



Investor Report

for the period from 1 July 2022 to 31 December 2022 (“the Period”)

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

From: Eversholt Rail Limited (as Security Group Agent)

28 February 2023

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

Great British Railways Transition Team and Whole Industry Strategic Plan

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.

Since the last update, plans to formally create Great British Railways (“GBR”) have been delayed due to a lack of available parliamentary time. On 18 October 2022, the Transport Secretary at that time, Anne-Marie Trevelyan, confirmed that legislation to create GBR would not be brought before Parliament until May 2023 at the earliest and, as a result, GBR was unlikely to be fully in place by early 2024 as originally intended. Ms Trevelyan said work was being done on which changes could be achieved without legislation. On 7 February 2023, Mark Harper, the current Transport Secretary, in his George Bradshaw address 2023 (<https://www.gov.uk/government/speeches/george-bradshaw-address-2023>) reaffirmed the government’s commitment to GBR and stated that by the summer the government would respond to the consultation on GBR’s legislative powers. In addition, following ministerial direction, the GBR Transition Team will develop the guiding long-term strategy for rail, which the government will publish later in 2023.

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National Rail Contracts (“NRCs”)

The DfT has continued to agree and/or extend a series of NRCs with Train Operating Companies (“TOC”s) as previous agreements conclude, the majority of which have now been agreed. NRCs will facilitate the transition to the new industry Passenger Service Contracts, which are still being developed.

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 shorten a longer initial term.

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.

- On 4 October 2022, Abellio East Midlands signed an eight-year NRC, commencing 16 October 2022 with a four-year core period running to 18 October 2026, and potentially running as far as 13 October 2030 at the DfT’s discretion. We have agreed with Abellio East Midlands to extend the lease for our C222 fleet with units now due to be returned on a staggered basis between April 2024 and July 2025.
- On 7 October 2022, the DfT announced a short extension to its contract with Avanti for West Coast services to 1 April 2023. This short extension window is designed to provide Avanti with the opportunity to improve their services. The Government will then consider Avanti’s performance while finalising a NRC that will have a renewed focus on resilience of train services and continuity for passengers. The Group does not presently lease any trains to Avanti.

We will continue to engage with industry regulators and stakeholders to monitor the emerging plans for the creation of GBR and the implementation of the Williams-Shapps Plan for Rail so that we can understand any impact for the Group, anticipate and respond to changes in the most appropriate way.

Historic Business Developments

Business review

During the Period, the Group focused on delivering heavy maintenance programmes, upgrades to existing fleets and completing fleet and final acceptance milestones of its recent 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 seven of its fleets, including mileage-based overhauls on five fleets: Class 91, Mk4, Class 320; Class 320/4; and Class 334. We have undertaken two time-based overhaul projects on Class 318 and Class 465 fleets. We have agreed an interim mileage-based overhaul for the Class 334 fleet which will start in early 2024. The Group spent £14.9m during the Period 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 Period including modifications agreed as part of leases for Class 375, Class 222 as well as completing modifications on the Class 380 and Class 334 fleets. Other projects being managed include fitting monitoring sensors to Class 185 to support maintenance optimisation and supporting Transport for Wales in modifying their Mark 4 fleet for integration with their Class 67 locomotives. Expenditure on modification and refurbishment projects totalled £1.8m during the Period.

The Group continues 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 understanding the fleet environmental performance and the potential technical solutions as well as customer requirements and emerging government policy.

The Group commissioned a detailed feasibility study aimed at developing battery power and range extension to the Class 321 Rexus fleet, capable of providing between 20 to 30 miles of self-propulsion.

On 25 July 2022 the Group signed an agreement with Southeastern and Hitachi Rail to upgrade our Class 395 fleet. The scope of works includes significant upgrades to the interior to provide a better passenger experience as well as installing some of the latest digital solutions to future-proof the fleet.

New rolling stock

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

Expenditure on new build rolling stock during the Period was £6.9m.

Acquisition of new and existing UK rolling stock assets

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

The volume of new build orders across the UK rail sector is expected to remain subdued in the short-term due to the transition to GBR and focus within the industry on cost. However, in the medium and longer term, the drive to decarbonise the railway and replace life expired assets is expected to be a substantial influence on future new build procurement. In late 2022, Chiltern Railways initiated a procurement programme for new Battery Multiple Units and Southeastern commenced a programme to replace its Metro fleet. TPE has also issued an invitation to tender for new trains to support the implementation of the Trans Pennine Route Upgrade.

The Group, in partnership with Transport Design International, is continuing to develop the Revolution Very Light Rail (RVLR) vehicle. The RVLR vehicle has been designed primarily to improve railway connectivity where installing, maintaining and operating traditional heavy rail solutions is uneconomic e.g. branch lines and line extensions. RVLR has been successfully demonstrated to a wide range of stakeholders at a private test site in Ironbridge, Shropshire. The next step is to build a further three pre-series vehicles to enable the Group to test RVLR's commercial viability through trial operations by TOCs.

New leases and lease extensions

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

- Extensions for Class 321/9 (12 vehicles), Class 322 (20 vehicles) and C321 Renatus (120 vehicles) fleets with Abellio East Anglia for varying durations;
- Extensions of the lease by GB Railfreight of our First-in-Class (“FiC”) Class 321 Swift Express Freight unit, for trial purposes. This has since been followed by a short-term lease of the FiC to Varamis Rail, also for trials of parcel freight;
- The extension of one of our leases with Freightliner, for 12 C66 locomotives;
- A short-term lease extension with TfL Rail for Class 315 (32 vehicles); and
- The extension of our Class 222 (143 vehicles) lease with East Midlands Railway, pending delivery of their new build fleet due to commence service in 2024.

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), to the newest fleets introduced into passenger service during 2018, 2019 and 2020 (C802, C397, C331 and C195). The weighted average age by income in the Period is 16 years.

Eversholt Rail (365) Limited

Since the June 2022 report, the position regarding Eversholt Rail (365) Limited is unchanged. We continue to work with the liquidator, PWC, to conclude the liquidation.

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 Period was £8.7m.

Historic Financing

In August 2022, a scheduled loan repayment of £14.3m was made in respect of the 24-year amortising bond maturing in February 2035.

In December 2022, a scheduled loan repayment of £12.8m was made in respect of the 20-year amortising bond maturing in June 2040.

In November 2022, the Group successfully completed the signing of a new five-year £450m revolving credit facility (“RCF”) with options to extend to a total period of up to seven years. The new RCF replaced the previous £600m RCF which was due to mature in November 2023. As at 31 December 2022, the new RCF was undrawn and the Group had unrestricted cash at bank of £267.7m.

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

<u>Current Facilities</u>	<u>£m</u>
Bond 15 years (2025)	271.4
Bond 24 years (amortising 2023-2035)	357.1
Private Placement (amortising 2029-2036)	100.0
Private Placement (2030)	90.0
Private Placement (amortising 2029-2036)	50.0
Private Placement (2026-2031)	100.0
Private Placement (2037)	100.0
Bond 25 years (amortising 2034-2042)	400.0
Bond 20 years (amortising 2023-2040)	<u>448.7</u>
Total	<u>1,917.2</u>

Credit Ratings

The Group is committed to protecting its investment grade credit ratings. Moody's Investor Services in October 2022 affirmed their rating for the Group and its debt issued under the Group's MTN programme at Baa2. Fitch Ratings in November 2022 affirmed their rating for the Group at BBB and the bonds issued under its MTN programme at BBB+.

Audited financial statements

The Group has published on the Investors area of the Eversholt Rail website the audited financial statements for the year ended 31 December 2022 for Eversholt UK Rails (Holding) Limited (Security Group) and Eversholt Rail Leasing Limited. In prior years, audited financial statements were also published for other subsidiaries of Eversholt UK Rails (Holding) Limited. During 2022, the Directors reviewed the requirements for publishing audited financial statements and concluded that publication of audited financial statements for Eversholt UK Rails (Holding) Limited (Security Group) and Eversholt Rail Leasing Limited is sufficient to meet all requirements.

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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