

VolkerRail Specialist Businesses Limited

Strategic Report

for the year ended 31 December 2020

Principal activities

The principal activities of the Company are the provision of specialist rail infrastructure services. This includes the provision of specialist plant and equipment, high and low voltage engineering services and overhead line system construction, design and implementation of signalling systems, maintenance and renewal of infrastructure, and track welding services.

Business review

The financial highlights and key performance indicators of the Company are as follows:

Financial key performance indicators

	2020 £000	2019 £000
Revenue	102,491	98,964
Gross profit	10,485	13,214
Gross profit margin	10.2%	13.4%
Operating result	2,721	5,778
Operating result margin	2.7%	5.8%
Profit before tax	2,585	5,626
Profit before tax margin	2.5%	5.7%
Cash and cash equivalents	461	1,720
Net assets	13,639	16,101
Forward secured order book ¹	91,079	102,612

Non-financial key performance indicators

		2020	2019
Health and wellbeing			
Safety	Accident frequency rate (AFR) ²	0.16	0.00
Natural environment			
Raw material	Waste diverted from landfill (percentage)	98.0	93.0
CO ₂ emissions (scope 1 & 2)	Carbon dioxide footprint in kilotons (tonnes/million revenue) ³	21.1	19.1
People and culture			
Employee engagement	Employee survey score across 4 key engagement metrics (percentage) ⁴	N/a	82

The non-financial key performance indicators presented above are for the group headed by the Company's immediate parent, VolkerRail Group Limited, as this information is not available at company level.

¹ Forward secured order book is calculated by taking the value of future secured work, where the relevant contract or letter of intent has been received, the terms are agreed and the contract has been executed or will in all certainty be executed by both parties.

² The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) excluding dangerous occurrences are used in the Accident Frequency Rate (AFR) calculation. The AFR is the most commonly used measure for benchmarking safety performance in the UK. Accident Frequency Rate (AFR) = (number of RIDDOR reportable injuries + total work hours) x 100,000.

³ The data contained in the table above is 'non-normalised'; this means that we are reporting the total emissions within the reporting period. Normalised data reflects a like-for-like comparison on the data and emission sources between 2019 and 2020. On a normalised basis our carbon dioxide footprint for 2020 was 21.1 (2019: 11.9). The CO₂ emissions figure for 2019 has been restated to incorporate the most recent set of fully audited data.

⁴ We have not undertaken a new full employee engagement survey during 2020, therefore no score is available this year. We have however undertaken a number of pulse surveys focussed on the specific challenges being met by our employees during these unprecedented times of COVID-19, which are detailed further below in the Business Review section.

In terms of non-financial performance indicators, we are pleased to be able to report improvement over the prior year across waste diverted from landfill as shown above. CO₂ emissions have increased slightly year on year. Although the accident frequency rate is slightly above that of 2019, we are still proud of the level at which our business operates, and we understand how critical this is to the future of our business. Whilst we have not undertaken a new full employee engagement survey during 2020, we have undertaken a number of pulse surveys focussed on the specific challenges being met by our employees during these unprecedented times of COVID-19. Our employees have fully engaged with us and provided helpful feedback that we have been able to incorporate as we set up our new COVID-19 working practises and re-opened our offices. Employee engagement provides an excellent insight from our employees and we continue to work on initiatives in this area as we understand how critical our people are to our success. For further discussion of non-financial performance indicators in our business please see the Corporate Responsibility section in the s172(1) statement within this report.

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Section 172(1) statement (continued)

(d) the impact of the Company's operations on the community and the environment (continued)

3. Purpose - being a trusted, forward thinking and respected business of choice by delivering long-term social value

Making responsible and forward-thinking choices about the way our projects are executed, and how they will deliver social value, will support our overall vision to be the contractor of choice and encourage us to be a good neighbour in the communities in which we work.

- **Education and Employability** - Raising awareness of the opportunities that exist within VolkerWessels UK and the wider construction industry.
- **Charity, volunteering and community engagement** - Establishing meaningful relationships with charitable bodies and local communities which provide mutually beneficial opportunities.
- **Sustainable supply chain and ethical procurement** - To operate in a fair and ethical manner and publicise our desire to work alongside a network of like minded supply chain partners.

We maintain clearly defined management systems, interfaces and responsibilities that are understood and accepted by all our people and those working with us. It is imperative we maintain a systematic approach to improving business performance in order to achieve our objectives. This includes managing and optimising our activities, to make our processes more effective, more efficient and more capable of adapting to an ever-changing business environment.

Relevant statistics - sustainability (Volker Rail Group)

- Planet MarkTM Certificate¹ achieved for continuous improvement in reducing carbon emissions from Planet First, an international sustainability certification organisation.
- Between 2019 and 2020, using normalised scope 1 and scope 2 data, CO₂ emissions increased from 11.9tCO₂e/£m of revenue to 21.1tCO₂e/£m. Whilst this appears to be an increase relative to the revenue metric, in absolute terms there was a reduction of around 270 tCO₂e a 7% normalised reduction in scopes 1 and 2 emissions.
- The largest normalised reduction in scopes 1 and 2 was almost 99% for gas, due to a shift to REGO certified energy sources during 2020.
- We have increased the number of electric and hybrid vehicles to 32% of the overall fleet total, 12% ahead of our projected target for 2020
- In 2020, 98% of waste was diverted from landfill.
- In 2020, we were recognised for our 'Excellence in Corporate, Social and Environmental Responsibility, at the Doncaster Business Awards, Rail Business Awards and Global Light Rail Awards.

¹ The Planet Mark is a certification programme that recognises commitment to continuous improvement in sustainability. The Programme helps to measure and reduce carbon emissions, energy and water consumption, travel, and the amount of waste members create. Holders of The Planet Mark Business Certification are required to measure and reduce their annual carbon emissions associated with business operations. Each year the new carbon footprint becomes the next year's baseline, thus driving continuous improvement and helping generate our outstanding results.

² Normalised data that reflects a like-for-like comparison on the data and emission sources between 2019 and 2020. This means we only use the data sources that are common between last year and the current year.

³ The CCS assessments are an industry standard. CCS is a not-for-profit, independent organisation founded to raise standards in the construction industry. Construction sites, companies and suppliers voluntarily register with the Scheme and agree to abide by the Code of Considerate Practice, designed to encourage best practice beyond statutory requirements. To establish compliance, and recognise performance beyond compliance, Scheme Monitors will visit offices, depots and individual projects or work areas, and will use the appropriate Checklist to confirm a score against each of the five Code headings – appearance, community, environment, safety and workforce.

(e) the desirability of the Company maintaining a reputation for high standards of business conduct

Integrity

Maintaining a reputation for high standards of business conduct is of paramount importance to us and we expect all employees and all members of our supply chain to behave with integrity at all times. Indeed, integrity is one of our core values and this underpins all of our decisions, actions and behaviours.

Every one of our employees and those who work closely with us are accountable. We expect our people to be open and honest, to run our business ethically and to be morally strong. Long-term success is dependent on the recruitment, development, wellbeing and retention of exceptional people that share the right core values and culture.

We have a zero-tolerance attitude towards fraud and unethical behaviour. We consistently maintain effective oversight and scrutiny processes, carried out with independence and impartiality. This is supported by a full suite of policies to ensure that all our activities are conducted to the highest ethical standards.

Our integrity policies (which include expected behaviours in relation to all matters relating to integrity, anti-bribery and corruption, data protection, equality, diversity and inclusion, modern slavery, fraud and whistleblowing), together with our core values, set out the standards and policies under which all of our employees must operate. These combined with our corporate responsibility commitments, provide the framework and guidance for operating in an open, honest, ethical and principled way. Our core values and policies explain how we should behave in the workplace, the marketplace and the communities in which we operate. They also describe how we should handle various legal and ethical matters. Our suppliers and contractors are required to comply with the standards of behaviour set out in these policies via suitable provisions included in their contracts with us. All members of staff, including Directors must complete mandatory online integrity training and our suite of policies relating to integrity matters have all been approved by the VVUK Directors.

Our decision making is linked to ethical values, compliance with corporate, legislative and other requirements, and we are always prepared to seek further improvements.