

EVERSHOLT
UK RAILS GROUP

Investor Report for the period from 1 January 2020 to 30 June 2020

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

From: Eversholt Rail Limited (as Security Group Agent)

2 September 2020

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 owns a diverse range of passenger rolling stock including regional, commuter and high-speed passenger trains as well as freight locomotives, all operating in the United Kingdom. The Group uses its expertise to make selective investment in new and existing fleets, and to maintain those fleets, to meet future leasing demands and passenger needs.

For the period under review, the Group's operating environment has been influenced by the developments described below.

Rail emergency measures during the COVID-19 pandemic

The Department for Transport (“DfT”) on 23 March 2020 provided franchised train operators with the opportunity to temporarily transition onto Emergency Measures Agreements (“EMAs”) to ensure the railways remained open. Similar arrangements were put in place by the Scottish and Welsh Governments. All UK franchised operators elected to make this transition.

These agreements suspend the normal financial mechanisms of franchise agreements, transferring all revenue and cost risk to the respective government. Operators continue to run day-to-day services for a small, pre-determined management fee. Companies entering into these agreements have seen a temporary suspension of their existing franchise agreement's financial mechanisms for an initial period of six months, with options for further extension or earlier cancellation as agreed.

Eversholt Rail Limited

First Floor
210 Pentonville Road
London N1 9JY

T: +44 (0) 20 7380 5040
E: london.office@eversholtrail.co.uk
www.eversholtrail.co.uk

The UK Rail Review

We understand that the independent rail review commissioned by the DfT and led by Keith Williams, as described in the December 2019 update, has been completed and submitted to the DfT. Publication of the report has been delayed due to the COVID-19 pandemic. There has been no formal update provided by the DfT on the extent to which the Williams Review recommendations remain valid and will be implemented.

The Group will consider the potential impact of the report's recommendations if and when it is published.

Franchising Update

Since the Group's previous report, the DfT announced that:

- The Government's Operator of Last Resort took over running services on the Northern franchise on 1 March 2020 through a subsidiary (Northern Trains Limited). The new operator will work with local leaders, industry and passenger representatives to deliver a plan for improvements. All of the Group's contracts with Arriva Rail North Limited (the previous operator of the Northern franchise) have been transferred to Northern Trains Limited.
- On 23 March 2020, rail emergency measures during the COVID-19 pandemic were put in place as described above.
- On 30 March 2020, the DfT signed new contracts with Govia Southeastern and First GWR to ensure continuity of vital train services in the South of England and Wales during the COVID-19 outbreak. Long-term capacity improvements have also been agreed as part of the contracts.

The Group is currently in discussions, where relevant, with national and regional sponsors regarding anticipated future rail requirements. It is also engaging with the DfT, Transport Scotland, Transport for Wales, other authorities and train operators to explore potential additional rolling stock deployment opportunities within existing franchises.

Historic Business Developments

Business review

During 2020, the Group focussed on heavy maintenance programmes, upgrades to existing fleets and delivering the remaining new build rolling stock.

Heavy maintenance

In 2020 the Group will deliver heavy maintenance projects on eight of its fleets, these include mileage based overhauls on six fleets C315, C318, C321 Classics, C321 Renatus, C465 and C320/4s. Having secured leases for some of the C91 and Mk4 fleet we are in discussions with the maintenance supplier to secure ongoing maintenance. We are also undertaking two time-based projects on C320 and C465s, and in the process of procuring

for C334 and C318 to start in first half of 2021. The Group spent £17.1m during the period for this report on maintenance related activity.

Investment in existing fleets

The Group undertakes strategic upgrades to rolling stock to ensure that its fleets continue to meet regulatory requirements and the current and future demands of its customers. Several upgrade projects were progressed during the first half of 2020 which include C185 modifications and refresh, C380 franchise modifications and Mk4 modifications to work with a C67 locomotive. We are mobilising projects on C375 and C395 agreed as part of the Direct Award leases. Expenditure on modification and refurbishment projects totalled £3.0m during the first half of 2020.

New rolling stock

During the first half of 2020 the Group accepted 56 new vehicles in its portfolio of new build rolling stock. When complete, the programme will represent an investment of £1.1bn. The programme remains on plan for the delivery of the remaining 11 vehicles in the second half of 2020:

- The Group have accepted 141 of the 149 (comprising 58 units) C195 regional fuel-efficient diesel vehicles to run on the Northern franchise. All these units are available to Northern Trains for use in passenger service. The last two 3-car units are in testing at the Newport factory and the final 2-car is being repaired as it was subject to a low speed derailment at the depot in Liverpool prior to acceptance.
- Of the C331 fleet of regional electric trains for the Northern franchise, 138 of the 141 vehicles (comprising 43 units) have been accepted, again all of these units are available to Northern trains for passenger service. The last unit was received into the UK from the factory in Zaragoza in July, this was delayed due to the supply of materials due to the COVID-19 pandemic and closure of the Spanish factory for a period.
- The remaining 15 of the 60 C397 high speed electric vehicles were accepted on the Transpennine Express franchise in March this year.

Expenditure on new build rolling stock in the first half of 2020 amounted to £49.6m.

New leases and lease extensions

During the period, the Group concluded the following new leases or extensions:

- Leases for two C91 locomotives with ad-hoc rolling stock movement operator Rail Operations Group commencing February 2020 to October 2020
- 245 units across fleets C375, C376 and C465 with South Eastern from April 2020 to October 2021
- Seven rakes of IC225 plus additional C91 locomotives with LNER to May 2023
- 35 C802 bi-mode units with Great Western from April 2020 to March 2023
- Seventeen C315 with Arriva Rail London from February 2020 to early September 2020
- 15 C185 units with TransPennine Express from June 2020 to mid-December 2020

- Extensions for C321 Classic and Renatus fleet with East Anglia to between October 2020 and September 2021
- New lease agreed with East Anglia for three C321 and five C322 units from July 2020 to July 2021

Fleet

The average age of the Group's fleet is 20 years. Ages of individual fleets vary from older vehicles, introduced into service in 1980 (C315) and 1983 (C455), to the newest fleets C802, C397, C331 and C195 introduced into passenger service during 2018, 2019 and 2020. The weighted average age by forecast income in 2020 is 15 years.

Eversholt Rail 365 Limited

Since the December 2019 report, the position regarding Eversholt Rail (365) Limited is unchanged.

Following a deterioration in the Class 365 fleet's prospects during 2019, a liquidator was appointed to Eversholt Rail (365) Limited on 19 August 2019. The liquidation is currently ongoing.

The Group's investment in Eversholt Rail (365) Limited was fully impaired at 31 December 2018. Eversholt Rail (365) Limited was subject to a separate financing structure and established prior to privatisation in the 1990s. It has never formed part of the Security Group, albeit it was a wholly owned indirect subsidiary of Eversholt UK Rails (Holding) Limited. Being ringfenced in this way, its current financial situation has no bearing upon any fellow subsidiary or parent undertaking, other than in relation to intercompany receivables.

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

The Group will continue to monitor the progress of negotiations during the transition period ending 31 December 2020, now that the UK has formally left the European Union with a withdrawal agreement.

At this stage, impacts are considered limited given that 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"). On 30 June following the settlement of the new bond issuance both rating agencies affirmed Eversholt Rail's credit rating. 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 BBB+.

The Group, and its shareholders, remain committed to an investment grade rating.

Corporate Structure and Directorships

On 16 April 2020 there were several Directorship changes:

Darren Spence, Paul Sutherland and Lee Warsop were appointed as directors of Eversholt Rail Leasing Limited and Eversholt Depot Finance Limited.

Darren Spence and Lee Warsop were appointed as directors of Eversholt UK Rails (Holding) Limited, Eversholt Finance Holdings Limited and Eversholt Funding PLC.

Paul Sutherland and Lee Warsop were appointed as directors of Eversholt Rail Limited.

James Davis resigned as director of Eversholt Rail Limited.

Historic Regulatory Developments

No member of the Group is regulated.

Historic Capital Expenditure

The total capital investment on existing and new fleets during the six-month period was £52.6m.

Historic Financing

On 30 June Eversholt Funding plc issued a new £500m 2040 amortising bond at coupon of 2.742% ("Bond E") and settled £128.7m of the 2025 bond ("Bond B"). The settlement of Bond B was achieved by issuing £159.7m of Bond E to the holders via an intermediated tender offer. The net cash proceeds were put on short term fixed deposits, the majority of these proceeds will be used to repay £300m Bond A in December.

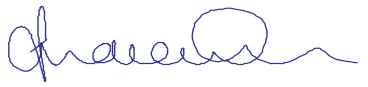
As a result of this refinancing the short-term refinancing needs of the business have been met and the funding profile more closely matches the asset profile.

As at 30 June 2020, the £600m revolving credit facility was undrawn. Senior debt outstanding (excluding accrued interest) was:

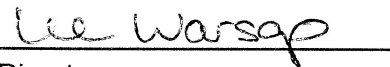
<u>Current Facilities</u>	<u>£m</u>
Revolving credit facility (2023+1)	0
Bond A 10 years (2020)	300
Bond B 15 years (2025)	271
Bond C 24 years (amortising 2021-2035)	400
Bond D 25 years (amortising 2034-2042)	400
Bond E 20 years (amortising 2021-2040)	500
Private Placement (amortising 2028-2036)	150
Private Placement (2030)	90
Private Placement (2026-2031)	100
Private Placement (2037)	<u>100</u>
Total	<u>2,311</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.



Director
Eversholt Rail Limited
Security Group Agent



Director
Eversholt Rail Limited
Security Group Agent