

Investor Report

for the period from 1 January 2023 to 30 June 2023 (“the Period”)

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

From: Eversholt Rail Limited (as Security Group Agent)

4 September 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

Since the last update, the Government’s plans to formally create Great British Railways (“GBR”) have been delayed partly due to a lack of available parliamentary time. It was previously expected that legislation would be brought before Parliament during 2023 but this has not yet occurred. It is therefore unlikely that GBR is going to be in place by early 2024 as originally intended. We understand that the GBR Transition Team is developing the guiding long-term strategy for rail, which the Government is expected to publish later in 2023. We continue to engage with industry stakeholders to monitor the emerging plans for the creation of GBR and the implementation of the Williams-Shapps Plan for Rail.

National Rail Contracts (“NRCs”)

The Department for Transport (“DfT”) has continued to agree and/or extend a series of NRCs with Train Operating Companies (“TOC”s) as previous agreements conclude. NRCs are expected to 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 two and four years. Those NRCs that have a shorter initial term normally have options (exercisable by DfT) allowing them to be extended by up to a further four years. Those contracts with a longer initial term normally have options allowing DfT to shorten the term of the NRC subject to a minimum period elapsing, which is typically three years.

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On 11 May 2023 the Transport Secretary announced that operation of the First TransPennine Express franchise would be taken back into public ownership at the end of First Group's contract term and managed through the Operator of Last Resort (OLR). Transpennine Trains Ltd (TPT) is the new operator for the service. This development has had no material impact on the Group with both of Eversholt Rail's incumbent fleets being re-leased.

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 £7.0m 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 applicable standards and the current and future demands of operators and passengers. Several upgrade projects were progressed during the Period including modifications agreed as part of leases for Class 375 and Class 395 fleets as well as completing modification programmes previously agreed on the Class 185 and Class 222 fleets. In addition, as part of our agreed lease with South Eastern Trains we have committed to make available £12m to invest in the Class 376 fleet.

Our support work was completed in the Period for Transport for Wales in modifying their Mark 4 fleet for integration with their Class 67 locomotives. Total expenditure on modification and refurbishment projects totalled £3.1m 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.

New rolling stock

Expenditure on new rolling stock during the Period was £6.9m. This relates to fleet and final acceptance payments in respect of rolling stock already in service.

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 two procurement processes to consider either new Battery Multiple Units or the conversion of existing units to battery operation. In August 2023, Chiltern launched a third procurement process to also consider low emission rolling stock, which could be either new or converted. South Eastern Trains has commenced a programme to consider its future Metro fleet requirements, which could be delivered from either new or existing rolling stock. The procurement of new trains for the TransPennine Route Upgrade has been delayed by the transfer of operation of TPE from First Group to OLR but is expected to recommence later this year.

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 Group continue to explore the opportunity 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:

- Eight-year leases starting on 28 May 2023 for the Class 185 and Class 397 fleets on the Transpennine Express franchise.
- LNER exercised an option to extend the lease term for Class 91 and Mk4 rolling stock to May 2024. Early in July 2023 we agreed a further extension option that could see LNER operate these popular trains for even longer.
- Incremental extensions, of a reducing number of units, to our Class 321 Renatus lease with Greater Anglia, to reflect the withdrawal from service of that fleet as their new build replacements commenced operations.
- Extensions of the lease for the First-in-Class Class 321 Swift Express Freight unit to Varamis Rail, for varying durations.

Fleet

The average age of the Group's fleet is 19 years. Ages of individual fleets vary from older vehicles, introduced into service in 1986 (Class 318), to the newest fleets introduced into passenger service during 2018, 2019 and 2020 (Class 802, Class 397, Class 331 and Class 195). The weighted average age by income in the Period is 16 years.

Eversholt Rail (365) Limited

Since the December 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 the period, the Group restructured certain interest rate swaps significantly reducing credit and liquidity risk. Additional forward starting swaps were entered into, to fix the interest rate of all of the Group's net senior debt.

In February 2023, a scheduled loan repayment of £14.3m was made in respect of the 24-year amortising bond maturing in February 2035.

In June 2023, 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 2023, the £450m revolving credit facility was undrawn and the Group had unrestricted cash at bank of £297.9m.

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 2023-2035)	342.9
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>435.9</u>
Total	<u>1,890.1</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. Fitch Ratings grading for the Group is BBB and the bonds issued under its MTN programme are rated at BBB+.

Unaudited financial statements

The Group has published on the Investors area of the Eversholt Rail website the unaudited financial statements for the six months ended 30 June 2023 for Eversholt UK Rails (Holding) Limited (Security Group) and Eversholt Rail Leasing Limited. In prior years, unaudited financial statements were also published for other subsidiaries of Eversholt UK Rails (Holding) Limited. During 2022, the Directors reviewed the requirements for publishing unaudited financial statements and concluded that publication of unaudited financial statements for Eversholt UK Rails (Holding) Limited (Security Group) and Eversholt Rail Leasing Limited is sufficient to meet all requirements. This position is still applicable.

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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Director
Eversholt Rail Limited
Security Group Agent

A handwritten signature in black ink, appearing to be 'Michael', written above a horizontal line.

Director
Eversholt Rail Limited
Security Group Agent