

## Eversholt UK Rails Limited

### Corporate Governance Statement and Section 172 Statement for the year ended 31 December 2019

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#### Corporate Governance

For the year ended 31 December 2019, the Company has voluntarily adopted the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website).

Of the companies currently comprising the Group, Eversholt Rail Leasing Limited is required by The Companies (Miscellaneous Reporting) Regulations 2018 to make a statement in relation to its corporate governance practices. Accordingly, attention is drawn to the Corporate Governance Report in the Annual report and financial statements for Eversholt Rail Leasing Limited for the year ended 31 December 2019.

The Group adopts a number of governance policies and procedures on a group-wide basis, which are adopted and implemented by the subsidiaries of the companies to the extent relevant to their operations. The purpose of this Report is to explain these principles, how they are applied to the Company and their significance within the context of the broader Group.

#### Principle 1 – Purpose and leadership

The Group was one of three Rolling Stock Companies formed on the privatisation of British Rail. It is owned ultimately by C K Hutchinson Holdings Limited. Ownership details are more fully described in note 36.

The Group has adopted a clear statement of its strategic vision, which was last updated in November 2019. This strategy is actively promoted throughout the year and is also included in policy documents which are available to all employees through the Group's intranet.

- **Vision** To be recognised as the expert provider of transport asset financing and asset management for the long term.

The Group's strategy has two strands, which are to:

- Optimise our current portfolio through maximising asset utilisation and investing to enhance residual value (RV); and
- Develop opportunities for further growth in the transport sector.

To achieve these aims, the Group focuses on six strategic themes:

- **Maintain Value** Maximise asset utilisation and manage assets over life
- **Enhance Value** Invest to improve attractiveness of the Group's trains
- **Add Value** Grow the portfolio through selective new build
- **Acquisitions** Grow the portfolio by selective purchase of in-service fleets and other rail related assets / infrastructure in/outside UK
- **Great People** Invest in the future of its people
- **Great Processes** Enable efficient working

The Group has identified four shared values (aspiration, integrity, accountability and discipline) that are central to the creation and maintenance of a culture within the business which empowers each member of the workforce to contribute to the successful pursuit of the Group's strategic aims, and to forge strong relationships with the Group's external stakeholders.

In pursuit of its vision, the Board of the Company maintains a relentless focus on safety, validated by an External Safety Panel as explained in further detail below.

## **Principle 2 – Board composition**

The Company is the holding company for the Group. The Board of the Company (“Board”) comprises the Chief Executive Officer, five non-executive directors appointed by the Company's owners, and an industry-focused Senior Independent Director. Where appropriate, the non-executive directors are able to offer constructive challenge to the activities of the executive team.

The Board considers that its size and composition is appropriate to its core function in setting the Group's overall strategy and overseeing the activities of the Group. In discharging this role, the Board is supported by an Executive Board, as explained below, which ensures that the Board is provided with high-quality management information.

The Group is cognisant of the need to foster diversity in its workforce and management structures and has adopted a formal diversity and equality policy.

## **Principle 3 – Director responsibilities**

As parent company of the Group, the Board of the Company is responsible for setting the Group's overall strategy and maintaining oversight of its activities. Each Board member has a clear understanding of their respective responsibilities and their accountability for discharging this role.

The Group has adopted a formal governance matrix and business approvals framework which prescribes the scope of authority of the Chief Executive Officer and other members of the executive management team, and reserves key business decisions to an appropriate decision maker within the Group.

In addition to this, a formal policy and process for major business approvals and the control of expenditure has been adopted.

For the financial year reported, the Board was supported by three principal operational committees:

- the Executive Board
- the Business Management Board
- the Operational Safety Committee

In addition, the Board maintains an Audit and Risk Committee and a Remuneration and HR Committee. Each of these committees operated under formal terms of reference, and their function and roles are described below.

The Company Secretary acts as secretary to the Board and each committee. The Company Secretary ensures that relevant papers are circulated in advance of meetings to ensure informed decision-making.

### *The Executive Board*

The Executive Board was chaired by the Chief Executive Officer and met monthly to provide a forum for cross-functional discussions of all key business issues facing the Group and served as the forum for decision-making and approvals within the Group as dictated by the Governance Matrix. The other members of the Executive Board were the Chief Financial Officer, Chief Operating Officer and the Client Relations Director, with the Head of HR attending when required.

The Executive Board operated within the scope of authority established by the governance matrix and the business approvals framework. The Executive Board reported regularly to the Board of the Company and other relevant companies within the Group engaged in relevant transactions.

### *Business Management Board (“BMB”)*

The BMB was chaired by the Chief Executive Officer and comprised the members of the Executive Board and the heads of the Group's core functions – Engineering, Commercial, Corporate Services, Fleet Management and Legal. It met weekly to oversee a range of operational matters.

As part of its focus on continuous improvement, the Group undertook a review of its governance structures and operational committees to maximise their effectiveness and efficiency which took effect from 1 January 2020.

#### **Principle 4 – Opportunity and risk**

##### *Opportunities*

For the financial year reported, the Executive Board was the principal forum for the assessment of strategic opportunities, which were considered as part of its monthly meetings. Identified opportunities were considered and approved at Board level where required by the governance matrix and business approvals framework.

##### *Business risk*

The Board of the Company is responsible for the identification and management of risk within the Group. The Board is supported in its work by a dedicated Audit and Risk Committee.

The Audit and Risk Committee reviews the Group's internal and external audit processes, together with the Group's principal strategic, operational and financial risks. The committee meets at least twice a year, and more frequently as required. The Audit and Risk Committee operates under formal terms of reference and is composed of two directors and two representatives from the Group's owners. In the opinion of the Board, these representatives provide valuable independence and challenge to the risk assessment and mitigation work of the Group.

##### *Industry-specific operational risks*

The Group operates in an industry where the assessment and management of operational safety risks is of paramount importance.

The Group maintains an Operational Safety Committee (“OSC”) and an External Safety Panel (“ESP”). The OSC is chaired by the Group's Chief Engineer which met six times in 2019 and is primarily responsible for the review of safety incidents and management of safety risks.

The ESP is comprised of the Company's senior independent non-executive director, together with two representatives with significant operational experience within the UK rail industry and a further transport industry executive. The inclusion of a committee member with experience from outside the rail sector provides an independent perspective and the opportunity for the Group to learn from best practices in another transport sector.

The ESP is chaired by the Company's senior independent non-executive director and reports annually to the Board on the operation of the OSC.

The role of the ESP is to provide an independent forum to review the work of the OSC and to report to the Board on the OSC's work and its ongoing effectiveness. The ESP meets quarterly and is authorised to review the OSC's working papers. The ESP is empowered to require the OSC to undertake new or additional work to determine and address operational risks as it considers necessary.

#### **Principle 5 – Remuneration**

The Group is committed to attracting, retaining and incentivising a talented workforce to deliver the Group's strategic objectives.

The Board maintains a Remuneration and HR Committee which meets annually to review the remuneration of the Group's executive management team. In conjunction with external consultants, the Remuneration and HR Committee benchmarks executive pay against a number of comparators. For the wider employee base, remuneration is set by the Chief Executive Officer, again subject to regular external benchmarking against an appropriate peer group.

## Principle 6 – Stakeholders

The Group is committed to creating a diverse and inclusive environment for all those with whom it works. As such, it recognises the importance of maintaining strong relationships with its stakeholders in order to create sustainable long-term value, and the Board encourages active dialogue and transparency with all its stakeholder groups.

The Group has identified four principal external stakeholder groups:

- train operating companies (TOCs) – the Group's customers
- industry regulators (principally the Office of Rail and Road (ORR)), the DfT (in its role providing funding and strategic direction for major rail projects), and other public bodies involved in the UK rail industry
- the Group's suppliers – train manufacturing companies and other suppliers who supply and maintain rolling stock
- the Group's external lenders.

In addition, the Group has two principal internal stakeholder groups:

- the Group's employees
- the Group's owners.

More broadly, the Group is aware of the environmental impact of the operation of its leased fleet and seeks to minimise this through its fleet maintenance and procurement policies, as described below.

### *TOCs*

The Group operates under a formal Code of Practice (available at <https://eversholtrail.co.uk/downloads/>), which governs its dealings with TOCs. The Code sets out the Group's approach to the market and is designed to provide appropriate assurances for customers as to the manner in which the Group's TOC customers can expect to build constructive relationships with it.

Key provisions of the Code include commitments to:

- building long-term relationships with customers
- support customers in providing passengers with a safe, economically efficient and reliable railway service
- fair and reasonable leasing terms, in particular at franchise renewal.

Amendments to the Code will be made in consultation with the ORR. The Group operates a formal complaints procedure in relation to any alleged breach of the Code.

The Group maintains regular dialogue with all TOCs (franchised and open-access), customer freight operating companies and their parent groups through a dedicated Client Relations Director.

### *Regulators and other public bodies involved in the UK rail network*

Whilst not directly regulated itself, the Group maintains a close relationship with the ORR - the independent safety and economic regulator of the UK rail industry.

The Group is committed to assisting national and regional rail sponsors, including the DfT, Transport Scotland, Transport for Wales, Transport for London, Transport for the North and Transport for the West Midlands during their respective re-franchising processes and throughout the operation of the rail franchises and concessions. The Group also engages with other rail stakeholders, such as Transport Focus and the Association of Community Rail Partnerships, as well as contributing to a number of cross-industry working parties.

A consistent, structured approach is applied to all the above relationships. Regular engagement at working level is complemented by senior-level reviews focused on strategic aspects, together with *ad hoc* meetings as necessary to support specific joint programmes and initiatives. During refranchising competitions, a dedicated, cross-disciplinary Bid Team led by a senior manager is established to engage with bidders and provide them with all information necessary to support their bid submissions.

### *Suppliers*

The Group holds multiple contracts with key business and safety critical suppliers that deliver a range of services. These services help support the safe operation of the Group's trains on the railway and enhance the residual value of its fleets. Securing the right capability and capacity from the Group's supply base is critical to helping the Group manage its operational risk and enhance its reputation with its customers.

The Group takes a relationship-based approach with its suppliers, focusing on clear and timely communication. The Group holds quarterly business reviews with its key strategic suppliers. These reviews encompass a wide range of activities including health and safety, delivery performance, engineering support, future plans and provide a forum for delivering feedback from key stakeholders to the supplier. In addition to these reviews and to help support the operational needs of the business, the Group's project managers hold regular fleet reviews with suppliers and customers to ensure compliance with the particular requirements of the project and to discuss any issues either party may have that may impact delivery of these requirements.

### *External lenders*

The Group regularly engages with its banks and institutional investors. A key forum for dialogue with these stakeholders is the Group's annual management presentation, at which a review of the previous financial year and outlook for the coming year is shared. This provides stakeholder representatives with the opportunity to hear from the Executive management team, ask questions about the business and engage in informal discussions with management. The Group also shares annual and semi-annual financial statements and investor reports detailing key events in the development of the business.

### *Employees*

The Group recognises that a diverse workforce is critical to the future of the business and strives to create an environment where its employees can thrive personally and professionally. This includes a focus upon building valuable, experienced teams and attracting a diverse pool of talent. Long term success depends upon the recruitment, development, wellbeing and retention of high quality people that share the right core values and culture. Features of the Group's approach to equality, diversity and inclusion are:

- ensuring that employees feel welcome, valued and respected, motivated to perform at their personal best, with health and safety a priority;
- creating high performing teams by bringing together different opinions and perspectives to deliver the best solutions for customers and opportunities for employees and the business;
- seeking continuous improvement processes to maintain and enhance a diverse and inclusive environment;
- embedding a culture of diversity and inclusion through consistent key messages; and
- encouraging and attracting people from all ages and backgrounds.

Integral to this approach is communication. The Group adopts the following principal methods of engagement with its employees:

- *Staff satisfaction survey*: the Group runs a regular staff survey to understand ways in which it can improve the working environment.
- *CEO "town hall" meetings*: All employee meetings are held on a quarterly basis by the CEO to ensure a cascade of information. Issue-specific meetings are held by Executive Board members on a regular basis.
- *Group-wide training*: Training has been held during the course of the year for all employees on relaunched performance management processes and compliance matters (eg, anti-bribery).

During the course of the year an all-employee away day was held. The purpose of the away day was to discuss the outcomes of the December 2018 staff survey, with additional questions asked to better identify those areas that required follow up actions.

## *Owners*

The Group maintains close relations with its shareholder with representatives of that shareholder sitting on the Board of the Company, as outlined above.

## *Environment and the community*

The Group is committed to reducing the environmental impact of its leased fleet. All of the Group's new diesel fleets are compliant with modern engine emission legislation and its new electric fleets are fitted with regenerative braking, putting power back into the overhead line.

The Group is pursuing a series of green initiatives in relation to its fleet. These include:

- fitting a number of fleets with a driver advisory system which enables drivers to operate the train in a more power efficient way;
- ensuring that scrapping processes for life-expired rolling stock maximises the amount of recycled materials; and
- launching a new initiative to modify one of its electric fleets to fit a battery to allow it to operate on non-electrified lines, thereby eliminating the requirement to use a diesel train.

Further information on the Group's participation in industry discussions in response to the UK Government's challenge to the UK rail industry to remove all diesel-only trains by 2040 is set out in "Climate change and the environment in section 3 of this Strategic Report".

The Group strives to contribute positively to the community. The Group has partnered with the charity Back Up (<https://www.backuptrust.org.uk>) which helps people who have been paralysed through accident or illness. The Group aims to raise awareness of the charity, raise funds and provide volunteering opportunities for staff.

Since 2013, the Group's staff has raised over £90,000 for 3 different charities, Noah's Ark, Back Up and Jubilee Sailing Trust.

## **Section 172(1) statement**

In discharging their duty to promote the interests of the Company under section 172 Companies Act 2006, the Directors of the Company have regard to a number of factors and stakeholder interests. These are described below. As a wholly-owned subsidiary, the Directors do not consider the factor set out in section 172(1)(f) (need to act fairly between the members of the company) relevant to the proper discharge of their duty under section 172.

The Company is the ultimate holding company of the Group. It is responsible for setting the strategy of the Group and overseeing its operations.

## *Long term consequences of business decisions and maintaining reputation for high standards of business conduct*

The Group operates in a sector characterised by long term relationships between stakeholders, driven by a relatively small number of market participants. Maintaining a reputation for high standards of business conduct is vital and the Group expects all members of the supply chain to always act with integrity, acting openly, honestly and ethically. The Group has zero tolerance to fraud and consistently maintains effective oversight and scrutiny processes, executed with independence and impartiality. Integrity is underpinned with policies in relation to bribery and corruption, data protection, equality, diversity and inclusion, modern slavery, fraud and whistleblowing, each of which is reinforced through appropriate training. In addition to the Group's core values, all employees must comply with these requirements and when taken together with the Group's corporate responsibility commitments, they provide the framework within which the Group operates both internally and in the marketplace. Suppliers and contractors are also expected to behave in a consistent manner.

The Group provides rolling stock and rolling stock related services to train and freight operating companies who operate rail franchises for periods that are typically between seven and ten years. Accordingly, consideration of long term consequences are an inherent part of the Company's decision making processes. As a privately-owned company held by an infrastructure investor, the Board considers that the interests of the Company and its shareholder are aligned in seeking sustainable

value creation over the longer term through the Group's operations, promoting long term strategic decision-making.

These factors also drive a continuing focus on the maintenance of durable relationships with stakeholders, built on the Group's reputation with customers and suppliers. Details of the Code of Practice that sets out the basis on which the Group deals with customers and other stakeholders, and other methods of stakeholder engagement designed to maintain the Group's reputation for high standards of business conduct, are set out in the corporate governance statement set out in the Annual report and financial statements of the Company for the year ended 31 December 2019.

#### *Identification of, and engagement with, stakeholder groups*

The Company recognises the importance of maintaining strong relationships with its stakeholders in order to create sustainable long term value, and the Board encourages active dialogue and transparency with all its stakeholder groups.

The Group has identified six main stakeholder groups which are relevant to the proper discharge of the duty of the Directors of relevant group companies under section 172(1) to promote the success of their company. These are:

- train operating companies and freight operating companies – the Group's customers
- industry regulators (principally the Office of Rail and Road (ORR)), the DfT, Transport Scotland, Transport for Wales and Transport for London (in their role providing funding and strategic direction for major rail projects), and other public bodies involved in the UK rail industry
- the Group's suppliers – train manufacturing companies and other suppliers who supply and maintain rolling stock
- the Group's external lenders
- the Group's employees
- the Group's owners.

Details of these groups, and the main methods that the Directors have used to engage with those stakeholders during the course of the year, is set out in the Company's corporate governance statement set out on pages 8 to 14 of the Annual report and financial statements of the Company for the year ended 31 December 2019.

As the parent company of the Group, the Board of the Company is responsible for setting the Group's overall strategy and maintaining oversight of its activities. The Board therefore believes that having regard to each of these stakeholder groups is relevant to the proper discharge of the duties of the Directors of the Company under section 172(1).

#### *Impact on the environment and the community*

In addition to understanding and having regard to the interests of these stakeholder groups, the Group is committed to reducing the environmental impact of its rolling stock and to making a positive impact in the community. Further information on the steps taken to reduce the environmental impact of the Group's operations, and its charitable activities, are set out on in the corporate governance statement set out on pages 8 to 14 of the Annual report and financial statements of the Company for the year ended 31 December 2019.