Investor Report for the period from 1 July to 31 December 2019

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

From: Security Group Agent

18 February 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.

The UK Rail Review

The independent rail review commissioned by the Department for Transport and led by Keith Williams, as described in the June 2019 update, has been completed and submitted to the Department for Transport. The purdah period preceding the December 2019 General Election means that the report and recommendations will not now be published until late February/March 2020 (having previously been targeted for publication during the latter part of 2019).

Once the review is published the Group will consider the potential impact of the report’s recommendations.

Franchising Update

Since the Group’s previous report, the Department for Transport (DfT) announced that:

- They were considering options for the future of the Northern rail franchise operated by Arriva, including the potential for the franchise to be terminated and transferred
either to a short-term Arriva management contract or operation by DfT’s Operator of Last Resort (OLR). On 30 January 2020 the Secretary of State for Transport announced that OLR will take over the operation of Northern from 1 March 2020.

- South West Railway, the FirstGroup plc and MTR joint venture that is the operator of the South Western franchise, has indicated that the franchise is not sustainable in the long-term. DfT is preparing contingency measures in the event of a failure.

The Group is currently in discussions, where relevant, with national and regional sponsors regarding anticipated future rail franchise/concession competitions. 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 2019, the Group focussed on delivery of new build rolling stock, heavy maintenance programmes and upgrades to existing fleets.

**New rolling stock**

During the year the Group accepted 399 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 units in the first half of 2020:

- In May, the final unit of the fleet of 36 C802 bi-mode trains was delivered. All units are currently in service and on lease to Great Western Railway. The units were built by Hitachi at its factory in Italy.
- The Group accepted 128 of the 149 (comprising 58 units) C195 regional fuel-efficient diesel vehicles to run on the Northern franchise during the year. A total of 33 units were in service at 31 December 2019 with a further 10 accepted units being used for driver training. The remaining units were at various stages of production and testing at Newport, Wales at the end of 2019.
- Of the C331 fleet of regional electric trains for the Northern franchise, 114 had been accepted with 21 units in service from the December 2019 timetable change and 10 accepted units being used for driver training. Production at Zaragoza continues with 27 vehicles to be delivered and accepted during early 2020. All testing is complete subject to individual unit commissioning and fault free running. The programme is forecast to complete in 2020 and in total the fleet will comprise 141 vehicles forming 43 trains.
- All 60 of the C397 high speed electric vehicles are in the UK with nine of the twelve units having been accepted at 31 December 2019. These units are operated by Transpennine Express running between Manchester – Glasgow – Edinburgh and Liverpool – Glasgow – Edinburgh. They entered service after a launch event in November 2019 and will continue to be deployed across the Network, with the full fleet in service by end February, accepted units are being used for driver training to support this deployment.
Expenditure on new build rolling stock in 2019 amounted to £392.7m.

Heavy maintenance

During the year the Group delivered heavy maintenance projects across 12 of its fleets, in line with planned mileage-based and time-based maintenance plans. Completed projects include the Mk4, C91 and C320/4 time-based overhauls. Rolling mileage-based maintenance work continued on the C315 C320/4, C318 and the C321 Classic and Renatus fleets. New projects were initiated for C321 and C320 time-based overhauls and C465 mileage-based overhauls. In total, the Group spent £47.0m (£25.4m during the period for this report) on maintenance related activity in 2019.

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 2019 which include; C465 Persons of Reduced Mobility modifications, C185 mid-life refresh, conversion of a further five (seven completed in 2018) C321 to C320/4 units, C320 franchise modifications and interior refresh and the conversion of Mk4 vehicles to work with a C57 locomotive to allow deployment on the Wales and Borders network. These projects were all completed in 2019. Expenditure on modification and refurbishment projects totalled £16.9m during 2019.

New leases and lease extensions

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

- Twenty-two freight locomotives with GBRf to between January 2025 and September 2026
- Seven C315 units with Arriva Rail London to between February 2020 and July 2020
- Five C170 and the entire C222 fleet with East Midlands Railway until August 2027 and December 2022 respectively
- Extensions for C321 fleet with Abellio East Anglia to between February 2020 and May 2021
- Six C321 and C322 units with Arriva Rail North until May 2020
- Twenty-four Mk4 coaches with Grand Central to December 2026
- Fifteen C185 units with TransPennine Express to March 2023 and a further seven units to May 2020

Fleet

The average age of the Group’s fleet is 21 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 June 2019 report, the position regarding Eversholt Rail (365) Limited is unchanged.
The Group's investment in Eversholt Rail (365) Limited was fully impaired at 31 December 2018. Following a deterioration in Class 365's prospects during 2019, a liquidator was appointed to Eversholt Rail (365) Limited on 19 August 2019. Liquidation is expected to be completed within 12 months of this date. In July, the Group terminated its contracts with Eversholt Rail (365) Limited for maintenance procurement and rolling stock modification services.

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 Group. 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"). 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 (previously BBB+) and the bonds issued under its MTN programme are rated BB3+ (previously A-). The downgrade by Fitch reflects methodology applied to our future lease rentals and the discount rate used for calculating the future debt to NPV ratio. Furthermore, the rating reflects the point at which the business hits its peak leverage following significant investment in new fleet. As described above, many of the new trains are now in service and contributing significantly to revenues.

The Group, and its shareholders, remain committed to an investment grade rating. This has most recently been demonstrated in 2015 when distributions were re-invested to support the rating and underpin new build investment.

Corporate Structure and Directorships

On 16 September 2019 Andrew Course resigned as director of Eversholt Rail Limited and all other legal entities within the Group. There were no other directorship changes in the period.

On 1st January 2020, several long-serving team members; Renarta Guy, Kevin Limb, Darren Spence, Paul Sutherland and Lee Warsop, joined Mary Kenny, Stephen Timothy and Andrea Wesson on the Leadership Team. The new, broader management structure will enable the business to be more agile and responsive, to make the most of the emerging market challenges and opportunities, and to maintain delivery to customers.
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 £197.3m.

Historic Financing

The Group issued no new debt during the six-month period.

As at 31 December 2019, £85m was drawn down on the revolving credit facility, leaving £515m undrawn. As such, senior debt outstanding (excluding accrued interest) was:

<table>
<thead>
<tr>
<th>Current Facilities</th>
<th>£m</th>
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<tbody>
<tr>
<td>Revolving credit facility (2023+1)</td>
<td>85</td>
</tr>
<tr>
<td>Bond A 10 years (2020)</td>
<td>300</td>
</tr>
<tr>
<td>Bond B 15 years (2025)</td>
<td>400</td>
</tr>
<tr>
<td>Bond C 24 years (amortising 2021-2035)</td>
<td>400</td>
</tr>
<tr>
<td>Bond D 25 years (amortising 2034-2042)</td>
<td>400</td>
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<tr>
<td>Private Placement (amortising 2028-2036)</td>
<td>150</td>
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<tr>
<td>Private Placement (2030)</td>
<td>90</td>
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<td>Private Placement (2026-2031)</td>
<td>100</td>
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<tr>
<td>Private Placement (2037)</td>
<td>100</td>
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<tr>
<td>Total</td>
<td>2,025</td>
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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                        Director
Eversholt Rail Limited          Eversholt Rail Limited
Security Group Agent            Security Group Agent