

## Investor Report

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

From: Security Group Agent

28 February 2013

### **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.

### **Franchising**

The passenger rail industry in the UK has continued to be subject to considerable upheaval over the last year following the cancellation of the Inter City West Coast (ICWC) franchise and the pausing of all the other outstanding franchise competitions.

In August 2011 the Department for Transport ('DfT') announced its new franchising programme, which was the largest refranchising programme since privatisation. In 2012, Eversholt Rail had discussions with stakeholders in relation to ICWC, Great Western, Essex Thameside, Thameslink Southern and Great Northern (TSGN), Inter City East Coast (ICEC) and Greater Anglia franchise proposals.

On the 3<sup>rd</sup> October 2012, the DfT announced the cancellation of the ICWC franchise and the pausing of all of the other outstanding franchise competitions. The cancellation of the ICWC franchise competition followed the discovery by the DfT of problems with its handling of the tendering competition.

The DfT ordered two independent inquiries to be undertaken, the first to find out what went wrong and the second to consider the implications for the wider rail franchising programme and how to get the other franchise competitions back on track as soon as possible.

The first independent inquiry was conducted by Sam Laidlaw, a Non-Executive Director of the DfT. This was published at the beginning of December.

A second inquiry was conducted by Richard Brown, Chairman of Eurostar, and was published in January 2013. The Brown report made recommendations and suggestions that would make the franchise operation more transparent and user friendly as well as providing value for money.

The Government in response decided to terminate the Greater Western franchise competition and negotiate a two year extension with the incumbent operator FirstGroup. Extensions of up to two and a half year are also planned for Essex Thameside and Thameslink, details of which are due to be announced by Spring 2013 alongside a clear programme for future franchise competitions and a clear statement of government rail franchising policy.

### **Southern Railway**

On 21st December 2012, the Secretary of State for Transport announced Government backing for two new rolling stock programmes by Southern Railway. The first involves exercising an existing contract option to procure 40 additional Class 377/6 vehicles (8 x 5-car units) to complement the 130 vehicles ordered in December 2011.

In addition, the Government is also “supporting” Southern’s tendering process for a further 116 new electric carriages, with an option for another 140 (increased recently, at DfT’s specific request, from 100). The requirement is for 110mph dual-voltage Electric Multiple Units (EMU) in 4-car configuration. The stated programme timescales, with contract award, are targeted for June 2013 and the first trains required in service by May 2015.

### **Electrification**

The Government announced its draft High Level Output Specification (HLOS) and Statement of Funds Available in July 2012. The HLOS included a reference to a 25kv backbone for freight from Southampton to Nuneaton and Sheffield via Oxford and and/or Coventry. It also included the electrification of the Welsh Valleys and the Cardiff to Swansea route.

Since Eversholt Rail has a large fleet of new and mid-life EMUs, additional electrification will create new markets and additional opportunities for deploying its fleets. Eversholt Rail is in discussions with the current (and potential) operators of franchises which are likely to benefit from such additional electrification.

## **Business update**

### **Franchising**

Eversholt Rail was well placed for the start of this process, following detailed planning and proactive engagement with the various stakeholders in 2011. In October, the Department for Transport announced the cancellation of the Inter-City West Coast franchise, and the pausing of all of the other outstanding franchise competitions, following the discovery of problems with its handling of the Inter-City West Coast tendering competition. Eversholt Rail await the Department's full response and recommendations due to be announced by Spring 2013.

### **“Our Vision – Your Choice” exhibition**

Eversholt Rail organised an exhibition entitled ‘Our Vision – Your Choice’ in December to demonstrate the capabilities/future development options of our Mark IV coaches. The focus of the exhibition was a Mark IV mock-up that had been fitted out to show the various modification options available to the next franchisee on ICEC using MKIV coaches. The first two phases of the exhibition in London and York were well attended by key industry stakeholders and has resulted in significant inquiries about the future potential of the Class 91 MKIV fleet from potential bidders for this franchise. The mock-up of the current Mark IV carriage was very well received by potential bidders and industry partners.

### **Supplier contracts**

There were no significant changes in supplier contracts.

### **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 a change to the board of directors of Eversholt Investment Group (Luxembourg) S.À.R.L., the holding company of Eversholt Investment Limited with Virginia Strelen replacing Ivo Hemelraad on the 1<sup>st</sup> of November 2012.

There have been no changes in the directors or senior management of other Group companies since the last report.



### **Historic regulatory developments**

No member of the group is regulated.

### **Historical 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 £6m.

### **Historical financing**

Senior debt outstanding as at 31<sup>st</sup> December 2012 were as follows (excluding accrued interest)

- |                                |       |
|--------------------------------|-------|
| • Facility A 4 year facility   | £nil  |
| • Facility B 6 year facility   | £342m |
| • Facility C Capex facility    | £nil  |
| • Facility D Working Cap       | £nil  |
| • Bond A 10 years              | £300m |
| • Bond B 15 years              | £400m |
| • Bond C 24 years (amortising) | £400m |
| • Bond D 24 years (amortising) | £150m |

In December 2012, Eversholt Rail raised £150m through a private placement with Metropolitan Life Insurance Company (Bond D). The proceeds together with additional £55m from operational cashflows were applied to repay the full balance outstanding on the revolving capex facility and to repay £67m of facility B.

In addition the group had received a loan of £432.7m from its immediate shareholder Eversholt Investment Group (Luxembourg) S.À.R.L. in December 2010. £35.8m of this loan was repaid during 2012, leaving a balance of £369.8m at 31<sup>st</sup> December 2012.

### **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



---

Director

Eversholt Rail (UK) Ltd

Security Group Agent