EVERSHOLT
UK RAILS GROUP

Investor Report

for the period from 1 July 2021 to 31 December 2021 ("the Period")

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

From: Eversholt Rail Limited (as Security Group Agent)

28 February 2022

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 UK Rail Review

In summer 2021, the UK Government issued a White Paper ("the Williams-Shapps Plan for Rail") which set out plans for the restructuring of the railway. The plan announced that a new organisation, Great British Railways ("GBR"), will be created through the amalgamation of Network Rail, some elements of the DfT and elements of other cross industry organisations such as the Rail Delivery Group. It will be responsible for the specification of rail services including timetabling, customer experience, fares and nationwide marketing, and branding. It will let contracts to private sector operators who will be incentivised to deliver a reliable railway in accordance with the standards set by GBR.

The most significant change from the current model is that, in most cases, revenue risk will be borne by GBR and not the private sector operators. Whilst precise plans have not yet been set out for the roll-out of, and transition to, GBR, it is expected that GBR will go live, pending legislation, at some time during 2024. It is expected that rolling stock will continue to be provided by third party organisations such as Eversholt Rail to private train operators.

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The proposed reforms do not assume any direct change to the current industry model for procurement of train fleets and maintenance by independent train-leasing companies.

To facilitate the transition to the new industry structure, the DfT is currently agreeing a series of National Rail Contracts ("NRCs") with existing TOCs as EMAs and ERMAs conclude.

The terms of each NRC vary from TOC to TOC but usually include a core term of between 2 and 4 years. The NRCs also typically include options to extend the term by up to a further 4 years or have shrink-back rights where a longer initial term may be shortened.

Should the DfT not be able to agree suitable NRC terms with an incumbent TOC, then operation will transfer to the DfT's in-house Operator of Last Resort ("OLR").

The White Paper sets out the introduction of passenger service contracts ("PSCs"), which will replace franchises. The new system of PSCs will build on the concession model used by Transport for London ("TfL") Overground services and many railways around the world. The aim of PSCs will be to focus operators on running services efficiently and providing reliable and high-quality services for passengers.

This is a major change from franchising, where each private operator designed its own timetable, set fares and took revenue on its part of the network. Competitions were based on complex and uncertain revenue forecasts, as most operators took both revenue and cost risk. This is expected to end under most PSCs.

Historic Business Developments

Business review

During the second half of 2021, the Group focused on delivering heavy maintenance programmes, upgrades to existing fleets and completing final acceptance milestones of its new build rolling stock programme.

Heavy maintenance

The Group provides services in relation to the procurement and management of heavy maintenance of rolling stock on behalf of its customers in relation to certain fleets.

During the Period the Group managed contracts delivering heavy maintenance projects on nine of its fleets, including mileage based overhauls on six fleets: Class 91; Class 320; Class 321 Classic; Class 321 Renatus; Class 320/4; and Class 465. We have also undertaken three time-based overhaul projects on Mark IV, Class 320 and Class 465. Contracts have been placed and production started at the latter end of the year for the Class 334 mileage based overhaul and Class 318 time-based overhaul. The Group spent £27,821,000 during the Period on maintenance related activity.

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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 Period including modifications agreed as part of the new lease for Class 222 as well as completing franchise modifications on the Class 380. Other projects being managed include fitting monitoring sensors to Class 185 to support maintenance optimisation and supporting Transport for Wales in modifying the Mark IV fleet for integration with their Class 67 locomotives. Expenditure on modification and refurbishment projects totalled £3,757,000 during the period.

We continue to explore how our self-powered rolling stock fleets can be adapted to support decarbonisation and the delivery of low and/or zero-emissions railway operations. Workstreams have focussed on both understanding the fleet environmental performance and the potential technical solutions as well as customer requirements and emerging government policy.

Solutions fall broadly into two categories: firstly, improving air quality and noise emissions of our diesel fleets and secondly range extending and repurposing our electric fleets. On the former we are working with the respective Original Equipment Manufacturers ("OEM") of our Class 185, Class 195, Class 222 and Class 802 to determine the most appropriate approach to modifying their propulsion systems. Potential modifications include alternative fuels, exhaust after treatment, intelligent engine management and battery hybrid. Each of which needs to be assessed in relation to the fleet position, customer expectation, and legislative requirements. Such potential modifications are intended to increase the appeal of the asset where diesel operation remains necessary.

The Group and Hitachi Rail are in the advanced stages of designing and engineering an electric-diesel-battery (tri-mode) train, with plans to undertake a trial on one of our Class 802 operated by Great Western Railway. The trial is to initially replace one of the three engines currently fitted on a 5-car unit with a view to replacing all engines in the future. The introduction of the battery will cut fuel usage and reduce carbon emissions. By using battery power to travel in and out of stations and urban areas, the train will improve air quality and dramatically reduce noise levels, creating a more pleasant environment for passengers and people living nearby.

The Group is also working both with OEMs and other rail industry specialists to investigate the introduction of battery technology to extend the range of certain electric fleets. Proposals are underway on three fleets. In one instance this includes working with UK Power Networks (which shares common ownership with the Group) to deliver charging facilities to offer a complete turnkey solution.

We are investing in the repurposing of its legacy Class 321 fleet from passenger operation to parcels express freight operation, enabling modal shift from road to rail freight. During 2021 we developed a First in Class unit which is now on lease supporting trials, with a further four units on contract for conversion.

New rolling stock

All units from the new build programmes contracted between 2015 and 2016 have been accepted.

Expenditure on new build rolling stock in the Period relates to final acceptance payments in respect of rolling stock already in service.

Expenditure on new build rolling stock during the Period was £12.2m.

Acquisition of new and existing UK rolling stock assets

The Group continues to identify and tender for new trains and opportunities to acquire an interest in existing fleets in the UK.

There is not expected to be the level of activity in the new build market for the next few years as was seen from 2015 to 2020 because of the impact of the Pandemic and the transition to GBR. However, the drive to decarbonise the railway is expected to be a substantial influence on future new build procurement.

The Group is a member of the Revolution Very Light Rail consortium ("RVLR"), which is developing the next generation very light rail technology, in response to the need for lightweight energy-efficient rail solutions. By combining advanced manufacturing processes and low-cost technologies from other industries, RVLR will demonstrate it is feasible to create a bespoke light rail vehicle for new purposes, for example reducing the cost of rail operation to support increasing train frequency on branch lines or the reopening of railways previously deemed uneconomic. A fully-equipped demonstrator vehicle has been completed and is undertaking demonstrations to a wide range of stakeholders including rail service sponsors, TOCs and other interested parties at a private test site in Ironbridge, Shropshire on former passenger rail infrastructure that is representative of a typical rail reopening scheme. If widely supported this could lead to opportunities to lease production vehicles for various applications in the UK.

On 10 November 2021 Alstom, Britain's leading train manufacturer and maintenance provider, and the Group announced a Memorandum of Understanding aimed at delivering the UK's first ever brand-new hydrogen train fleet. We have agreed to work together, sharing technical and commercial information necessary for Alstom to design, build, commission and support a fleet of ten three-car Hydrogen Multiple Units ("HMU"). These would be built by Alstom in Britain. The new HMU fleet would be based on the latest evolution of the Alstom Aventra platform.

New leases and lease extensions

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

- extensions for Class 321 Classic (104 vehicles), Class 321/9 (12 vehicles), Class 322 (20 vehicles) and Renatus (120 vehicles) fleets with Abellio East Anglia for varying durations during the year;
- extension for Class 315 (32 vehicles) from December 2021 for varying durations;
- lease for an additional rake of ten Mark IV coaches with LNER from September 2021;
- a short term lease by GBRf of our First-in-Class Class 321 Swift Express Freight unit, for trial purposes; and
- leases for Class 375 (438 vehicles), Class 376 (180 vehicles), Class 465 (388 vehicles) and Class 395 (174 vehicles) with SE Trains from October 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 (Class 315) and 1983 (Class 455), to the newest fleets Class 802, Class 397, Class 331 and Class 195 introduced into passenger service during 2018, 2019 and 2020. The weighted average age by 2021 income is 17 years.

Eversholt Rail (365) Limited

Since the June 2021 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 UK from the European Union ("EU")

The UK's withdrawal from the EU and the UK-EU Trade and Co-operation Agreement signed in December 2020, continues to have little direct impact upon the Group. Notwithstanding the risk of delays caused by increased customs checks and the possibility that higher costs could emerge through general wage inflation (partly attributable to skills shortages arising from the UK's withdrawal), the risk to the Group of disruption or increased cost to the supply chain as a result of new arrangements is regarded as not material.

Corporate Structure and Directorships

There were no statutory directorship changes in the period.

<u>Historic Regulatory Developments</u>

On 28 September 2021, the DfT announced that the Government's Operator of Last Resort would take over running of London & South Eastern Railway services from 17 October 2021. The DfT announced that *"The government will take over running services on Southeastern from 17 October 2021, after a serious breach of the franchise agreement's "good faith" obligation in relation to financial matters was identified"*.

A procurement supplement to the Official Journal of the European Union by the DfT on 22 October 2021 proposed to extend the existing East Midlands ERMA to 16 October 2022 from 1 April 2022. The prospective NRC term is to be amended to four years core term and up to four years discretionary term. Previously this was four years core term and up to two years discretionary term.

Historic Capital Expenditure

The total capital investment on existing and new fleets during the Period was £16.0m.

Historic Financing

In July 2021 a scheduled loan repayment of £14.3m was made in respect of the 24-year amortising bond maturing in February 2035.

In December 2021 a scheduled loan repayment of £12.8m was made in respect of the 20-year amortising bond maturing in June 2040.

As at 31 December 2021, the £600m revolving credit facility was undrawn and the Group had unrestricted cash at bank of £222.0m.

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

Current Facilities	£m
Bond 15 years (2025)	271.3
Bond 24 years (amortising 2021-2035)	385.7
Bond 25 years (amortising 2034-2042)	400.0
Bond 20 years (amortising 2021-2040)	474.4
Private Placement (amortising 2028-2036)	150.0
Private Placement (2030)	90.0
Private Placement (2026-2031)	100.0
Private Placement (2037)	100.0
Total	1,971.4

Credit Ratings

The Group is committed to protecting its investment grade credit ratings. Moody's Investor Services' rating for the Group and its debt issued under the Group's MTN programme is Baa2. The Fitch Ratings grading for the Group is BBB and the bonds issued under its MTN programme are rated BBB+.

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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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