

Investor Report

for the period from 1 January 2022 to 30 June 2022 (“the Period”)

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

From: Eversholt Rail Limited (as Security Group Agent)

16 August 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

Great British Railways Transition Team and Whole Industry Strategic Plan (“WISP”)

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, the DfT has established the GBR Transition Team (“GBRTT”) which is responsible for the development of the strategy and structure for GBR in advance of it becoming an official body – see later.

In late 2021, DfT/GBRTT issued a call for evidence in response to its initial WISP. This document set out a number of draft strategic objectives covering the following themes and invited stakeholders to comment on the objectives and how they should be delivered:

- Meeting customers’ needs;
- Delivering environmental sustainability;
- Contributing to long-term economic growth;
- Levelling up & connectivity; and
- Delivering environmental sustainability.

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A Response Report to the call for evidence was published by GBRTT in June 2022. GBRTT will use the responses provided to inform the development of the Strategic Plan and the five strategic objectives it will support. The Department for Transport and GBRTT will also use the evidence to inform the other plans and strategies we will develop as we work towards the creation of GBR.

Also in June, the DfT published a further consultation paper titled “A Consultation on Legislation to Implement Rail Transformation”. It describes some aspects of the legislation that DfT believes is required to deliver key elements of structural reform and seeks views on them. It covers the establishment of GBR, the establishment of the new rail sector including respective roles and responsibilities of DfT, GBR and ORR and interfaces between them and some wider reforms covering accessibility and Transport Focus. The consultation closed on 4 August. It is expected that a timetable for the formal establishment of GBR will become clearer later this year after the consultation closes.

Transfer to the new structure

To facilitate the transition to the new industry structure, the DfT is currently agreeing a series of National Rail Contracts (“NRCs”) with existing TOCs. 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”). NRCs awarded in the past 6 months include:

- On 25 March 2022, Go-Ahead Group announced that the DfT had awarded an NRC to Govia Thameslink Railway to continue operating the Thameslink, Southern and Great Northern rail services. The new contract commenced on 1 April 2022 and will run until at least 1 April 2025, with up to a further three years at the Secretary of State’s discretion.
- On 14 June 2022, First Group announced that the DfT had awarded an NRC to Great Western Railway to continue operating the Great Western network. The new contract has a core three-year term to 21 June 2025 with an option for the DfT to extend by up to three further years to June 2028.

Separately, on 1 April 2022, ScotRail Trains Limited took over the operation of train services in Scotland from Abellio ScotRail. The Group is the largest supplier of passenger vehicles in Scotland.

Historic Business Developments

Business review

During the first half of 2022, 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 eight of its fleets, including mileage based overhauls on three fleets: C320; C320/4; and C334. We have also undertaken two time-based overhaul projects on C318 and C465 fleets. Our C91 and Mk4 fleets have completed their maintenance programme and are now being repainted. We are undertaking a project on our C185 fleet to fit equipment which will capture data to improve reliability. We are working with the operator of the C465 fleet to identify further maintenance that will be required during their six year lease. The Group spent £14.3m 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. These include modifications committed to in the latest lease agreements on the C222, C375 and C395 fleets. Other projects being managed include digital train upgrade on C158. We are also in the process of converting four C321 units from passenger to freight operation. Expenditure on modification and refurbishment projects totalled £1.0m 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 C185, C195, C222 and C802 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 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. On 14 July 2022, Eversholt Rail and Vivarail signed an agreement aimed at developing battery power and range extension to the C321 'Renatus' fleet. Both parties will be working together to develop a design to integrate battery technology to provide 20 to 30 miles of self-propulsion on a trial unit. Enabling the fleet to operate on non-electrified or partly electrified routes would offer the opportunity to increase the range of modern, low-carbon options to accommodate passenger demand; to enable fleet cascades; to improve the passenger experience; and to bring air quality and decarbonisation benefits to local areas.

We are investing in the repurposing of our legacy C321 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 currently undergoing 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 fleet and final acceptance payments in respect of rolling stock already in service.

Expenditure on new build rolling stock during the Period was £2.1m.

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.

Rail industry demand for new build orders has reduced in recent years due to 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. Possible opportunities include:

- Additional high-speed rolling stock for TPE to support the TPE route upgrade; and
- Replacement EMUs and BEMUs for Transport Scotland/Scotrail.

In partnership with TDI, the Group continues to market the Revolution Very Light Rail (RVLR) vehicle to stakeholders including rail service sponsors, TOCs and other interested parties at a private test site in Ironbridge, Shropshire with in excess of 320 visitors to date. The RVLR Demonstrator also formed a headline exhibit at the Rail Live industry event in 2022. Detailed discussions are being held on specific opportunities for RVLR across the UK. Work is also being undertaken to identify potential markets and explore the feasibility of a battery electric variant. In addition, there is emerging interest in an Express Logistics variant to assist in achieving much needed modal shift to rail and export prospects to mainland Europe, the Middle East and the Americas.

We continue to work closely with Alstom under the 10 November 2021 Memorandum of Understanding, aimed at developing and delivering the UK's first new hydrogen train fleet. Progress has been made on the Safety and Operational aspects of the new fleet deployment and commitment to a further specific work package is planned. The Hydrogen project team within Alstom are aligned with their Avenra platform team to prepare for Hydrogen equipment integration.

New leases and lease extensions

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

- Extensions for C321/9 (12 vehicles), C322 (20 vehicles) and Renatus (120 vehicles) fleets with Abellio East Anglia for varying durations during the year;
- Leases for all our fleets in Scotland, namely Classes 318, 320, 320/4, 334 and 380;
- A short term lease by GTR of our 46 C455 units, prior to retirement of the fleet;
- A short term lease by GBRf of our First-in-Class C321 Swift Express Freight unit, for trial purposes; and
- A lease for C802 (236 vehicles) with First Greater Western Limited (Great Western Railways) until 25 June 2028, subject to a lessee break option to terminate the lease (or novate it to a DfT nominee) any time after 22 June 2025 if the Secretary of State has (at his discretion) terminated the NRC.

Fleet

The average age of the Group's fleet is 18 years. Ages of individual fleets vary from older vehicles, introduced into service in 1980 (C315), to the newest fleets C802, C397, C331 and C195 introduced into passenger service during 2018, 2019 and 2020. The weighted average age is 16 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.

Corporate Structure and Directorships

There were no statutory directorship changes in the Period.

Historic Regulatory Developments

On 1 April 2022, ScotRail came under public control and ownership from incumbent Abellio.

Historic Capital Expenditure

The total capital investment on existing and new fleets during the Period was £3.1m.

Historic Financing

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

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

As at 30 June 2022, the £600m revolving credit facility was undrawn and the Group had unrestricted cash at bank of £235.9m.

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

<u>Current Facilities</u>	<u>£m</u>
Bond 15 years (2025)	271.3
Bond 24 years (amortising 2021-2035)	371.4
Bond 25 years (amortising 2034-2042)	400.0
Bond 20 years (amortising 2021-2040)	461.5
Private Placement (amortising 2028-2036)	150.0
Private Placement (2030)	90.0
Private Placement (2026-2031)	100.0
Private Placement (2037)	<u>100.0</u>
Total	<u>1,944.2</u>

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+.

Unaudited Interim financial statements

The Group has published on the Investors area of the Eversholt Rail website the unaudited interim financial statements for the six months ended 30 June 2022 for Eversholt UK Rails (Holding) Limited (Security Group) and Eversholt Rail Leasing Limited. In prior years, unaudited interim financial statements were also published for Eversholt Funding Plc and Eversholt Rail Limited. During the period, the Directors have reviewed the requirements for publishing interim financial statements and concluded that publication of unaudited interim financial statements for Eversholt UK Rails (Holding) Limited (Security Group) and Eversholt Rail Leasing Limited is sufficient to meet all requirements.



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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.

A handwritten signature in black ink, appearing to read 'Charles'.

Director
Eversholt Rail Limited
Security Group Agent

A handwritten signature in black ink, appearing to be a stylized name.

Director
Eversholt Rail Limited
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