EVERSHOLT
UK RAILS GROUP

Investor Report

for the period from 1 January 2021 to 30 June 2021

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

From: Eversholt Rail Limited (as Security Group Agent)

2 September 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 UK. The Group uses its expertise to invest 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.

On 21 September 2020, Grant Shapps announced that the Department for Transport ("DfT") was renewing the support for train services within England with new agreements, called Emergency Recovery Measures Agreements ("ERMAs"). These agreements, which would run for up to 18 months, were designed to bring the rail franchising system to an end. At the end of these arrangements, if appropriate terms could be agreed between DfT and operators, then ERMAs would move to National Rail Contracts ("NRCs"). We understand that each of the train operating companies operating under ERMAs has now agreed "appropriate terms" with the DfT to terminate the previous franchise agreements and has either negotiated or is due to negotiate its respective NRCs. We understand that, under these new contracts, operators will receive management fees based on a percentage of the cost base of the franchise before the pandemic began and the achievement of performance metrics.

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Some train operating companies operating in England which had franchises ending after the start of the COVID-19 pandemic are operating under different arrangements including Emergency Measures Agreements (“EMAs”). EMAs are also expected to move to NRCs. Longer term, it is expected that a new concession-based system known as ‘Passenger Service Contracts’ will be introduced following the implementation of the findings of the UK Rail Review (see below).

On 8 February 2021, Transport for Wales announced it had taken over operations of the former Wales and Borders rail services on 7 February. On 13 March, Transport Scotland announced that after the expiry of the current ScotRail Franchise Agreement between The Scottish Ministers and Abellio ScotRail Limited (due to expire as of 31 March 2022), Transport Scotland, on behalf of The Scottish Ministers, intends to entrust the provision of ScotRail Passenger Services to a company owned and controlled by The Scottish Ministers.

The UK Rail Review

The UK Government published a White Paper entitled “Great British Railways: Williams-Shapps Plan for Rail” on 20 May 2021. The White Paper sets out plans to transform the structure of the UK Rail industry, most notably:

- the creation of a new public body, Great British Railways (“GBR”) which will own the infrastructure, receive fare revenue, run and plan the network and set most fares and timetables; and
- replacement of franchising with Passenger Service Contracts, a new approach that will include incentives for operators to run safe, high-quality, punctual services, manage costs, attract more passengers and innovate.

With regards to the ongoing involvement of the private sector in the UK Rail industry, the white paper states the following:

- *“[it is] clear that the railways will not become more efficient, modern and innovative without the involvement of the private sector, including the extensive supply chain, freight market, funders and passenger operators and rolling stock companies”*;
- *“The reforms set out in this white paper do not assume any direct change to the current industry model for procurement of train fleets and maintenance by independent train-leasing companies”*; and
- *“In most cases, Great British Railways will contract with private companies to operate trains to the timetables and fares it specifies, in a way similar to that used by Transport for London (TfL) on its successful overground and bus networks”*.

Rail services

As noted above, UK Rail Services are operating under a mixture of arrangements. EMAs operate on ScotRail, Great Western, South Eastern and Cross Country. Wales and Borders has been nationalised and is being operated by Transport for Wales. The Operator of Last Resort is responsible for operations on East Coast and Northern with the remaining rail franchises in the process of moving from ERMAs to NRCs. We are engaged with the train operators to provide proposals on our fleets when requested to support them in their discussions with the relevant government entity.

On 17 March, in a statement to the Scottish Parliament by Transport Secretary Michael Matheson, it was announced that ScotRail's EMA would be extended until September 2021; Transport Scotland, on behalf of The Scottish Ministers, has formally announced by way of a Prior Information Notice that it will take over operations from Abellio in April 2022.

On 20 May, First Group announced the agreement of NRCs for its TransPennine Express and South Western Railway train operating companies. The new NRCs would commence on 30 May 2021, when the current ERMAs came to an end. In the same announcement First Group noted that *"the West Coast Partnership ERMA is in place until the end of March 2022 and we are discussing an NRC with duration of up to 31 March 2032 (with the core and extension periods to be determined). The existing Emergency Measures Agreement for GWR has already been extended to June 2021, and the underlying GWR direct award runs to 1 April 2023 with an extension option of up to one year."*

On 17 June, Go-Ahead Group announced that the DfT has extended the GTR ERMA from 20 September 2021 until 31 March 2022.

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 the first half of 2021, the Group focused on delivering heavy maintenance programmes, upgrades to existing fleets and completing its new-build rolling stock programme.

Heavy maintenance

The Group is delivering heavy maintenance projects on eleven of its fleets. These comprise mileage-based overhauls on six fleets – Class 321 Classic, Class 321 Renatus, Class 465, Class 320, Class 320/4 and Class 334; time-based maintenance on three fleets – Class 320, Class 465 and Class 318 – and commencement of heavy maintenance activities on Mark IV and Class 91 fleets that remain on lease with LNER. The Group has spent £26.0m to end of June on maintenance-related activity.

Investment in existing fleets

The Group undertakes strategic upgrades to rolling stock to ensure that its existing 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 2021 including Class 380 franchise modifications and Class 185 remote condition monitoring. We have mobilised projects on Class 375 and Class 395 in line with the agreed lease terms.

During the year, the Group progressed further programmes of work on alternative propulsion technologies that will complement the expected rolling programme of route electrification across the UK. The major workstreams have included development of proposals for introducing hydrogen-powered trains to the UK; development of battery-augmented variants for four key electric train fleets to allow them to operate for short distances off the electrified network and thereby increase their operational utility; and working with the manufacturers of our major self-powered train fleets to develop hybrid propulsion solutions to allow their continued operation beyond 2040.

The final assembly and integration of the Revolution Very Light Rail (“RVLR”) demonstrator vehicle was completed in August 2021 in readiness for validation testing and demonstration to a wide range of stakeholders later in 2021.

An innovative programme to convert a Class 321 Classic electric train from a passenger-carrying role into an express freight train has also been successfully completed and the first unit is service-ready. The train has been designed to maximise capacity for parcels and light goods whilst ensuring the interior is flexible to meet individual customers’ operational requirements. Class 321 Swift Express Freight trains will provide a cost-effective and low carbon solution for transporting parcels around the UK, encouraging modal shift and contributing toward the target of net-zero emissions by 2050.

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New rolling stock

The final Class 195 unit which was the subject of a low speed derailment within a depot has been repaired and was accepted in April 2021.

This brings to substantial completion the programme, which represents an aggregate investment of £1.1bn over recent years.

Expenditure on new build rolling stock in 2021 is £3.7m.

New leases and lease extensions

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

- Leases for two Class 91 locomotives with ad-hoc rolling stock movement operator Rail Operations Group from January 2021 to September 2021;
- Our Class 170 and Class 455 leases with GTR have been extended from September 2021 to March 2022 under existing provisions within the leases;
- Extensions for Class 321 Classic and Renatus fleets with Abellio East Anglia to between June 2021 and December 2021; and
- We renewed our Services Agreement with Cross London Trains - covering management of their Class 700 fleet - for a minimum of four years.

Lease terminations

- On 26 February, the lease termination for 24 Mark IV vehicles with Open Access operator Grand Central was concluded. The termination follows Grand Central's announcement in October 2020 that they would no longer launch the planned Blackpool – London service after COVID-19 disruption rendered plans 'unfeasible'; and
- On 26 March, a lease for 15 Mark IV vehicles was terminated, with the respective vehicles and an additional 30 vehicles sold to Transport for Wales.

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 2020 income is 16 years.

Eversholt Rail (365) Limited

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

Class 365

On 1 July 2021, in accordance with pre-existing legacy arrangements, Eversholt Rail Leasing Limited took ownership of 40 Class 365 units.

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The withdrawal of the UK 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

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 £5.7m.

Historic Financing

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

As at 30 June 2021, the £600m revolving credit facility was undrawn and the Group had unrestricted cash at bank of £150.3m.

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)	400.0
Bond 25 years (amortising 2034-2042)	400.0
Bond 20 years (amortising 2021-2040)	487.2
Private Placement (amortising 2028-2036)	150.0
Private Placement (2030)	90.0
Private Placement (2026-2031)	100.0
Private Placement (2037)	100.0
Total	1,998.5

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 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.

	Lee Warsop
Director Eversholt Rail Limited Security Group Agent	Director Eversholt Rail Limited Security Group Agent