

Investor Report

To: Security Trustee, Finco, Bond Trustee and each Rating Agency
From: Security Group Agent

General Overview

This overview deals with announcements and developments since the issue of the previous Investor Report.

Thameslink: Government announced the award of the next stage in a plan to build around 1,200 new rail carriages for the Thameslink route on 16th June. Siemens plc and XL Trains – a consortium comprising of Siemens Project Ventures GmbH, Innisfree Ltd and 3i Infrastructure plc – have been appointed preferred bidder to build, own, finance and maintain the new trains.

Rail Value for Money Review: Sir Roy McNulty's final report was published on 19 May 2011. The reports aim is to reduce costs and to deliver a safe and efficient railway which represents value-for-money for customers and taxpayers. Key recommendations from the report include:

- The rail industry should be 30% more efficient by 2018/19.
- Stronger joint industry leadership.
- Closer working together between Network Rail and Operators.
- Devolution of responsibility so that that decisions are made as close to customers and the market as possible.
- Reformed central roles for government, the industry regulator and for Network Rail.

A Rail Delivery Group, made up of senior figures of Network Rail and the Train Operating groups has been established to frame the industry's response to the challenges set by the report. The group will focus on industry-wide issues, including the strategy and long-term vision for the railway. It will also consider and implement change in response to key recommendations from McNulty.

Franchising: The Government has delayed the start of certain new franchises to wait for the publication of the McNulty report, with the intention that implication of recommendations from the report could be included in the new franchise specifications. It was also confirmed that the Inter-City West Coast (ICWC) re-franchising would be delayed: the new ICWC Franchise is re-scheduled to commence on 9th December 2012 and it will run until 31st March 2026 with an option for the DfT to extend up to 20 months.

Greater Western Franchise: First Group announced that its operator First Great Western (FGW) would not be seeking to take up its 3-year extension beyond March 2013 to operate the Greater Western Franchise. There is a strong probability now that the timing of Inter-City East Coast re-franchising process will also be subject to some delay, but there is no detail at this stage.

Usage Statistics: The most recent statistics published by the office of Rail Regulation show that passenger kilometres travelled in the 3 months to March 2011 totalled 13.7billion an increase of 5.8% on the previous year. Freight lifted in the same period totalled 25.3million tonnes, 16.6% higher than a year earlier.

On 1st of June 2011, Transport Secretary Philip Hammond joined representatives from East Midlands Trains, Bombardier and Eversholt Rail at a special train naming ceremony to recognise a successful joint approach to delivering greener trains. The naming of East Midlands Trains' Meridian 222006 as 'The Carbon Cutter' marks a joint investment of £4m from the Stagecoach-owned train operator, Bombardier and Eversholt Rail, which has led to the introduction of an innovative new engine stand-by mode estimated to save around 800,000 litres of fuel a year. The new 'Energy Saving Mode' has been rolled out across the entire East Midlands Trains Meridian fleet of 27 trains. The introduction of this system allows the number of diesel engines on the train to be matched to the duty required to reduce diesel consumption, noise, emissions and maintenance costs.

Historic business developments

Since the date of the last report there have been no significant changes to the structure or the financing of the group, nor to its board of directors. During May Eric Wiles was appointed Head of Finance and became part of the senior management team.

Historical regulatory developments

No member of the group is regulated.

Historical Capital Expenditure

During the 6 months to the end of June 2011 the group incurred £81.2m of Capital Expenditure. During this period the group continued to take delivery of Class 380 Electrical Multiple Units spending £65.5m of the £81.2m on this fleet alone. The balance of the Capital Expenditure was incurred enhancing and improving existing fleets, including the IC 225 fleet of Class 91 locomotives and Mk IV coaches, the Class 222 fleet, the Class 313 fleet and the class 465 fleet. In addition a further acceptance payment of £7.1m was paid for the Class 395 (Javelin) fleet.

Historical Financing

Senior debt outstanding as at 30th June 2011 was as follows (excluding accrued interest)

- Facility B 6 year facility £409m
- Facility C CapEx facility £119m
- Facility D Working Capital £nil
- Bond A 10 years £300m
- Bond B 15 years £400m
- Bond C 24 years (amortising) £400m

In addition a loan of £432.7m from the group's immediate shareholder, Eversholt Investment Group (Luxembourg) S.a.r.l. remained outstanding.

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



Director