



## **Investor Report for the period from 1 July 2020 to 31 December 2020**

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

From: Eversholt Rail Limited (as Security Group Agent)

1 March 2021

This Investor Report details the 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 and the end of franchising**

In September, and as part of its continued response to the COVID-19 pandemic, the UK Government introduced Emergency Recovery Management Agreements (“ERMAs”) that provide financial support to most train operating companies by accepting the risk associated with passenger revenue.

Each of the affected train operating companies are expected to agree “appropriate terms” with the DfT by the end of March 2021 (extended from December) to terminate the previous franchise agreements. If ‘appropriate terms’ are not agreed by the end of March, the original franchise terms apply, which may result in franchise default. In the event of default, the Operator of Last Resort (“OLR”) would be expected to take over running of services in the interim to maintain continuity of rail service provision.

Some train operating companies operating in England which had franchises ending after the start of the COVID-19 pandemic are operating under different arrangements.

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Transport Scotland has made separate arrangements with its incumbent operator, extending its Emergency Measures Agreements (“EMAs”) to 31 March 2021 from the initial expiry of 10 January 2021.

On 8 February 2021 Transport for Wales’ OLR took over operation of the Wales and Borders rail services, renationalising the railway in Wales. The existing lease for Mark IV passenger coaches and Driving Van Trailers (“DVTs”) has been novated to the OLR.

The ERMAs are expected to transition the UK towards a new concession-based system, ending the system of franchises.

### **The UK Rail Review**

In 2018, the UK Government established a Rail Review to recommend the most appropriate organisational and commercial frameworks to deliver the UK Government’s vision to have a world-class railway, working as part of the wider transport network. Responses to the findings of the review will be incorporated in a White Paper, which is due to be published when the course of the COVID-19 pandemic becomes clearer. We will continue to engage with industry regulators and stakeholders to monitor the proposals so that we can understand the impact for the Group, anticipate and respond to changes in the most appropriate way.

### **Franchising Update**

Since the Group’s previous report, the DfT announced:

- On 21 September, renewed rail emergency measures during the continuing COVID-19 pandemic as described above and plans to bring the rail franchising system to an end.
- On 16 October, that Arriva CrossCountry will continue to operate its services for three more years until October 2023. This will provide certainty for passengers and staff as the future direction of rail reform takes shape.

The Group has established relationships with national and regional rail services sponsors across the UK and meets regularly with them. This maximises advance visibility of their evolving rail strategies and future rolling stock needs, which assists the Group in positioning its existing fleets to secure emerging opportunities as well as identifying prospects for new-build rolling stock.

## **Historic Business Developments**

### **Business review**

During 2020, the Group focused on delivering heavy maintenance programmes, upgrades to existing fleets and completing its new-build rolling stock programme.

### **Heavy maintenance**

In 2020 the Group delivered heavy maintenance projects on eight of its fleets, including mileage based overhauls on six fleets Class 315, Class 318, Class 321 Classic, Class 321 Rénatus, Class 465 and Class 320/4s. We have also undertaken two time-based overhaul projects on Class 320 and Class 465. Arrangements are in place for the forthcoming Class 334 mileage based overhaul and we are in the process of procuring Class 334 and Class 318 time-based overhauls. Having secured new leases for some of our Class 91 and Mark IV fleet, we have placed contracts for their ongoing heavy maintenance. The Group spent £38.1m during 2020 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 second half of 2020 including Class 380 and Class 334 franchise modifications and Class 158 Wi-Fi modifications. We have mobilised projects on Class 375 and Class 395 in line with the agreed lease terms. Expenditure on modification and refurbishment projects totalled £7.5m in 2020.

During the year, the Group also continued their plan to fast-track the hydrogen train industry in the UK with a further investment of almost one million pounds, creating an entirely new class of train, the first-ever 600 series known as 'Breeze'. It will bring hydrogen train technology, proven in passenger service on Alstom's Coradia iLint trains in Germany, to the UK. The 600 series will be developed using the Group's Class 321 electric trains, reengineering some of the UK's most reliable rolling stock, to create a clean train for the modern age.

In addition, the Revolution Very Light Rail ("RVLR") demonstrator vehicle is now being assembled and will commence performance validation tests in 2021.

### **New rolling stock**

During 2020 the Group accepted 65 new vehicles in its portfolio of new build rolling stock. This brings to substantial completion the programme, which represents an aggregate investment of £1.1bn over recent years. The new build programme comprised:

- 36 Class 802 units (comprising 236 vehicles) high speed bi-mode inter-city trains operated by GWR.
- 58 Class 195 units (comprising 149 vehicles) regional fuel-efficient diesel trains operated by Northern.
- 43 Class 331 units (comprising 141 vehicles). Class 331 is a regional electric train operated by Northern.

- 12 Class 397 units (comprising 60 vehicles). Class 397 is a high speed electric train operated by TransPennine Express.

All of the above units are in, or available for, passenger service with the exception of the final Class 195 unit which is being repaired following a low speed derailment within a depot and is due to be accepted in April 2021.

Expenditure on new build rolling stock in 2020 amounted to £72.8m.

### **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 from October 2020 to January 2021
- 16 C315 units with MTR Elizabeth Line from December 2020 to December 2021
- 15 C185 units with TransPennine Express from mid-December 2020 to mid-December 2021
- Extensions for Class 321 Classic and Renatus fleets with Abellio East Anglia to between January 2021 and September 2021; and
- New lease agreed with Abellio East Anglia for three Class 321 and five Class 322 units from July 2020 to July 2021

### **Fleet**

The average age of the Group's fleet is 19 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 2020 income is 17 years.

### **Eversholt Rail 365 Limited**

Since the June 2020 report, the position regarding Eversholt Rail (365) Limited is unchanged. We continue to work with the liquidator PWC to conclude the liquidation.

### **The withdrawal of the United Kingdom from the European Union (“Brexit”)**

The new UK-EU Trade and Co-operation Agreement signed in December 2020 has ensured the continued tariff and quota free movement of physical goods between the UK and the EU. Notwithstanding the requirement for increased customs checks, the risk to the Group of disruption or increased cost to the supply chain as a result of new arrangements is not considered material.

### **Corporate Structure and Directorships**

In September, Tim Durham joined the Group and the Leadership Team as a Business Development Director.

In December, Kevin Limb, formerly Chief Engineer, was promoted to the role of Business Processes Director.

There were no statutory directorship changes in the period.

### **Historic Regulatory Developments**

No member of the Group is regulated.

### **Historic Capital Expenditure**

The total capital investment on existing and new fleets during the year was £83.3m.

### **Historic Financing**

On 27 October, Eversholt Funding plc settled a portfolio of interest rate swaps with notional of £247.5m and 2025 maturity, at a cost of £53.0m. As a result of this exercise, interest costs are forecast to reduce by £58.0m over the 5-year remaining life of the portfolio.

This transaction together with repayment of £300m bond on its maturity on 2 December and the repurchase of £128.7m of the 2025 bond undertaken in June 2020, have fully utilised the proceeds from the June 2020 bond issuance and resulted in the Group’s overall cost of debt being reduced by 0.7% during the period.

As at 31 December 2020, the £600m revolving credit facility was undrawn and the Group had unrestricted cash at bank of £80.7m.

The contractual amounts of senior debt outstanding (excluding accrued interest) was:

<u>Current Facilities</u>	<u>£m</u>
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>2,011</u>

### Credit Ratings

The Group maintains ratings with Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). On 30 June, following 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.

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



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