

Investor Report

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

From: Security Group Agent

28 August 2013

General Overview

This overview deals with key announcements and developments since the previous investor report issued in February 2013 and is issued by Eversholt Rail (UK) Limited on behalf of the Security Group of Eversholt Investment Limited.

Industry Update

The following section discusses key rail industry related events that took place in the six months ended 30 June 2013.

Usage Statistics

The National Rail Trends Quarterly Summary for 1st January to 31st March 2013 (Q4 2012-2013) reported:

- Total number of timetabled train kilometres decreased by 0.4% compared to Q4 2011-12,
- 381 million franchised passenger journeys, which is a fall of 1.3% on the same quarter last year, and,
- total franchised passenger revenue increased by 2.6% despite the fall in passenger kilometres and journeys.

In addition, a National Rolling Stock strategy has been published by a cross-industry group including rolling stock owners, operators and Network Rail which predicts total passenger rolling stock to double over the next 30 years.

Franchising

The Brown report into the DfT franchising process, published in January 2013, confirmed that rail franchising is fundamentally sound and recommended that the DfT should restart the process as soon as possible.

Some of the other key points were:

- The franchising process is not fundamentally flawed, but has significant scope for improvement
- DfT's organisation and franchising capabilities need strengthening
- 15 year franchises, without any break clauses, are not sensible for the majority of franchises. In future, more likely that 7 to 10 years would be the norm, with pre-contracted continuation (subject to criteria being met) of 3 and 5 years

The industry hiatus caused late last year by the cancellation of the InterCity West Coast (ICWC) franchise and the pausing of all the other outstanding franchise competitions has eased following the publication by the DfT of its forward refranchising programme in March 2013 covering the period 2013-2021.

The programme brought much-needed clarity to the refranchising landscape and key features of the announcement were:

- DfT have accepted most of the key recommendations of the Brown Review, including delivering no more than 3 or 4 competitions per year.
- A series of short to medium term extensions to existing franchises. Only Wales & Borders and Chiltern franchises remain at their original planned length.
- Re-commencement of the paused Essex Thameside and Thameslink, Southern and Great Northern (TSGN) franchise competitions.
- Commencement of InterCity East Coast refranchising process immediately, but a delay to ICWC.
- Establishment of Franchising Advisory Panel.

Electrification

On 12 June 2013, the Office of Rail Regulation (ORR) published its Determination of Network Rail's outputs and funding for Control Period 5 (1 April 2014 - 2019). The report did not indicate any major changes to the previously announced electrification expansion plans. Since Eversholt operates a large fleet of new and mid-life EMUs, then additional electrification will create new markets and provide additional opportunities for deployment.

Business Update

Lease extensions

Negotiations have been completed in respect of the extension to the Chiltern franchise. The DfT approval of the contract is expected shortly. There have been a number of Freight Locomotive and wagon lease extensions with Freightliner and GB Railfreight. All other negotiations were on hold due to the uncertainty over the future of the franchising process but have now restarted and active discussions with several operators and the DfT have recommenced.

Franchising Opportunities

No opportunities have arisen during the period, however, Eversholt remains well placed to bid on the Invitation To Tenders (ITTs) which are expected this year following the restart of the franchise process;

- Essex Thameside
- TSGN
- East Coast - IC225
- ScotRail
- Caledonian Sleeper

New Contract

Eversholt was awarded a long-term contract in June 2013 to provide project and asset management services to Cross London Trains, the consortium providing the new fleet of Siemens Desiro City Class 700 trains to be operated on the Thameslink routes. The Thameslink programme is a major rolling stock, signalling and infrastructure project which is designed to improve the London commuter network by allowing the introduction of longer trains at a frequency of up to 24 trains an hour in each direction through the capital between St Pancras and Blackfriars stations.

The services to be provided by Eversholt under the 22 year agreement will include project management during the build and delivery of the rolling stock and then long-term asset management, including both technical and commercial support to Cross London Trains. This is a new business area for Eversholt and is consistent with its strategic plan of providing asset management services to other rolling stock owners.

C321 Demonstrator

The Class 321 Demonstrator unit is undergoing final assembly and testing prior to a joint Eversholt and Greater Anglia launch event later this year. The unit will then enter normal passenger service to obtain stakeholder feedback.

IEP Phase 2

On 18 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 will seek to find alternative uses for the fleet post 2019. Eversholt is confident that the advantages of enhanced Mark IV coaches and a new TRAXX UK locomotive will be an attractive proposition to other franchisees with similar operational requirements.

Supplier Contracts

Railcare Ltd went into Administration at the end of July following the collapse of the sale to Knorr Bremse. Railcare have been undertaking heavy maintenance and enhancement work for a number of our fleets at both Wolverton, near Milton Keynes, and Springburn in Glasgow. BDO LLP were appointed as the administrators with a view to maintaining Railcare as a going concern until a sale of the business could go through. Clearly there is an impact on the work we have underway and future work planned with Railcare. We are working with BDO to establish plans going forward now that Railcare are in administration.

There were no other significant changes to 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 have been several changes to directorships. Simon Purves, Chief Financial Officer, resigned from all the companies stated below with effect from 30 May 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

The new Chief Operations Officer, Andrew Course, was appointed to the above company boards from the same date. In addition, Andrew Haines, was appointed to the board as a non-executive director of European Rail Finance (GB) Ltd on 2 January 2013. 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 £8.3m.

Historic Financing

There were two repayments of senior debt in the first six months of 2013, being £38m in March and £25m in June, both in respect of Facility B. Senior debt outstanding (excluding accrued interest) as at 30 June 2013 is now as follows:

	<u>£m</u>
Facility A 4 year facility	nil
Facility B 6 year facility	279
Facility C Capex facility	nil
Facility D Working Cap	nil
Bond A 10 years	300
Bond B 15 years	400
Bond C 24 years (amortising)	400
Bond D 24 years (amortising)	<u>150</u>
Total	1,529

In addition in the period, the group repaid £15m of the loan from its immediate shareholder Eversholt Investment Group (Luxembourg) S.À.R.L. The repayment represented capitalised interest for the period 17 September to 31 December 2012. At 30 June 2013 the balance outstanding on the loan was £369.8m.

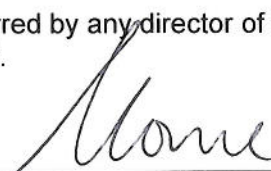
Confirmation of Accuracy

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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