EVERSHOLT
UK RAILS GROUP

CLIMATE
STRATEGY
REPORT 2022

About Eversholt UK Rails Group

Established in 1994, Eversholt UK Rails Group ("Eversholt Rail") is a leading owner and lessor of UK rail rolling stock, with a portfolio of over 2,900 passenger and freight vehicles[1].

We have invested more than £3 billion in new trains since the privatisation of the UK's rail industry. As of July 2023, the Group leases rolling stock to 10 train operators and three freight operators within the UK.

With nearly 30 years of industry expertise, we are committed to support a modal shift to rail. Our strong supplier and customer relationships ideally place us as a trusted partner with whom to explore low-carbon solutions.

About this report

This report[2] provides an overview of our approach to managing our climate impact. Although we are not mandated by the current legislation to report on our climate impact, we recognise the importance of disclosing our approach and performance to our stakeholders – particularly around how we can support our customers and the Government in facilitating transport's net zero journey.

To reflect our commitment, we continue to improve our climate disclosures and align our reporting to the Task Force on Climate-related Financial Disclosures (TCFD). In our first stand-alone climate strategy report, we outline:

- our approach to managing our direct climate impact and the impact of our assets, as well as opportunities to further support decarbonisation of the rail industry;
- our relevant governance structures and risk management processes; and
- our progress in establishing our carbon accounting approach across our value chain.

The report accompanies our sustainability policy and environmental, social and governance (ESG) publications, which can be accessed on the Sustainability page of our website.

1 As of 31 December 2022.

2 Unless stated otherwise, performance data reported in this document covers our 2022 financial year, from 1 January to 31 December 2022.

Our climate impact in context

Our own operations

As an office-based business with no maintenance facilities, our direct emissions are negligible, so we focus our efforts on exploring low-carbon solutions for our asset portfolio, which makes up 93% of our Scope 3 carbon emissions.

Decarbonisation of the rail industry

Rail is already a relatively low-carbon form of transport and is one of the most efficient ways of moving high volumes of people and freight over long distances. In 2020, greenhouse gas (GHG) emissions from rail (passenger and freight) made up only 1.5% of the UK's domestic transport emissions, while transport emissions accounted for 24% of the UK's total emissions[3].

In early 2018, the UK Government challenged the rail industry to remove all diesel-only trains by 2040. Furthermore, the UK has committed to achieving net zero carbon emissions by 2050. As such, a significant modal shift to rail will be a key element of the overall transport decarbonisation strategy, as set out in the Department for Transport's transport decarbonisation plan. While we are mindful that regulatory and commercial structures need to be in place for this to be possible, there are opportunities for the rail industry to support this transition.

The assets we lease

Once our assets are on lease, our customers have a quiet enjoyment right to these assets. Therefore, during an asset's lease period, our ability to implement decarbonisation strategies is limited to collaborating with customers to help them deliver their climate priorities, where possible. Protecting the residual value of our assets and aiming to incorporate climate considerations for new fleets are also areas we collaborate with key stakeholders on.

With around 80% of our rolling stock electric or bi-mode, our portfolio is already majority-green[4]. While the UK Government's transport decarbonisation plan continues to evolve, diesel trains still have a role to play in enabling train operators to run services particularly on non-electrified parts of the rail network. For these, we are exploring a range of low-carbon solutions, such as alternative propulsion technologies. Our decarbonisation initiatives also extend to looking at the technical and commercial feasibility of first-in-class units, such as hydrogen-powered trains and Revolution Very Light Rail (RVLR) to help enable a modal shift.

Industry engagement

We are an active member of industry forums that consider how the industry can deliver against the Government's decarbonisation ambitions. Through these, we are able to share our technical expertise and targeted investment experience with wider stakeholders, such as the Railway Safety and Standards Board (RSSB). We believe this collaboration is key in order to continue building an effective regulatory framework and the right market conditions for a net-zero future.

3 ORR (2022) Rail Emissions 2021–22. Available at: Rail Emissions April 2021 to March 2022.

4 Green is defined as assets that would be considered as zero tailpipe emission products, or those that typically produce lower tailpipe emissions than conventional diesel trains do and are zero tailpipe when running only on electricity. See page 8 for a breakdown.

How we govern and manage climate risk

To ensure the effectiveness of our climate strategy, we regularly review ESG- and asset-related risks through an established governance framework and cross-functional procedures to identify, monitor, advise on and manage each risk appropriately.

Details of our wider sustainability governance structure are set out in our Sustainability Policy.

Governance of climate risk

Across our company

Leadership team

Risk and Compliance Committee

Supported and informed by:

- Business Process Team
- Product Development Forum
- ESG Working Group

Across our assets

Rolling Stock and Balance Sheet Committee

Asset Management Planning Working Group

Supported and informed by:

- Fleet Focus Group
- Customer engagement
- Risk, Legal and Supply Chain teams
- Commercial teams

How we govern and manage climate risk

continued

Governance of climate risk across our company

Eversholt Rail's ESG risks are actively considered by four key forums across our business. Their responsibilities include the development of our climate strategy and its implementation, and our climate-related disclosures.

- The **Leadership Team (LT)**, led by our CEO, approves the strategy and receives regular updates on our sustainability progress.
- The **Risk and Compliance Committee (RCC)**, chaired by our Legal Director, monitors existing and emerging risks, including ESG-related risks and stakeholder trends, and reviews proposed mitigation measures.
- The **ESG Working Group**, established in 2023 and attended by senior ESG champions across the business, focuses on delivering our ESG objectives by enabling cross-functional oversight. This includes further strengthening and implementation of our climate strategy.
- The **Business Process Team**, led by our Business Process Director, is responsible for our sustainability agenda. Our Senior Sustainability Manager supports all functions to ensure relevant processes are embedded in the business, including the implementation of our climate strategy.

CASE STUDY

Tracking our climate risks

As part of our efforts to strengthen our climate strategy, we are developing a climate risk register and will be conducting a climate scenario analysis later in the year. This work will also inform the next steps in our emissions reduction and target-setting journey, which will consider science-based targets. This will enable us to stay ahead of continuously evolving regulations and stakeholder requirements, and facilitate access to green finance in the future.

Governance of climate risk for our assets

As an asset owner, evaluating risk is a fundamental part of what we do. Our asset management planning process sets out key technical and commercial feasibility considerations over the life of each of our assets, which can be up to 40 years. This means that decarbonisation risks and opportunities are considered alongside potential impacts on asset life and associated revenue streams. This also helps us account for any potential changes in regulation, and consider how we can future-proof our portfolio.

Transition risks, such as potential changes to legislation, are considered to be direct risks, as these may impact on our ability to re-lease our rolling stock over an asset's lifetime. Asset-related climate risks are deeply embedded in our asset management planning. A senior cross-department working group periodically reviews asset's residual life and potential future risks. From regulatory developments and customer interest to energy transition risks, various scenarios are considered. Through this process, the asset management plan for each of our fleets is reviewed at least annually and recommendations around future investment are made to the Board.

Any investment decision on low-carbon technologies is reviewed and signed off at the executive level through the Rolling Stock and Balance Sheet Committee (RSBSC) of the Board, chaired by our CFO, or the Board itself. RSBSC also oversees decisions around through-life asset management and investment in innovative, green technologies.

While transition risks are considered to be more material to the wider rail industry, particularly in the context of diesel assets, physical risks are considered to be indirect risks to our business due to us not having operational control of our assets. We are also mindful that the physical risks are likely to have a bigger impact on rail infrastructure, which would fall under the remit of, and be managed by, other stakeholders.

During the design and contracting stage of assets, physical risks, such as heat stress and extreme rainfall, are still considered by the manufacturers and these can form part of our contractual terms. For example, for our C802s, the impact of potential weather changes on future operating conditions was assessed against Defra's UKCIP02 'High Emissions' scenario – the latest version available at the time. This assumed changes amount to a +2°C rise in ambient temperature and 10% greater precipitation based on current predicted climate changes. The study then found the asset would continue to operate to full functionality in the event of all climate change scenarios assessed.

Our climate strategy

To reduce our climate impact across our value chain, we have been working on assessing where we have most influence, and developing a clear roadmap to monitor progress. Our climate strategy represents that roadmap, guiding our focus to the business areas where we have the greatest scope for emission reductions and other improvements.

Our approach is focused on where we have the biggest influence and potential for improvement.

As 93% of our total emissions (including Scope 3) are generated through the leasing of our assets, most of our focus is on managing the climate impact of existing and new assets and supporting industry engagement and progress.

The infographic below depicts how we manage our climate strategy through three key pillars: our own operations, asset-related decarbonisation and industry engagement.

Our strategy for managing our climate impact

Our own operations

We continue to mature our corporate climate strategy, which:

- continuously monitors, assesses and mitigates our climate risk;
- aligns to best practice frameworks such as TCFD for governance;
- explores appropriate targets to continuously reduce our impacts, informed by the Science Based Targets initiative and other best practice.

The assets we lease

We focus our carbon accounting and innovation efforts where we have the most significant impact in our value chain and in our assets. We explore opportunities to decarbonise our assets through:

Industry engagement

Using our industry expertise and strong relationships to:

- encourage industry collaboration;
- support our customers on asset decarbonisation strategies; and
- inform our own climate strategy through industrial engagement, such as RSSB's various decarbonisation working groups.

Driving innovation while protecting residual value

Future-proofing existing assets

Collaborating with our customers and suppliers to enable asset modifications to:

- improve energy efficiency; and
- enhance monitoring of climate impact.

Exploring alternative traction modes

Actively investigating with our partners the feasibility of:

- hybridising diesel units to reduce emissions in and out of stations; and
- battery technologies to extend the range of electric trains, where a part of their route isn't electrified.

Exploring opportunities to grow our green portfolio

Investing in new technologies

- Supporting a longer-term modal shift for passengers and freight by developing innovative solutions, such as RVLR.
- Collaborating with train manufacturers and network operators to explore alternative fuels like hydrogen.

Our climate strategy
continued

Future-proofing our assets

Due to the long lifespan of trains, as well as the continuing changes to technology and risk of legislation change, asset owners need to consider evolving customer priorities and how the rail network is decarbonising. To ensure our portfolio is future-proof for both existing and future assets we:

- adopt a whole-life asset management approach to protect residual value; and
- explore innovative, low-carbon solutions with robust long-term value potential.

This is how we can support a rail industry that is future-fit and the UK's net zero transport networks ambition for 2050.

Driving innovation while protecting residual value

A train can be in service for up to 40 years, so it is important during its lifetime to protect its residual value while still innovating solutions. All of our new diesel fleets are compliant with modern engine emission legislation and our new electric fleets are fitted with regenerative braking, putting power back into the overhead line.

While as lessors we have to respect the quiet enjoyment right of the train operators who lease our assets, we collaborate with them whenever possible to enable asset modifications to our existing fleets that can have a climate benefit. Fitting a number of fleets with a driver advisory system is one way we have modified existing fleets, enabling drivers to operate the train in a more power-efficient way. Others include installing LED lighting to reduce energy use, and metering to help customers better understand and manage their fuel use.

Through our collaborations with our suppliers and customers, we are also exploring opportunities to develop greener solutions for our fleets that will benefit the entire industry. One such opportunity is the potential of modifying an electric fleet to fit a battery to allow it to operate on non-electrified lines, thereby eliminating the need to use diesel trains.

Please see our sustainability reporting for more detail on these initiatives.

Exploring opportunities to grow our green portfolio

As we look to support a longer-term modal shift to rail with innovative solutions, we continue to develop the Revolution Very Light Rail (RVLR) vehicle with Transport Design International. RVLR has the potential to improve rail connectivity in a cost-effective way, where installing and operating traditional heavy rail solutions is uneconomic. This can facilitate the reopening of branch lines and rail network extensions for rural communities. We are developing additional units to test RVLR's commercial viability more extensively, and continue to engage with stakeholders.

We are bringing systems-thinking through partnerships with both train manufacturers and network operators, such as exploring the feasibility of a brand-new hydrogen fleet with our partner Alstom and developing hydrogen supply solutions with hydrogen network builder H2 Green.

Measuring our progress

CASE STUDY

Total oversight of our Scope 3 emissions inventory

Throughout 2022, we prioritised strengthening our carbon accounting methodology and boosting data maturity to help us better understand our carbon footprint across our full value chain. Currently, these figures are largely based on modelled data. We will continue to work with our suppliers and customers to collect data to reflect actual emissions and use this knowledge to further drive down our total carbon footprint.

Emissions[5]

	FY 2022	FY 2021	FY 2020
Scope 1, emissions from combustion of gas (tCO_2e)	0	0	0
Scope 2, emissions from purchased electricity, location-based (tCO_2e)[6]	6.6	50.81	39.18
Scope 3 (tCO_2e)[7]	265,313	9.94	27.01
of which are emissions from leased assets (tCO_2e)[8]	247,846	N/A	N/A
Direct emissions intensity normalised by employee headcount (tCO_2e)[9]	0.06	0.50	0.37
Value chain emissions intensity normalised by revenue (tCO_2e/£'000 revenue)[10]	0.71	N/A	N/A

5 Our carbon footprint is calculated in line with the Greenhouse Gas (GHG) Protocol, and all Scope 1 and 2 carbon emissions have been calculated using the UK Government GHG conversion factors for company reporting for respective years. For Scope 3 emissions, the CEDA spend-based factors were applied for categories 1, 2, 4 and 6 (except for business travel from car mileage). See page 8 for a breakdown against all relevant Scope 3 categories.

6 Scope 2 data is reported as location-based and is from energy consumption in the Group's leased offices. In 2021, the Group relocated to new offices. The 2021 figures reflected energy consumption from the Group's new and previous offices, which were still leased until June 2022. Electricity consumption associated with the new office is considerably lower than consumption at the previous office and explains the reduction in energy use and associated emissions in 2022.

7 In 2022, we expanded our Scope 3 to include all of the relevant 15 categories outlined by the GHG Protocol Corporate Value Chain (Scope 3) Standard. See page 8 for a breakdown against all relevant Scope 3 categories. The Group's reporting against Category 7 also includes modelled emissions from employee commuting as well as home working, to align with evolving best practice. FY 2021 and 2020 data is reported against Category 6 of the Standard.

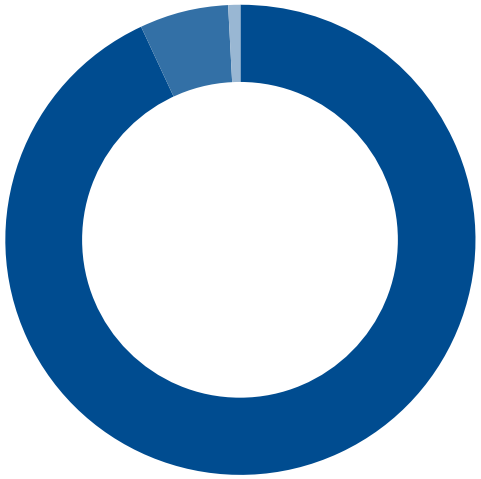
8 This is also the first year the Group is reporting emissions from assets leased out to customers, in line with footnote 7. Data reported in this category includes all assets owned and leased by the Group, both the rolling stock, and Bedford and Northam depots. The Group also reports against the UK Government's Streamlined Energy and Carbon Reporting (SECR) regulations. For year-on-year comparative emissions data reported under the SECR framework, please refer to page 18 of Eversholt UK Rails (Holding) Limited and subsidiaries (Security Group) Annual report and financial statements for the year ended 31 December 2022.

9 Weighted total Scope 1 and 2 carbon emissions intensity normalised by monthly average number of staff (including full-time, part-time and contracted staff). Figures reported here are different from those reported as intensity ratio in our annual accounts due to a difference in methodology. Our statutory reporting of the intensity ratio in our annual accounts aligns with the scope and boundaries as set out by the UK Government's SECR framework, and includes emissions from business travel in rental cars or employee-owned vehicles where the company is responsible for purchasing the fuel.

10 Weighted total Scope 1, 2 and 3 carbon emissions intensity normalised by £'000 revenue. Revenue figures are £375,903 for FY 2022 as reported on page 27 of Eversholt UK Rails (Holding) Limited and subsidiaries (Security Group) Annual report and financial statements for the year ended 31 December 2022. The Group started reporting against this KPI for FY 2022, in line with footnote 7.

Measuring our progress
continued

Scope 3 emissions by relevant categories (tCO_2e)



5% or more emissions

Category 13	Downstream Leased Assets	93%

Between 1% and 5% of emissions

Category 1	Purchased Goods and Services	4%
Category 2	Capital Goods	2%

1% or less of emissions

Category 3	Fuel- and Energy-Related Activities Not Included in Scope 1 or Scope 2
Category 4	Upstream Transportation and Distribution
Category 5	Waste Generated in Operations
Category 6	Business Travel
Category 7	Employee Commuting and Work From Home
Category 12	End-of-Life Treatment of Sold Products

Energy

	FY 2022	FY 2021	FY 2020
% fleet powered by electricity[11,12]	71	76	N/A
% of portfolio bi-mode running on electricity[12]	8	7	N/A
Gas combustion (kWh)[13]	0	0	0
Fuel consumption for transport purposes (kWh)[13]	35,543	40,410	8,778
Electricity usage (kWh)[14]	34,149	239,309	168,069

11 The reduction in our numbers of electric trains is predominantly due to the retirement of C455 fleet and some C321 vehicles.

12 The breakdown for this indicator is available from FY 2021 as the Group previously reported against its fleet size.

13 In preparing the information in the Energy table, the Group has disclosed emissions data in line with the scope required by SECR.

14 In 2021, the Group relocated to new offices. The 2021 figures reflected energy consumption from the Group's new and previous offices, which were leased until June 2022. Electricity consumption associated with the new office is considerably lower than consumption at the previous office and explains the reduction in energy usage and associated emissions in 2022.

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UK RAILS GROUP

To find out more about our ongoing ESG work, please contact us at https://eversholtrail.co.uk/contact/.

References to Eversholt Rail are to the Eversholt UK Rails Group[15]. Unless stated otherwise, the report reflects our approach and performance throughout FY 2022. This report should be read in accordance with the following disclaimers:

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15 The Eversholt UK Rails Group comprises Eversholt UK Rail Limited, a company incorporated in England and Wales with registered company number 10779525, whose registered office is at Ground Floor, WeWork 1 Waterhouse Square, 138-142 Holborn, London, England EC1N 2ST and its subsidiaries, and whose principal subsidiaries, for the purposes of this report, as at the date of its publication, comprise Eversholt Finance Holdings Limited, Eversholt Funding plc, Eversholt Rail Leasing Limited, Eversholt Depot Finance Limited and Eversholt Rail Limited.