

## **Eversholt UK Rails Limited**

### **Corporate Governance Statement and Section 172 Statement for the year ended 31 December 2021**

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#### **Corporate Governance**

The Group is required by The Companies (Miscellaneous Reporting) Regulations 2018 to make a statement in relation to its corporate governance practices.

For the year ended 31 December 2021, 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).

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 Company 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's strategy is to maintain our position as a leading rolling stock owner and asset manager in the UK. This is broken-down into three areas:

- Leasing and asset managing our existing UK fleet;
- Acquisition of new and existing UK rolling stock assets; and
- Owning and acquiring UK rail related non-rolling stock assets where they complement our rolling stock portfolio.

Our corporate vision is "To defend and grow our core portfolio while embracing the green agenda". Our strategy and vision are underpinned by our management of Environmental, Social and Governance ("ESG") matters summarised by the following four themes:

- Innovating to support the transport decarbonisation journey;
- Leading as a responsible asset owner;
- Providing a great place to work; and
- Delivering results with integrity.

The Group has identified five shared values (aspiration, integrity, accountability, discipline and one team) 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 (the "Board") 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 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 leadership 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 has been supported by a number of operational committees which have, as explained below, provided the Board 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 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 leadership 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 the following principal operational committees of Eversholt Rail Limited:

- Business Development Committee;
- Business Process Committee;
- Operational Safety Committee;
- Risk and Compliance Committee;
- Treasury Committee; and
- UK Rolling Stock and Balance Sheet Committee.

In addition, the Board maintains an Audit and Risk Committee and a Remuneration and HR Committee. Each committee's function and role is 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.

#### *Eversholt Rail Limited Board of Directors ("MaintCo Board")*

The Board of Eversholt Rail Limited meets monthly to consider any matters reserved for it under the Group's delegated authority and governance matrix. It receives monthly briefings on asset safety, HR matters and financial performance. In addition, quarterly updates are provided from the leadership team and outputs from the Board's committees are presented monthly.

#### *Business Development Committee ("BDC")*

The BDC was chaired by the Stakeholder Director and comprised other members of the leadership team. It met fortnightly to undertake high-level reviews of the Group's portfolio.

Following a review of the committee structure, it was decided that the activity of the Business Development Committee would be captured by the UK Rolling Stock and Balance Sheet Committee or by the MaintCo Board, as appropriate.

#### *Business Process Committee ("BPC")*

The BPC is chaired by the Business Process Director and comprises other senior members. It meets monthly to oversee the application and operation of business systems.

#### *Operational Safety Committee ("OSC")*

The OSC is chaired by the Client Services Director and comprises other senior members. It meets monthly to oversee the effectiveness of the safety management and key controls.

#### *Risk and Compliance Committee ("RCC")*

The RCC is chaired by the Legal Director and comprises other members of the leadership team and the Head of Corporate Services. It meets monthly to oversee the management of existing and emergent risks and to ensure that appropriate systems and procedures are in place to ensure risks are properly identified, assessed, managed and reported and that the Group complies with its legal obligations (whether contractual or statutory).

#### *Treasury Committee (“TC”)*

The TC is chaired by the Chief Financial Officer and comprises other members from the leadership team and other heads of departments. It meets monthly and is responsible for the management and control of the financial risks in accordance with an internal treasury policy.

#### *UK Rolling Stock and Balance Sheet Committee (“UKRSBS”)*

The UKRSBS is chaired by the Chief Financial Officer and comprises the members of the leadership team and the Head of Corporate Services. It meets fortnightly to oversee a range of operational and strategic matters.

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

#### *Opportunities*

For the financial year reported, the UKRSBS and BDC were the principal forums for the assessment of strategic opportunities, which were considered as part of their scheduled meetings. Identified opportunities were considered at Board level where required by the governance matrix and business approvals framework.

#### *Business risk*

The Board 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 (“ARC”).

The ARC 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 ARC operates under formal terms of reference and is composed of four representatives from the Group's owners with the Chief Executive Officer, Chief Financial Officer and Legal Director being invited to attend where appropriate. 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”) (referred to above) and an External Safety Panel (“ESP”).

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 ESP.

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 leadership 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.

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 and freight operating companies (“FOCs”)*

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; and
- 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), FOCs and their parent groups through a dedicated Client Services 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, TfL, Transport for the North and Transport for the West Midlands during their respective concession award 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 concession award processes, 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 leadership 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 an appropriate culture 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 Leadership team members on a regular basis; and
- *Group-wide training*: Training has been held during the course of the year for all employees on relaunched performance management processes and compliance matters (e.g., anti-bribery), and remote working.

#### *Owners*

The Group maintains close relations with its shareholder with representatives of that shareholder sitting on the Board, 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 fleets. 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 on page 4 of this Strategic report".

The Group recognises its responsibility towards communities and since 2013 has contributed through fundraising and donations to charities.

Our current charity partner is Back Up, an organisation that helps people who have been paralysed through accident or illness and works with them to adjust positively to spinal cord injury. We aim to raise awareness of the charity, raise funds, provide volunteering opportunities for our staff as well as administration assistance and office space for meetings and training for the charity. Our charity partner is selected by our staff. Our previous partners have been Jubilee Sailing Trust and Noah's Ark.

We also provide support to several industry organisations including National Rail Museum, Campaign for Better Transport and Community Rail Network.

### **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 parent 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 control, 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 FOCs 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 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 above.

During 2021, the Board has reviewed and reaffirmed its current strategy and vision. The Group continues to focus efforts towards opportunities to protect the recoverability of its core rolling stock portfolio, alongside exploring opportunities to expand the portfolio that supports the decarbonisation agenda. The Board has also made decisions in relation to dividends payable to shareholders as well as amounts to be retained in the Group for investment purposes.

### *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:

- TOCs and FOCs – the Group's customers
- industry regulators and rail services sponsors (principally the ORR), the DfT, Transport Scotland, Transport for Wales and TfL (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 6 to 11.

As the parent company of the Group, the Board 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 Company is committed to reducing the environmental impact of the Group's leased fleet. Further information on the steps taken to reduce the environmental impact of the Group's operations, and 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, are set out in the Company's Corporate Governance Statement set out on pages 6 to 11.

The Company strives to make a positive impact in the community. Further information on the Group's community and charitable activities in which the Company directly participates is set out in the Governance Statement.