



Investor Report for the period from 1st July to 31st December 2013

To: Security Trustee, Finco, Bond Trustee and each Rating Agency

From: Security Group Agent

26 February 2014

General Overview

This overview deals with key announcements and developments since the issuance of the previous investor report and is issued by Eversholt Rail (UK) Limited on behalf of the Security Group of Eversholt Investment Limited.

Office for Rail Regulation confirms Network Rail's electrification plans

In July 2013, the ORR issued a Long Term Regulatory Statement covering the opportunities and challenges facing the railway industry over the next twenty years. The report proposed the development of a more commercial, self-sustaining rail industry with less need for government and regulatory involvement. The challenges facing the industry include the need to cope with increasing passenger numbers over a rail network which is already approaching capacity in some areas and the Government's desire to reduce the level of funding for rail infrastructure that is currently running at nearly £4bn pa.

Franchising

In March 2013, DfT issued a revised Rail Franchise programme for the period 2013 to 2021. The key publications since are:

1. DfT issued the finalised Invitation To Tender ('ITT') for the Essex Thameside and TSGN franchises to the short listed bidders during week commencing 23rd September 2013. Bids were submitted on 24th December 2013.
2. Transport for London ('TfL') also issued its Crossrail ITT in draft form towards the end of September 2013.
3. DfT announced that the current First Great Western franchise would be extended by 23 months until September 2015 and the C2C franchise extended by 16 months to September 2014.
4. On 5th November DfT published The Official Journal of the European Union and Prospectus for the Intercity East Coast franchise due to commence in February 2015 for a period of 8 or 9 years, with a possible extension of up to 2 years at DfT's discretion.

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5. On 20th November DfT issued its Prior Information Notice for extension of the TransPennine Express franchise.

Eversholt Rail is currently in discussions with bidders, DfT, TS, and TfL with regard to all of these franchises.

Additional rolling stock opportunities not linked to refranchising programme

South West Trains

On 14th August 2013, DfT and South West Trains ('SWT') revealed capacity improvement plans on one of Europe's busiest rail networks. SWT anticipates a requirement of between 135 and 200 carriages which could potentially result in 40 additional five-car trains. These could be either new build or refurbished stock. The procurement process is currently underway.

Southern Railway

On 21st December 2012, the Secretary of State for Transport announced that the Government was providing support for two new rolling stock programmes by Southern Railways. The first involved exercising an existing contract option to procure 40 additional Class 377/6 vehicles, to complement the 130 vehicles previously ordered in December 2011. The second programme was for a further 116 new electric carriages, with an option for another 140 carriages.

Inter-City Express Programme (phase 2)

On 18th July 2013, the DfT announced their decision to confirm an order for 270 new Class 800 carriages to be operated on the East Coast mainline from 2019. The carriages will be manufactured in the UK by Hitachi Rail Europe. Eversholt provides the IC225 rolling stock currently operated on this route and is in discussion with East Coast to secure the fleet on lease until at least 2019. Eversholt will also seek to find alternative uses for the fleet post 2019.

Business Update

Debt management

Eversholt Rail's bonds are rated by Fitch and S&P and the ratings remain unchanged at year end at A- and BBB respectively. S&P revised its outlook on Eversholt Rail to stable from negative on improved credit metrics. Eversholt Rail's expects to maintain credit metrics commensurate with these ratings in 2014.

Lease Extensions

In December 2013, Eversholt Rail successfully completed its lease extension with Chiltern Railway Company. The 8-year lease extension ends in December 2021. There have also been a number of freight locomotive and wagon lease extensions with Freightliner and GB Railfreight. All other negotiations were on hold pending recommencement of the DfT's passenger franchising programme.

C321 Demonstrator

Class 321 Demonstrator showcases innovative approach to delivering high-spec rolling stock. Eversholt Rail in partnership with Abellio Greater Anglia and Wabtec, also launched the Class 321 Demonstrator at Liverpool Street Station in December 2013. The train has undergone a high-specification refurbishment and technology upgrades and will be running in normal service on the Abellio Greater Anglia network for a year. Eversholt Rail and Abellio Greater Anglia will be seeking passenger views on the new features showcased. The demonstrator provides a powerful means of displaying the possibilities offered by quality refurbishment delivered at significantly lower cost than new trains.

Supplier Contracts

Currently, Eversholt Rail has substantial rolling stock maintenance contracts in place with most of the key suppliers including; Wabtec, Bombardier, Alstom, Hitachi, and Siemens.

In July Railcare, one of Eversholt Rail's main suppliers, was placed in administration. Railcare had been contracted to undertake the enhancement and heavy maintenance of Class 365 fleet. The contract value had been worth circa £30m and Railcare had been awarded early contract payments to cover set up, establishment costs and early order materials.

In November, Bombardier Transportation was awarded the contract to complete the remaining units over the next two years, with only a slight delay to the original timeframe.

Fleet Utilisation

100% of passenger fleet was on lease during the period.

Historic Business Developments

Since the date of the last report there has been one change to the directorships. Fred Maroudas, Chief Financial Officer was appointed to the company boards listed below with effect from 2nd September 2013:

Eversholt Rail (UK) Ltd
Eversholt Finance Holdings Ltd
Eversholt Funding plc
Eversholt Rail Holdings (UK) Ltd
European Rail Finance (GB) Ltd
Eversholt Rail (380) Ltd
Eversholt Depot Finance (UK) Ltd
Eversholt Rail (365) Ltd

There were no other changes.

Historic Regulatory Developments

No member of the group is regulated.

Historic Capital Expenditure

The group has not entered into any contracts for new rolling stock but continues to invest in enhancing its existing fleet during the course of the relevant period. The total capital investment for the Obligor group in the period across all assets was £16m.

Historic Financing

In November 2013, Eversholt Rail completed a new £600m senior debt financing, which provides additional funding capacity for investment in rolling stock and has enabled the business to prepay its acquisition bank facilities well ahead of their scheduled maturity. The financing, which was provided by a club of eleven banks, includes a £100m five year term loan facility and a £500m five year general purpose revolving credit facility, which can be extended by up to two years by agreement.

In December, the business repaid £163 million of its revolving credit facilities, resulting in full year debt repayments of £226m.

Senior debt outstanding (excluding accrued interest) as at 31st December 2013 is now as follows:

<u>Acquisition Bank Facilities</u>	<u>£m</u>
Facility A 4 year facility	nil
Facility B 6 year facility	nil
Facility C Capex facility	nil
Facility D Working Cap	nil
 <u>Current Facilities</u>	
Facility A 5 year term loan	100
Facility B 5+1+1 year revolving credit facility	16
Bond A 10 years	300
Bond B 15 years	400
Bond C 24 years (amortising)	400
Bond D 24 years (amortising)	150
Total	<u>1,366</u>

No further payments were made to shareholders in the year following the £15m loan repayment in June. At 31 December 2013 the balance outstanding on the loan was £422.8m including £53.0m of interest which was capitalised at the end of the year.

Confirmation of Accuracy

We confirm that to the best of our knowledge, having made due and careful enquiry, this Investor Report is accurate in all material respects.

No personal liability shall attach to or be incurred by any director of the Security Group Agent in respect of the giving of this Investor Report.



Director
Eversholt Rail (UK) Ltd
Security Group Agent



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Eversholt Rail (UK) Ltd
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