great Western, extended with the franchise for 23 months until September 2015
- A total of 428 vehicles (Class 142, 150, 153, 156, 158 and 333) with Northern Rail, extended with the franchise until February 2016
- Eight Class 317 vehicles with First Capital Connect, extended with the franchise until September 2014
- 28 Class 350 vehicles with London & Birmingham Railway, extended with the franchise until September 2015
- 574 Class 390 Pendolino vehicles with Virgin West Coast Trains, extended with the franchise until April 2017

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

- 177 Class 507 and 508 vehicles with Merseyrail extended until 31 December 2018
- 12 Class 317 vehicles with Abellio Greater Anglia on a short term basis until 20 July 2014 prior to commencement of STA

New build assets delivered during the 12 months ending 30 June 2014 were as follows;

- 40 Class 350/4 vehicles on lease to FTPE
- 28 Class 350/3 vehicles on lease to London Midland

During the period, 11 Class 508 vehicles that were beyond the end of their useful economic life and were in poor condition, having been off-lease for some time, were disposed of.

The following table summarises the Angel Trains' fleet by lease counterparty at 30 June 2014:

| Fleet by Lease Counterparties | | | | | |
|--|---|----------------|----------------|-----------------|----------------------------------|
| FRANCHISE OWNER | TOC | TOTAL VEHICLES | LEASE END DATE | VEHICLES LEASED | FRANCHISE (F) / OPEN ACCESS (OA) |
| Arriva plc¹ | | | | 4.81% | |
| | Arriva Trains Wales/Trenau Arriva Cymru Ltd | 153 | Oct-18 | 3.33% | F |
| | Grand Central Railway Company Limited | 49 | Dec-16 | 1.07% | OA |
| | XC Trains Limited | 19 | Mar-16 | 0.41% | F |
| Directly Operated Railways | | | | 2.59% | |
| | East Coast Mainline Company Limited | 119 | Dec-18 | 2.59% | F |
| DB Schenker¹ | | | | 8.23% | |
| | Chiltern Railway Co. | 97 | Dec-21 | 2.11% | F |
| | DB Schenker Rail (UK) | 281 | Oct-15 | 6.12% | N/A |
| First / Keolis | | | | 0.87% | |
| | First / Keolis Transpeninne Express | 40 | Mar-15 | 0.87% | F |
| First Group plc | | | | 18.86% | |
| | First Capital Connect Limited | 56 | Sep-14 | 1.22% | F |
| | Hull Trains Company Limited | 20 | Dec-16 | 0.44% | OA |
| | First Greater Western Limited | 630 | Sept-15 | 13.72% | F |
| | First ScotRail Limited | 160 | Nov-14 | 3.48% | F |
| Govia (Go-Ahead plc 65% / Keolis 35%) | | | | 12.19% | |
| | London & Birmingham Railway Limited | 154 | Sept-15 | 3.35% | F |
| | London & South Eastern Limited | 286 | Oct-14 | 6.23% | F |
| | Southern Railway Limited | 120 | Jul-15 | 2.61% | F |
| MTR / DB Schenker¹ | | | | 0.35% | |
| | London Overground Rail Operations | 16 | Nov-14 | 0.35% | F |
| National Express Group | | | | 2.44% | |
| | C2C Rail Limited | 112 | Sept-14 | 2.44% | F |
| Serco / Abellio | | | | 19.70% | |
| | Northern Rail Limited | 428 | Feb-16 | 9.32% | F |
| | Merseyside Passenger Transport Services Ltd | 177 | Dec-18 | 3.85% | F |
| | Abellio Greater Anglia Ltd | 300 | Jul-14 | 6.53% | F |
| Stagecoach Group | | | | 16.96% | |
| | East Midlands Trains Limited | 46 | Mar-15 | 1.00% | F |
| | Stagecoach South Western Trains Ltd | 733 | Feb-17 | 15.96% | F |
| Virgin Rail Group (Virgin 51% / Stagecoach 49%) | | | | 12.50% | |
| | Virgin West Coast Trains | 574 | Nov-14 | 12.50% | F |
| Off lease | | | | 0.50% | |
| | Off Lease | 23 | | 0.50% | |
| Grand Total | | 4,593 | | 100.00% | |

2.3 Significant Board/Management changes for the year ending 30 June 2014

It was with great sadness that Angel Trains had to report the death of its Chairman, **Sir David Rowlands**, in May 2014 following a relatively short battle with cancer. Sir David became non-executive Chairman of Angel Trains Group Limited in January 2010 and only last year his appointment was extended for a further three years until December 2015.

¹ Subsidiaries of Deutsche Bahn AG

The Group has now begun the search for a successor to Sir David. In the meantime, **Christopher Cornforth**, non-executive director and chair of the Audit & Risk Committee, has been appointed as acting Chairman with the full support of the Group's shareholders.

3 REGULATORY / GOVERNMENTAL DEVELOPMENTS

3.1 Significant announcements/publications by any regulator or relevant government department for the 12 months ending 30 June 2014

An updated refranchising programme was published by the DfT on 8 April 2014. This timetable includes a series of franchise extensions and/or directly awarded franchises (i.e. without a competitive tendering process) with existing operators until new long term arrangements can be put in place, further prolonging the commencement of the long term franchise in some cases. The table below summarises these extensions and direct awards:

| Franchise | Original Franchise Expiry Date | New Expiry Date | Duration of short-term arrangement |
|----------------------|--------------------------------|-------------------|------------------------------------|
| Essex Thameside | May 2013 | September 2014 | 16 months |
| East Coast | February 2015 | February 2015 | N/A |
| Northern | April 2014 | February 2016 | 22 months |
| TransPennine Express | April 2015 | February 2016 | 10 months |
| Great Western | October 2013 | Sept 2015 or 2020 | 33 or 83 months (TBC) |
| Greater Anglia | July 2014 | October 2016 | 27 months |
| West Coast | November 2014 | April 2017 | 29 months |
| London Midland | September 2015 | June 2017 | 21 months |
| East Midlands | April 2015 | October 2017 | 30 months |
| South Eastern | April 2014 | June 2018 | 50 months |
| South Western | February 2017 | April 2019 | 26 months |
| Cross Country | April 2016 | October 2019 | 42 months |

The impact of the above announcements on Angel Trains is broadly beneficial, particularly for the DMU portfolio, which now has later lease expiry dates than previously envisaged.

The terms of most of the new long term franchises are yet to be announced and will be determined by the circumstances and size of each franchise. However, it is expected that the majority will have an initial term of seven to ten years, with a pre-contracted continuation term of between three and five years, subject to agreed criteria being met by the operator.

4 CAPITAL EXPENDITURE

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

During the period the Group made capital expenditure payments of £75.9m, all of which were funded using internal cash resources:

- Stage payments of £63.3m were made for the 80 new Class 350 vehicles.

- The remaining £12.6m relates to several enhancement and refurbishment projects including: pre-series trial re-traction and interior refurbishment of 1 vehicle, as well as the Return to Service modifications for 23 Class 317/7 vehicles which are currently off lease; Continuous Service Operation (“CSO”) modifications for Class 507/508 vehicles with Merseyrail.

The Group had total capital commitments of £98.6m as at 30 June 2014:

- £21.9m represents the remaining payments for the new Class 350 Desiro vehicles for London Midland, to be fully delivered by September 2014.
- The remaining £76.7m relates to various enhancement and refurbishment projects, including: PRM (Persons of Reduced Mobility)/CSO modifications for First Great Western, Northern, London Midland and Chiltern; and Merseyrail CSO spend in accordance with the lease extension to 2018.

5 FINANCING

5.1 New bond issues

In August 2013, The Great Rolling Stock Company PLC (the “**Issuer**”) successfully priced a £60m private placement through its EMTN (Euro Medium Term Note) programme. The placement was priced at +180bp on a floating rate basis, with a final maturity in 2023. The proceeds from this private placement were used to retrospectively fund the London Midland/FTPE Desiro transaction signed in February 2012.

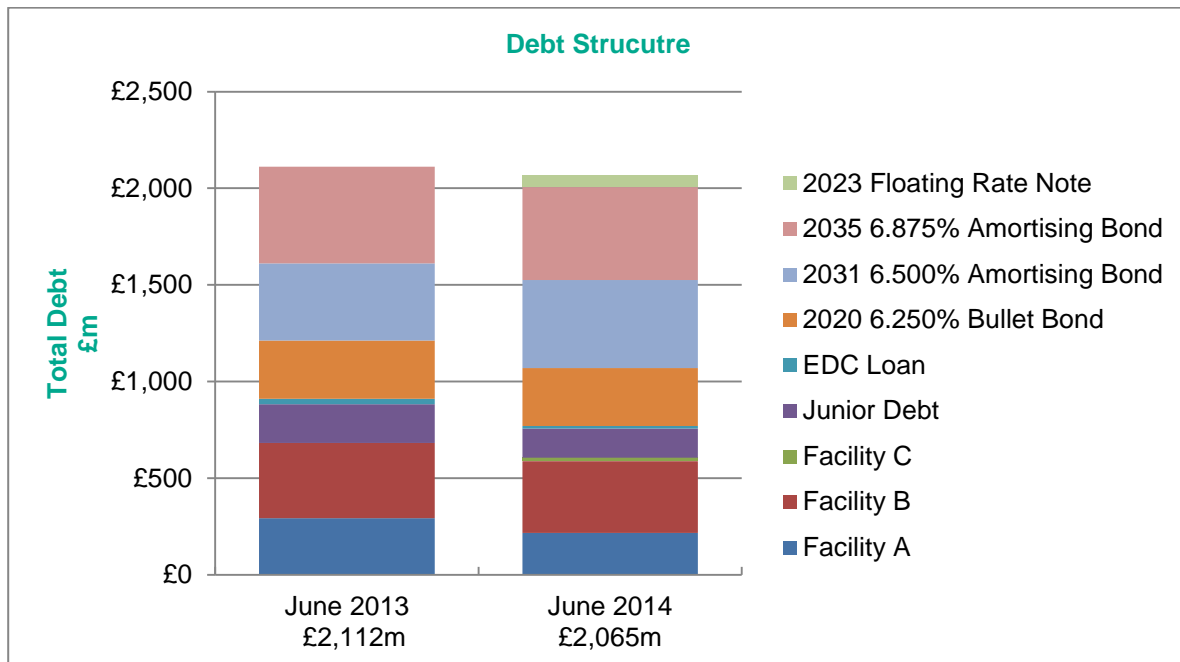
Further to this in November 2013, the Issuer successfully announced and priced a £60m tap of its existing 2031 amortising bond. This issue was priced at a spread of gilts +145bp which represented the lowest ROSCO bond pricing in the market to date. £60m of senior bank debt, with a maturity in 2016, was repaid with the proceeds to further increase the Group’s debt maturity profile.

5.2 Total debt outstanding at 30 June 2014

| Total Debt Outstanding £ | | | | |
|--------------------------|--|----------------------|----------------------|---------------|
| Debt Facility | Group Entity | Balance Outstanding* | Issue/Facility Limit | Maturity Date |
| Facility A | The Great Rolling Stock Company PLC | 217,500,000 | 217,500,000 | Apr-16 |
| Facility B | The Great Rolling Stock Company PLC | 370,000,000 | 370,000,000 | Apr-18 |
| Facility C | The Great Rolling Stock Company PLC | 19,000,000 | 138,750,000 | Apr-16 |
| EDC Loan | Locomotive Operating Leasing Partnership | 13,194,073 | 13,194,073 | Oct-15 |
| Junior Debt | Willow Holdco 1 Limited | 150,000,000 | 150,000,000 | Jun-16 |
| 10-yr Bullet Bond | The Great Rolling Stock Company PLC | 300,000,000 | 300,000,000 | Jul-20 |
| 25-yr Amortising Bond | The Great Rolling Stock Company PLC | 480,200,000 | 480,200,000 | Jul-35 |
| 20-yr Amortising Bond | The Great Rolling Stock Company PLC | 455,400,000 | 455,400,000 | Apr-31 |
| Floating Rate Note | The Great Rolling Stock Company PLC | 60,000,000 | 60,000,000 | Aug-23 |
| Grand Total | | 2,065,294,073 | 2,185,044,073 | |

* Gross of capitalised fees

5.3 Debt structure: June 2013 v June 2014



6 HISTORICAL FINANCIAL PERFORMANCE AND RATIOS

6.1 Update on financial performance for the period including ratios

EBITDA for the period, the Group's key measure, was £373.2m. This was above the budget target by £0.4m and was a 0.6% increase on the previous 12 months' results. Turnover for the period was £461.3m (2013: £474.4m) and Profit Before Tax was £58.2m (2013: £77.1m). Staff and overhead costs continued to be tightly managed and were £0.1m below budget at £21.6m (2013: £20.1m).

The Group's total debt at 30 June 2014 was £2,065m, compared to £2,112m at 30 June 2013. The net debt reduction of £47m comprised £76m of contractual bond and bank repayments and a £19m drawdown of the Revolving Credit Facility. The Revolving Credit Facility balance was £19m at 30 June 2014 thereby providing committed liquidity of £119.8m.

Furthermore the movement in net debt mentioned above included £120m of new debt issued through the EMTN programme as detailed in section 5.1, whilst £60m of senior bank debt and £50m of junior bank debt were repaid, both of which had a final maturity in 2016.

All senior floating rate debt and foreign exchange exposures were hedged and no speculative derivatives were executed.

The Senior Interest Cover ratio for the 12 months ending 30 June 2014 was **2.2**, compared to the financial covenant requirement of **at least 1.5:1**.

The Leverage ratio for the 12 months ending 30 June 2014 was **5.1**, compared to the financial covenant requirement of **no greater than 8.5:1**.

6.2 Credit ratings

Standard & Poor's ("S&P") issued a summary credit report on Willow Bidco Limited, the Group's holding company for senior debt purposes, on 31 March 2014. The report again affirmed the Group's credit rating as **BBB/Stable** and made reference to the "excellent business risk profile" and "predictable long-term contractual cash flows." S&P also commented that the Group "benefits from strong and stable profitability that comes from long-term leasing agreements."

7 OTHER MATTERS

7.1 Other financial and business matters

The Group undertook its annual employee survey in September 2013, returning another fantastic response rate of 95.3% (2012: 97.3%). The results themselves were again favourable, with an overall "engagement rating" of 86.1% (2012: 81.3%) compared to the national benchmark of 62.7% (2012: 63%), and an overall satisfaction rate of 7.9 out of 10 (2012: 7.7) (UK benchmark 6.2).

In April 2014 Angel Trains signed a 10 year lease for new office premises in Victoria, London, a short walk from the current head office. This move, anticipated to take place in October 2014, has been brought about by the decision of the current landlord to redevelop Portland House into residential accommodation in the near future.

Angel Trains, 22 August 2014

The logo for Angel Trains is located in the top right corner. It features the word "angel" in a lowercase, sans-serif font, with a vertical line to its right. The word "Trains" is written in a smaller, uppercase font to the right of the vertical line. The entire logo is set against a white background that is part of a larger white swoosh shape on a teal background.

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