# Helix Acquisition Limited

# Investor Report – 31 March 2018

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It should also be noted that the information in this Investor Report has not been reviewed by the Obligors' auditors.

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**Basis of Preparation**

Unless otherwise specified this Investor Report comments on the historic financial performance of the Security Group for the twelve months to 31 March 2018. Defined terms used in this document have the same meanings as set out in the Master Definitions Agreement unless otherwise stated.

**Contents**

## 1. General Overview

- Strong financial performance with earnings before interest, tax, depreciation and amortisation ("EBITDA") of £191.3m (2017: £185m)
- Train paths billed down 2% year on year at 73,155 (2017: 74,673)
- Strong cash flow generation demonstrating stable revenues with robust contractual arrangements
- Consolidated external borrowings of £1,909.2m (2017: £1,965.8m)
- The moving annual average ("MAA") Fatalities and Weighted Injuries Index decreased to 0.045 (2017: 0.12)
- The percentage of trains greater than 5 minutes delayed due to HS1 is 0.3% (2017: 0.25%) vs 13% Concession Agreement trigger.
- Robust operational performance, the average delay per train path from HS1's infrastructure was broadly stable at 5.06 seconds (2017: 5.03 seconds).
- In the Autumn 2017 National rail Passenger Survey, St Pancras International was assessed as the number 2 station in the United Kingdom
- On 6 September 2017, OMERS Administration Corporation and Ontario Teacher's Pension Plan completed the sale of Helix Holdings Limited, the indirect holding company of Helix Acquisition Limited, to a consortium of HICL Infrastructure Company Limited (the listed infrastructure investment company, advised by InfraRed Capital Partners Limited), funds managed by Equitix Investment Management Limited and third party funds managed by InfraRed Capital Partners Limited
- As part of the sale process, Retail Price Index ("RPI") swaps were entered into by the new shareholders and then novated to HS1 on 14 September 2017. This fixes inflation of c.£116m of Investment Recovery Charge ("IRC") income which reduced the volatility of the IRC revenue growth to inflation

## 2. Financial Summary

The following section should be read in conjunction with the audited consolidated accounts of Helix Acquisition Limited, which are available from the Investors section of the Group's corporate website (www.highspeed1.co.uk).

### 2.1. EBITDA Performance

| EBITDA (£m) | 12mths to 31 March 2018 | 12mths to 31 March 2017 | Variance |
|---|---|---|---|
| Investment Recovery Charge ("IRC") | 170.3 | 162.6 | 7.7 |
| Net Operations, Maintenance and Renewals Charge ("OMRC") | (1.3) | 0.6 | (1.9) |
| Stations | 0.5 | 0.7 | (0.2) |
| Net unregulated income | 21.8 | 21.1 | 0.7 |
| **Total** | **191.3** | **185.0** | 6.3 |

EBITDA for the year, one of the Group's key measures, was £191.3m up £6.3m from 16/17.

IRC representing 89% of EBITDA was up 4.7% year on year ("YoY"). The YoY improvement was driven by contractual Retail Price Index ("RPI") increases and end of the Brussels discount in December 2016.

Net OMRC was down £1.9m YoY driven by HS1 OMRC costs.

Stations EBITDA saw a decrease of £0.2m YoY.

Net unregulated income representing 11.4% of EBITDA was up £0.7m YoY. This is predominately driven by the underlying operational performance in St Pancras retail along with improved lease terms with retailers.

| Train Paths Billed | 12mths to 31 March 2018 | 12mths to 31 March 2017 | Variance |
|---|---|---|---|
| Domestic | 55,793 | 55,800 | (7) |
| International | 17,362 | 18,873 | (1,511) |
| **Total** | **73,155** | **74,673** | **(1,518)** |

Train paths billed were down 2% YoY. Domestic train paths were broadly flat. International train paths were down up 8% YoY driven by reduced services on the main Paris route this is attributable:

- Eurostar roll out of new E320 larger capacity trains
- Decrease in leisure passengers due to the European terrorist attacks and disruption in Calais.

### 2.2. Profit and Loss Account and Reconciliation Between Operating Profit and Consolidated EBITDA

| Profit and Loss Account (£m) | 12mths to 31 March 2018 | 12mths to 31 March 2017 | Variance |
|---|---|---|---|
| Turnover | 321.8 | 305.5 | 16.3 |
| Other operating expenditure | (211.1) | (200.5) | (10.6) |
| **Operating profit on ordinary activities before interest** | **110.7** | **105.0** | **5.7** |
| Interest receivable and similar income | 50.2 | 15.6 | 34.6 |
| Finance charges | (177.9) | (151.5) | (26.4) |
| **Loss on ordinary activities before taxation** | **(17.0)** | **(30.9)** | **13.9** |
| Taxation on loss on ordinary activities | (1.4) | (11.3) | 9.9 |
| **Loss for the financial year** | **(18.4)** | **(42.2)** | **23.8** |

| Reconciliation Between Operating Profit and Consolidated EBITDA (£m) | 12mths to 31 March 2018 | 12mths to 31 March 2017 | Variance |
|---|---|---|---|
| **Operating Profit** | **110.7** | **105.0** | 5.7 |
| Grant amortisation | (61.1) | (61.2) | 0.1 |
| Depreciation | 141.7 | 141.2 | 0.5 |
| **Consolidated EBITDA** | **191.3** | **185.0** | **6.3** |

The Group's tax charge comprises of £0.2m corporation tax payable (2017: nil) and £1.2m deferred tax (2017: £11.3m).

| Financing Costs (£m) | 12mths to 31 March 2018 | 12mths to 31 March 2017 | Variance |
|---|---|---|---|
| Interest payable to parent undertaking | 54.2 | 54.2 | - |
| Interest payable on bank borrowings | 22.8 | 24.2 | (1.4) |
| Interest payable on other loans | 70.0 | 60.8 | 9.2 |
| Interest payable on finance leases | 24.1 | 23.6 | 0.5 |
| Movement in assets / liabilities measured at fair value | 6.8 | (11.3) | 18.1 |
| **Total** | **177.9** | **151.5** | **26.4** |

External finance costs for the year to 31 March 2018 were £177.9m (2017: £151.5m), up £26.4m YoY.

Interest payable in relation to the fully subordinated unsecured loan from the Group's parent undertaking was £54.2m (2017: £54.2m).

Interest payable on bank borrowings decreased to £22.8m (2017: £24.2m).

Interest payable on other loans has increased by £9.2m to £70m (2017: £60.8m) predominately driven by the issue of £314m USPP notes issued in December 2016.

Interest payable on finance leases increased by £0.5m to £24.1m as the finance lease liability to linked to RPI.

Where hedge accounting cannot be applied under FRS 102, the movement in the fair value of derivatives is reflected through the profit and loss account.

2.3. Cash Flow

The Group continued to benefit from strong conversion of operating profits to cash flows. Consolidated cash flow, one of the Group's key financial targets, was £168.3m (2017: £160.1) for the year.

## 3. Business Update

3.1. On 6 September 2017, OMERS Administration Corporation and Ontario Teacher's Pension Plan completed the sale of Helix Holdings Limited, the indirect holding company of Helix Acquisition Limited, to a consortium of HICL Infrastructure Company Limited (the listed infrastructure investment company, advised by InfraRed Capital Partners Limited), funds managed by Equitix Investment Management Limited and third party funds managed by InfraRed Capital Partners Limited.

3.2. Operational performance of the infrastructure was broadly flat YoY, with the average delay per train path from HS1's infrastructure (the Group's primary operational KPI), during the year to 31 March 2018 has increased to 5.06 seconds (2017: 5.03 seconds).

3.3. The Concession Agreement measures performance against a three month and annual performance floor. Performance floors measure the percentage of trains delayed by over five minutes or cancelled due mainly to HS1 attributable incidents. The annual threshold is 13% and the three month threshold is 15%. The position at 31 March 2018 is an annual 0.3% (2017: 0.25%) and the three month threshold is 1.3% (2017: 0.26%).

3.4. Based on the industry standard accident definition of Fatalities and Weighted Injuries per 1,000,000 hours worked, the accident rate was 0.045 at 31 March 2018 (2017: 0.12), a slight increase YoY.

3.5. There were a number of changes to the board of HS1 during the year. The Directors list as at 31 March 2018 is as follows.

- A Bhuwania
- J Curley
- S Jones
- B Loomes
- J O'Halloran
- S Springett
- M Wayment

James O'Halloran resigned as director on 26 April 2018 along with the appointment of Keith Ludeman and Mark Woodhams for all companies of the Security Group.

3.6. In the Autumn 2017 National Rail Passenger Survey St Pancras International was assessed as the Number 2 Station in the UK.

3.7. In relation to customers and potential new operators:

3.7.1. Refer to section 4.1 for the Department for Transport ("DfT") announcement on its rail franchising programme and the resulting impact on HS1 customers (London and South Eastern Railway ("LSER"), East Midlands Trains ("EMT") and Govia Thameslink Railway ("GTR")).

3.7.2. Eurostar reported an increase in passenger numbers, with passenger numbers going from 10.0m to 10.3m in the calendar year 2016 vs 2017 which is only 100 thousand off the peak passenger numbers in 2015 and 2016. Eurostar Q1 2018 results showed passenger growth of 4% in the first quarter YoY.

3.7.3. Eurostar International Limited launched its London – Amsterdam service in the second quarter.

3.7.4. LSER and EMT refranchise processes have started. The south eastern Franchise bids were submitted to the DfT in March 2018 with the winner expected to be announced in August 2018. The EMT Invitation to Tender is expected to be issued in the near future. The current EMT franchise has been extended by the DfT to March 2019.

## 4. Significant announcements/publications by the Regulator/Government by or relating to the Security Group

4.1. The rail franchising programme, a series of franchise extensions and/or directly awarded franchises, impacts on the Security Group's key domestic train operator, LSER. The current LSER Direct Award was due to end on 24 June 2018 with an option of an extension of up to 7-rail periods potentially taking the LSER term to 6 January 2019. The DfT were not obliged to inform South Eastern of the proposed extension period until March 2018. DfT have since advised South Eastern that the Direct Award will be extended until 31 March 2019 with a potential further 3 rail period extension (until 22 June 2019) that the DfT do not have to announce until December 2018.

Following the issue of the Invitation to Tender ("ITT") (29 November 2017) HS1 Ltd responded to the DfT in May 2018. Discussions with Bidders were held and Letters of Support along with a Letters of Support from the Shareholders were supplied by the deadline of 14 March 2018. Bids are currently being evaluated and we are dealing with queries from the DfT's evaluation team. The announcement of the winning bidder is expected in October/November 2018.

The new south east franchise award is expected to be issued for an 8 year period, taking the new Franchise to mid 2027, with a 1 year extension option available at the DfT's discretion.

A more marginal impact to HS1 is around the franchising programs for EMT and GTR. These train operators do not run trains on the HS1 infrastructure and do not generate Track Access Charges for HS1. EMT does use St Pancras International Station, therefore, HS1 recovers Station Access Charges (Station Access Charges are also received on diversion routes from some other operators when they use the EMT platforms e.g. GTR).

The new EMT franchise bid process was launched in May 2016. A DfT public consultation ran between 20 July and 11 October 2017 with HS1 responding on 9 October. The DfT issued the ITT for the East Midlands Franchise in June (delayed from April 2018).

The current EMT franchise was due to end on 4 March 2018, but the DfT have confirmed a one year extension until 3 March 2019. Bidders for the Franchise are Abellio, Arriva and incumbent Stagecoach. A joint bid by FirstGroup/Trenitalia was withdrawn. The DfT expect to issue a further extension to EMT until August 2019 (from 1 April 2019). Following the receipt of bids (circa August/September 2018) they expect to announce the new Franchisee in Spring 2019 with the new Franchise starting in August 2019, for a 7-10 year period.

The Thameslink, Southern and Great Northern ("TSGN") 7-year franchise has been operated since 14 September 2014 by Govia Thameslink Railway (a joint venture between Go-Ahead and Keolis). The section through St Pancras is branded 'Thameslink'. For further detail of the rail franchise schedule refer to the link below: https://www.gov.uk/government/publications/rail-franchise-schedule

4.2 Other than as disclosed above or in the News and Investors sections of the Group's corporate website (www.highspeed1.co.uk), there have been no significant announcements or publications by or relating to the Security Group.

## 5. Financing

5.1. Debt Structure (excluding working capital facility, accrued interest and derivatives)

| Debt Facility (£m) | 12mths to 31 March 2018 | 12mths to 31 March 2017 | Maturity Date |
|---|---|---|---|
| Nominal Bonds | 610.0 | 610.0 | 01 Nov 38 |
| Index Linked Bonds | 277.9 | 268.0 | 01 Nov 38 |
| 7 Year Bank Debt (tranche A) | 78.0 | 97.6 | 31 Mar 22 |
| US Private Placement tranche A | 340.0 | 340.0 | 30 Mar 28 |
| US Private Placement tranche B | 117.0 | 117.0 | 30 Mar 31 |
| US Private Placement tranche C | 58.0 | 58.0 | 30 Mar 31 |
| US Private Placement tranche D | 50.0 | 50.0 | 30 Mar 36 |
| US Private Placement tranche E | 184.0 | 184.0 | 31 Mar 39 |
| US Private Placement tranche F | 130.0 | 130.0 | 31 Dec 39 |
| **Total** | **1,844.9** | **1,854.6** | |

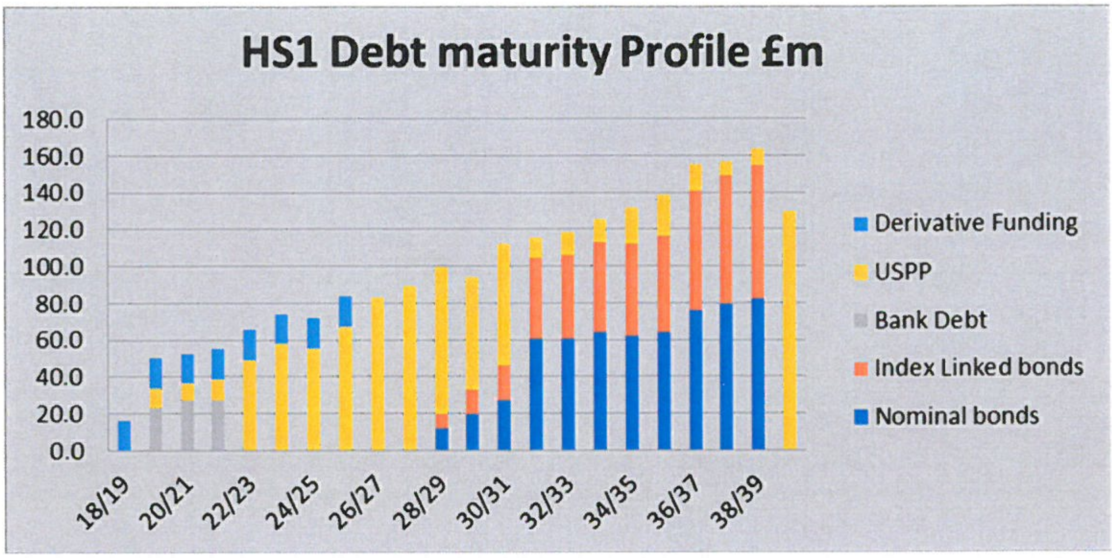
*Gross of capitalised fees/issuance discounts/premiums

During the year the Group made a voluntary prepayment of £19.6m on the 7 year bank debt.

At 31 March 2018, the Group had drawn down £16m of the working capital facility (Mar 2017: £10.0m).

5.2. Debt Maturity

The HS1 debt maturity profile.




## 6. Hedging Position

The Security Group's hedging position continues to be compliant with the Group's hedging policy of maintaining between 70% and 110% of its senior debt fixed for a minimum 7 year period.

Of the £1,884.9m of senior debt issued as at 31 March 2018, 92% is fixed rate debt with only the £58m US Private Placement tranche C floating with GBP 6mth London Interbank Offered Rate ("LIBOR") along with the £78m term loan floating with LIBOR.

## 7. Capital Expenditure

Total capital expenditure for the period to 31 March 2018 was £4.6m (2017: £5.1m) of which £3.1m (2017: £1.9m) was funded through Escrow accounts.

## 8. Acquisitions and Disposals

There have been no acquisitions or disposals involving the Security Group since the previously delivered Investor Report.

## 9. Restricted Payments

The Security Group submitted its 2016/17 full year compliance certificate on 23 June 2017 and as such at the end of June 2017 was permitted to pay £43.2m to shareholders. £28.2m was in respect of accrued interest on subordinated loans from the parent company. In addition, a £15m upstream loan was advanced to the parent company.

The Security Group submitted its 2017/18 half year compliance certificate on 7 December 2017 and as such, on 22 December 2017 was permitted to pay £29.9m to shareholders.

£25.9m was in respect of accrued interest on subordinated loaned from the parent company. In addition, a further upstream loan of £4m was advanced to the parent Helix Holdings Limited.

**10. Ratios**

10.1. We confirm that in respect of this Investor Report dated 31 March 2018, by reference to the most recent Financial Statements that we are obliged to deliver to you in accordance with Paragraph 1 (*Financial Statements*) of Part A (*Information Covenants*) of Schedule 2 (*Security Group Covenants*) of the Common Terms Agreement:

10.1.1. the ratio of Historic Consolidated Cashflow to Historic Consolidated Debt Service in respect of the relevant Test Period (12mths to 31 March 2018) is 2.21x; and

10.1.2. the ratio of Projected Consolidated Cashflow to Projected Consolidated Debt Service in respect of the relevant Test Period (12mths to 31 March 2019) is or is estimated to be 2.20x.

10.2. We confirm that the above Ratios have been calculated in respect of the Test Period or as at the Test Dates for which it is required to be calculated under the Common Terms Agreement.

10.3. We confirm that all forward looking financial ratio calculations and projections made for the purpose of making the confirmation above:

10.3.1. are made on the basis of assumptions made in good faith and arrived at after due and careful consideration;

10.3.2. are consistent and updated by reference to the most recently available financial information required to be produced by each Obligor under this Schedule 2 (*Security Group Covenants*); and

10.3.3. are consistent with the Accounting Standards (insofar as such Accounting Standards reasonably apply to such calculations and projections).

**11. Policy**

We confirm that:

11.1. no Default or Trigger Event has occurred and is continuing;

11.2. the Borrower is in compliance with the Hedging Policy; and

11.3. the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

..............................
Director

..............................
Chief Financial Officer

Signing without personal liability, for and on behalf of
HS1 as Security Group Agent