

Investor Report for the period from 1 July to 31 December 2018

To: Security Trustee, Eversholt Funding plc, Bond Trustee and each Rating Agency

From: Security Group Agent

15 February 2019

This Investor Report deals with key announcements and developments since the issue of the previous Investor Report and is issued by Eversholt Rail Limited on behalf of the Security Group of Eversholt UK Rails (Holding) Limited ("the Group").

General Overview

The Group continued to own and lease rolling stock and other rail assets in the United Kingdom. The Group owns a diverse range of passenger rolling stock including regional, commuter and high speed passenger trains as well as freight locomotives.

The UK Rail Review

In 2018, the UK Government announced that it would undertake a Rail Review, established to recommend the most appropriate organisational and commercial frameworks to deliver the Government's vision for the UK to have a world-class railway, working as part of the wider transport network.

The review will consider all parts of the rail industry, including the current franchising system and industry structures, accountability, and value for money for passengers and taxpayers. The review will be led by independent chair Keith Williams, the former British Airways chief executive and deputy chairman of John Lewis Partnership, supported by an external panel, and will report during 2019.

The Group will monitor progress and output as the review proceeds, as well as contributing its views where appropriate.

Franchising Update

In this period the Department for Transport (DfT) has announced the following:

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Franchising Update (continued)

- The continuation of the 'live' refranchising competitions for South Eastern, the West Coast Partnership and East Midlands;
- The extension of the South Eastern franchise to 22 June 2019;
- The extension of the East Midlands franchise to 17 August 2019;
- The extension of the Intercity West Coast franchise to 31 March 2020;
- Cancellation of the planned Cross Country refranchising competition, to be replaced by an expected Direct Award extension of the current franchise of up to 5 years.

The Group is currently in discussions, where relevant, with the bidders, the DfT, Transport Scotland, Transport for London and Transport for Wales about ongoing and anticipated upcoming franchise competitions. It is also engaging with the DfT, other authorities and train operators to explore potential additional rolling stock deployment opportunities within existing franchises.

Historic Business Developments

Business Review

The Group has a portfolio of contracted new build rolling stock orders for delivery over the period 2018 to 2020. Delivery programmes remain on plan.

During the period 99 C802 vehicles and 6 C195 vehicles were accepted with further deliveries expected throughout 2019. As at 31 December 2018, 118 C802 vehicles, 50 C195 vehicles, 50 C331 vehicles and 45 C397 vehicles were in various stages of production.

During the period the Group delivered all mandated time-based and mileage-based heavy maintenance (for circa 200 vehicles).

The Group continues to undertake upgrades to meet the current and future demands of our customers. The Group has made strong progress on projects to ensure regulatory requirements are met ahead of applicable deadlines, including the 'Persons of Reduced Mobility' EU technical specification.

The withdrawal of the United Kingdom from the European Union ("Brexit")

The Group monitors the progress of negotiations and parliamentary debates regarding the outcome of Brexit and has assessed the potential impacts of Brexit under a range of possible outcomes. The position is being kept under close review.

The Group carries out its business solely in the UK and its rolling stock and other rail assets are operated and maintained entirely in the UK. The risk to the Group of disruption or increased cost to the supply chain post Brexit has been mitigated where possible.

Credit Ratings

The Group maintains ratings with Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). Moody's rating for the Group and its debt issued under the Group's MTN programme is Baa2. The Fitch rating for the Group is BBB+ and the bonds issued under its MTN programme are rated A-. Moody's initiated coverage in April 2018 and Fitch affirmed its ratings in October 2018.

Corporate Structure and Directorships

On 17 July 2018 Andrew Haines resigned as director of Eversholt UK Rails Limited. There were no other directorship changes in the period nor were there any changes to the corporate structure.

As part of the ongoing simplification of the Group structure, Eversholt Rail (380) Limited was voluntarily liquidated on 11 December 2018.

Historic Regulatory Developments

No member of the Group is regulated.

Historic Capital Expenditure

The total capital investment (including existing and new fleets) for the Obligor Group in the six month period across all assets was £170.1m.

Historic Financing

The Group issued no new debt during the six-month period, however, the option to extend the maturity of the revolving credit facility to 2023 was exercised in November 2018. The Group has one further extension option.

As at 31 December 2018, the £600m revolving credit facility is fully undrawn and Senior debt outstanding (excluding accrued interest) is:

<u>Current Facilities</u>	<u>£m</u>
Revolving credit facility (2023+1)	-
Bond A 10 years (2020)	300
Bond B 15 years (2025)	400
Bond C 24 years (amortising 2021-2035)	400
Bond D 25 years (amortising 2034-2042)	400
Private Placement (amortising 2028-2036)	150
Private Placement (2030)	90
Private Placement (2026-2031)	100
Private Placement (2037)	<u>100</u>
Total	<u>1,940</u>



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.

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Director
Eversholt Rail Limited
Security Group Agent

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Director
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