
Helix Acquisition Limited

Investor Report – 31 March 2019

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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 year ended 31 March 2019. Defined terms used in this document have the same meanings as set out in the Master Definitions Agreement unless otherwise stated.

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1. General Overview

- Strong financial performance with earnings before interest, tax, depreciation and amortisation (“EBITDA”) of £88.7m (2018: £81.6m) (updated for IFRS)
- Train paths billed broadly similar year on year at 73,676 (2018: 73,155)
- Strong cash flow generation demonstrating stable revenues with robust contractual arrangements
- Consolidated net external borrowings of £1,850.5m (Mar 2018: £1,844.9m)
- The moving annual average (“MAA”) Fatalities and Weighted Injuries Index remained at 0.04 (Mar 2018: 0.045)
- Robust operational performance, although the average delay per train path from HS1’s infrastructure has increased to 8.24 seconds (Mar 2018: 5.26 seconds).
- The percentage of trains greater than 5 minutes delayed due to HS1 is 0.65% (Mar 2018: 0.3%) vs. 15% three-month Concession Agreement trigger
- Following a STID proposal, HS1 converted to IFRS Service Concession Accounting from the year ended 31 March 2019
- HS1 submitted the PR 19 consultation document, for Control Period 3, on 28 February 2019. CP3 sets the route operations, maintenance and renewal cost (OMRC) for the 5 years starting on 1 April 2020
- St Pancras International was voted number 2 Station in the UK by the Autumn 2018 National Passenger Survey (Spring 2018: No 1)

2. Financial Summary

The following section should be read in conjunction with the unaudited 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. Train Paths

| Train Paths Billed | 12mths to 31 Mar 2019 | 12mths to 31 Mar 2018 | Variance |
|--------------------|--------------------------|--------------------------|------------|
| Domestic | 55,606 | 55,793 | (187) |
| International | 18,070 | 17,392 | 678 |
| Total | 73,676 | 73,155 | 521 |

Train paths billed broadly flat YoY. Domestic train paths were down (<0.01)% YoY. International train paths were marginally up by 0.04% YoY driven by Eurostar’s introduction of the London-Amsterdam route, which launched in April 2018.

2.2. EBITDA Performance

Following a recent STID proposal HS1 converted to IFRS service concession accounting for the year ended 31 March 2019. HS1 now records its concession as part financial asset (for the domestic underpinned income) and part intangible asset, for the remainder of the concession value. In effect this means the majority of IRC track access income from the domestic train

paths is now recorded as capital repayment of the financial asset on the balance sheet, reducing EBITDA but not cashflows.

| EBITDA (£m) | 12mths to 31 Mar 2019 | 12mths to 31 Mar 2018 | Variance |
|--|--------------------------|--------------------------|------------|
| Investment Recovery Charge ("IRC")* | 64.6 | 60.6 | 4.0 |
| Net Operations, Maintenance and Renewals Charge ("OMRC") | 0.6 | (1.3) | 1.9 |
| Stations | 0.6 | 0.5 | 0.1 |
| Net unregulated income | 22.9 | 21.8 | 1.1 |
| Total | 88.7 | 81.6 | 7.1 |

EBITDA for the year, one of the Group's key measures, was £88.7m up £7.1m vs. Mar 2018.

IRC representing 72.8% of EBITDA, including payments made under revenue transactions, was up 6.6% year on year ("YoY"). The YoY improvement was mainly driven by contractual Retail Price Index ("RPI") increases.

Net OMRC was up £1.9m YoY driven by lower HS1 OMRC costs in the period.

Stations EBITDA saw a small increase of £0.1m YoY.

Net unregulated income representing 25.8% of EBITDA was up £1.1m YoY. This is mainly driven by the underlying operational performance of St Pancras retail which remains strong with improved lease terms with retailers.

2.3. Profit and Loss Account and Reconciliation Between Operating Profit and Consolidated EBITDA

| Profit and Loss Account (£m) | 12mths to 31 March 2019 | 12mths to 31 March 2018 | Variance |
|--|----------------------------|----------------------------|-------------|
| Turnover | 225.7 | 212.1 | 13.6 |
| Other operating expenditure | (185.8) | (178.8) | (7.0) |
| Operating profit on ordinary activities before interest | 39.9 | 33.3 | 6.6 |
| Interest receivable and similar income* | 193.1 | 177.7 | 15.4 |
| Finance charges | (160.4) | (168.2) | (7.8) |
| Dividends received | 5.0 | - | 5.0 |
| Profit on ordinary activities before taxation | 77.6 | 42.8 | 35.0 |
| Taxation on profit on ordinary activities | (7.1) | (5.2) | 0.6 |
| Profit/(loss) for the financial year | 70.5 | 37.6 | 35.4 |

The group received a £5m dividend from the subsidiary, High Speed One (HS1) Limited.

The Group's tax charge comprises £5.4m of corporation tax payable (2018: £0.2m) along with £1.7m movement in deferred tax.

* Note, in the current year HS1 transitioned to IFRS, therefore, the underpin IRC is treated as a capital repayment of the financial asset on the balance sheet.

| Reconciliation Between Operating Profit and Consolidated EBITDA (£m) | 12mths to 31 Mar 2019 | 12mths to 301Mar 2018 | Variance |
|--|-----------------------|-----------------------|------------|
| Operating Profit | 39.9 | 33.3 | 6.6 |
| Amortisation of intangible asset | 48.4 | 48.3 | 0.1 |
| Depreciation of RoU assets | 0.4 | - | 0.4 |
| Payments under revenue transactions | - | - | - |
| Consolidated EBITDA | 88.7 | 81.6 | 7.1 |

| Financing Costs (£m) | 12mths to 31 Mar 2019 | 12mths to 31 Mar 2018 | Variance |
|--|-----------------------|-----------------------|--------------|
| Interest payable to parent undertaking | 54.2 | 54.2 | - |
| Interest payable on bank borrowings | 22.3 | 22.7 | (0.4) |
| Interest payable on other loans | 68.0 | 70.1 | (2.1) |
| Interest payable on finance leases | 24.7 | 24.1 | 0.6 |
| Movement in liabilities measured at fair value | (8.8) | (2.9) | (5.9) |
| Total | 160.4 | 168.2 | (7.8) |

Finance costs for the year to 31 March 2019 were £160.4m (Mar 2018: £168.2m), down £7.8m YoY.

Interest payable in relation to the fully subordinated unsecured loan from the Group's parent undertaking remained constant at £54.2m (2018: £54.2m).

Interest payable on bank borrowings decreased to £22.3m (Mar 2018: £22.7m). The reduction in interest payable is as a result of a capital repayment of £19.6m on the term loan that was made on 31 March 2018.

Interest payable on other loans has decreased by £2.1m to £68.0m (Mar 2018: £70.1m), due to RPI increase at a lower rate compared to last year.

Interest payable on finance leases increased by £0.6m to £24.7m as the finance lease liability is linked to RPI.

Where hedge accounting is not applied, the movement in the fair value of derivatives is reflected through the profit and loss account.

2.4. 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 £180.0m (March 2018: £168.2m) for the period.

3. Business Update

3.1. Operational performance of the infrastructure remains robust, although the average delay per train path from HS1's infrastructure (the Group's primary operational KPI), during the year to 31 March 2019 has increased to 8.24 seconds (March 2018: 5.06 seconds). Initiatives continue to be delivered to reduce delays and maintain safe operations.

3.2. 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 three-month position at March 2019 is 0.66% (March 2018: 0.3%).

3.3. Based on the industry standard accident definition of Fatalities and Weighted Injuries per 1,000,000 hours worked, the accident rate was 0.04 at March 2019 (March 2018: 0.045). HS1 continue to monitor and challenge the supply chain through regular review meetings and Directors meetings to understand the approach and culture within the different organisations.

3.4 There were a number of changes to the board of HS1 during the period. The Directors list as at 31 March 2019 is as follows:

- A Leness
- J Curley
- S Jones
- K Ludeman
- A Pitt
- S Springett
- M Woodhams

3.5. In relation to customers and potential new operators:

3.5.1. 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”).

3.5.2. Eurostar has had a positive 2018 with growth in all quarters and passenger numbers up by 7% 11.0m (2018: 10.3m 2017).

3.5.3. Passenger numbers has been boosted by the success of Eurostar’s new service between London and the Netherlands, with an additional 250,000 passengers travelling to Amsterdam and Rotterdam since the service launched in April 2018.

3.5.4. Passenger numbers passing through the station have increased over the year following the implementation of the Thameslink timetable. This has been reflected in an increase in passenger accidents at our stations. The accidents are minor in nature and are predominantly in the passenger slips, trips and falls category. Escalator safety is a key focus and HS1 is working at a strategic level to enhance safety at the station through specific escalator risk assessments and initiatives.

3.5.5. Security on HS1 infrastructure remains a priority, and work continues with the authorities to ensure HS1 and its supply chain discharge responsibilities effectively. We continue to monitor the effectiveness of security strategies, sharing information and challenging where required to ensure standards are maintained.

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

- 4.1. Control Period 3, will commence on 1 April 2020 for 5 years. The Periodic Review 2019 (“PR19”) is currently taking place for the route and stations, and the regulatory authorities will publish a final determination on 31 August 2019 for stations and 7 January 2020 for route.
- 4.2. HS1 submitted the PR 19 consultation document for Control Period 3 on 28 February 2019.
- 4.3. 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 originally 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.
- 4.4. The DfT are yet to announce a preferred bidder for the next South Eastern Franchise or if there will be an extension to the direct award with London Southeastern Railway (“LSER”). The East Midlands Trains (“EMT”) refranchise was awarded to Abellio in April 2019, the franchise is expected to start in August 2019.
- 4.5. The Thameslink, Southern and Great Northern (“TSGN”) 7-year franchise has been operated since 14 September 2014 by GTR (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>.
- 4.6. 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)

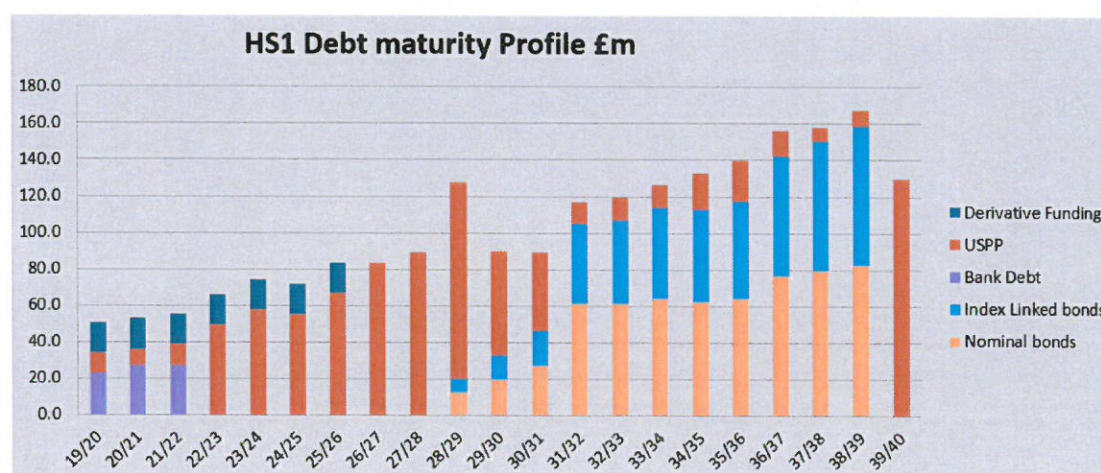
| Debt Facility (£m) | Balance Outstanding 31 March 2019* | Balance Outstanding 31 March 2018* | Maturity Date |
|-----------------------------------|---------------------------------------|---------------------------------------|---------------|
| Nominal Bonds | 610.0 | 610.0 | 01 Nov 38 |
| Index Linked Bonds | 283.5 | 277.9 | 01 Nov 38 |
| 7 Year Bank Debt (tranche A) | 78.0 | 78.0 | 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 | 1,850.5 | 1,844.9 | |

*Gross of capitalised fees/issuance discounts/premiums

At 31 March 2019, the Group had drawn down £12.0m of the working capital facility (Mar 2018: £16.0m). The working capital facility matures on 31 March 2020.

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 £1,850.5m of senior debt issued as at 31 March 2019, 92% is fixed rate debt with only the £58m US Private Placement tranche C and the £78m term loan floating with GBP 6mth London Interbank Offered Rate ("LIBOR").

7. Capital Expenditure

Total capital expenditure for the period to 31 March 2019 was £4.9m (Mar 2018: £4.6m) of which £2.8m (Mar 2018: £3.1m) 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 full year 2017/18 compliance certificate on 14 June 2018 and as such at end of June 2018 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 £15.0m upstream loan was advanced to the parent company.

The Security Group submitted its half year 2018/19 compliance certificate on 6 December 2018 and as such, on 21 December 2018 was permitted to pay £49.9m to shareholders. £25.9m was in respect of accrued interest on subordinated loans from the parent company. In addition, a £24.0m upstream loan was advanced to the parent company.

10. Ratios

10.1. We confirm that in respect of this Investor Report dated 31 March 2019, 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 2019) is 2.23x; 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 2020) is or is estimated to be 1.56x.

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

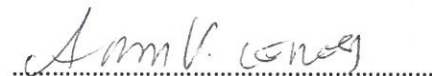
We confirm that:

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