

Corporate Governance Summary



May 2010

EAST COAST

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Appendices

Appendix 1 - Code of Conduct & Business Ethics Policy

May 2010

1. Introduction

The purpose of corporate governance is to facilitate accountability and responsibility for efficient and effective performance, and promote ethical behaviour. It should protect executives and employees in undertaking the work they are required to do and ensure stakeholder confidence in an organisation's ability to identify and achieve outcomes that its stakeholders value.

The risk management and internal control processes of East Coast act as enablers for the delivery of effective governance and to demonstrate that adequate internal controls are in place and are operating satisfactorily. These are supported by policies developed on risk management, anti-fraud policy (including the fraud response plan), whistle blowing, code of conduct & business ethics policy and the company's guidance on acceptance and the provision of gifts and hospitality.

2. Conduct of East Coast business

East Coast aims to conduct its business dealings with customers and suppliers with the highest standard of integrity, behaviours and business practice (see Appendix 1, Code of Conduct & Business ethics Policy).

3. The wider Corporate Governance process

East Coast is a wholly owned subsidiary of Directly Operated Railways Limited ("DOR"), which in turn is a wholly owned subsidiary of the Secretary of State for Transport (SoS), who is therefore ultimately responsible for the operations of East Coast. The SoS discharges this responsibility to DOR.

In addition, East Coast is a train operating company, and as such, it is required to operate train services under the terms of a Service Agreement between East Coast and Department for Transport (DfT). Aspects of Governance relating to the relationship between the SoS and DOR are the subject of separate Governance documentation between those parties. Similarly, the relationship between East Coast and the DfT are detailed in the Services Agreement. The purpose of this document is to set out the terms under which DOR intends to govern the activities of East Coast to satisfy its stewardship obligations to the SoS.

4. Organisational Structures and Processes

The key organisational structures which support the delivery of corporate governance at East Coast comprise:

- East Coast Board
- East Coast Executive
- East Coast Executive Safety Committee
- East Coast Investment Committee
- Audit Committee
- East Coast Business Change Committee
- East Coast Catering Committee

The East Coast Board

The East Coast Board comprises a Managing Director, 8 Executive Directors, 5 Non-Executive Directors (including an Employee Director and the Non-Executive Chairman) and a Company Secretary.

The responsibility of the Board is to establish and oversee the corporate governance arrangements, to review the operational and financial performance of the company, to agree and review progress against the three year Corporate Plan and annual Budget and is responsible for individual board members and the East Coast Board's performance as a whole.

East Coast Board members are expected to participate fully in the decision making process with everyone's views being properly heard, considered and challenged when necessary. Members should also be conscious of the need to own corporate decisions and be prepared when necessary to promote or defend these outside board meetings.

The East Coast Board meets regularly and at least 10 times a year.

Roles of the Chairman and Managing Director

The Chairman is responsible for:

- leadership of the Board of East Coast ensuring its effectiveness on all aspects of its role and setting its agenda, taking into account the issues relevant to DOR and the concerns of all Board Members;
- ensuring with the MD and the Company Secretary, the provision of accurate and timely information to the Board;
- ensuring effective communication with the DfT and SoS and that the Board develops an understanding of the shareholders' views;
- managing the Board, ensuring that sufficient time is allowed for discussion of complex or contentious issues;
- ensuring a regular evaluation of the performance of the Board as a whole, its Committees and individual Directors;
- taking the lead in identifying and meeting the development needs of individual Directors and the Board as a whole, with a view to enhancing the overall effectiveness of the team;
- facilitating the effective contribution of the Non-Executive Directors and ensuring constructive relationships between Executive and Non-Executive Directors;
- ensuring with the MD and Company Secretary, that new Directors receive a comprehensive induction programme to ensure their early contribution to the Board; and
- encouraging effective engagement by all members of the Board.

East Coast also has a Managing Director (MD) The primary role of the MD is to ensure the requirements of the Board are carried out. Additionally the MD is responsible for:

- running the day-to-day business of East Coast, within the authorities delegated to him/her by the Board;
- ensuring implementation across East Coast of the policies and strategy set by the Board for the company;
- day-to-day management of the executive and senior management team;
- developing plans for East Coast to meet relevant cost and revenue budgets;
- ensuring the communication of and commitment to Directly Operated Railways (DOR's) objectives and policies;
- leading the selection, training, motivation, development and management of all staff within East Coast to a standard of quality which is appropriate to the satisfactory discharge of allocated responsibilities and which achieves maximum productivity of the human resource.
- maintaining positive and proactive employee relations with all staff through effective collective bargaining and consultation arrangements and by appropriate objective setting for managers;
- developing and maintaining appropriate liaison with DfT Rail and local authorities, key opinion-formers and media contacts in East Coast to promote understanding of East Coast's business objectives and policy;
- ensuring the Chairman is kept apprised in a timely manner of the issue facing East Coast and of any important issues or developments; and
- leading the development of East Coast's future strategy including identifying and assessing opportunities for the growth and performance of its business.

Information and professional development of Board Members

The Board receives detailed papers on the business to be conducted at each meetings at least 7 days in advance and individual Board members have direct access to senior executives should they wish to receive additional information on any of the items for discussion. Management give presentation on current issues facing the business. A number of Board meetings each year are held on site at operating locations across the network allowing Directors to visit the Company's operations and to discuss key issues with local operational management and stakeholders.

All Directors have access to the advice and services of the Company Secretary and, if necessary, can seek independent professional advice at the Company's expense in the furtherance of their duties. The Company Secretary is responsible for advising the Board on corporate governance matters and for ensuring compliance with Board procedures.

Directors receive induction on appointment to the Board, which is tailored to their individual needs. This includes meetings with senior management and relevant external advisers. In addition, information is provided on their responsibilities and obligation under law, regulation and best practice guidelines. The induction process is supported during the year by the programme of business presentations and operational visits described above.

The Board also receives updates, as required, on changes to law and regulatory regimes affecting the Company.

Appointment of Non-Executive Directors

Non-executive Directors are appointed by the Board for an initial term of three years, subject to re-appointment by shareholders.

East Coast Executive

The East Coast Executive, which comprises the Operational Directors of East Coast and certain senior business managers, is chaired by the Managing Director. It acts as a general operating management committee and meets regularly to consider matters which arise in the ordinary course of East Coast's operations, to review outstanding issues and to consider East Coast's operational and financial performance.

East Coast Executive Safety Committee ("ESC")

The ESC is chaired by the Managing Director and meets regularly. It comprises the Executive Directors and other senior managers and safety officers. The ESC reviews East Coast's safety performance and practices, develops safety policies and procedures and follows up on outstanding issues. In addition to the permanent members, independent safety experts and senior representatives of relevant industry bodies, including the Health & Safety Executive also on occasion attend the ESC.

East Coast Investment Committee

The East Coast Investment Committee is chaired by the Finance Director and includes the Property and Projects Director, the DOR Financial Controller and key senior managers from within the business. It meets periodically to review new and existing capital investments and projects. It also has responsibility for the approval of new initiatives and capital investment projects although it does not have delegated authority to commit company funds.

Audit Committee

The risk and internal control environment of East Coast is overseen by the DOR Audit Committee, chaired by a Non-Executive Director of DOR, and includes the Non-Executive Directors of DOR. It is also attended by the DOR Chief Executive, the DOR Financial Controller, the Managing Director and Finance Director of East Coast and a representative from the firm of External Auditors. The Committee meets each year.

Under its remit, the Committee keeps under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification of, assessment and reporting of risk. It also keeps under review the nature, scope and results of audits conducted by Internal Audit and the external auditors, the consistency of accounting policies and reporting across the DOR Group and it reviews the half-year and full year financial statements before they are presented to the Board.

The Committee considers East Coast's compliance with the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2006 and its related guidance and oversees the objectivity and effectiveness of internal audit. The work of internal audit is focussed on areas of priority as identified by risk analysis and in accordance with an annual audit plan approved by the Committee and the Board.

5. Business Planning and Budgets

Annual Budget

Annual budgets and business plans will be prepared and approved by the East Coast Board (and where necessary the DOR Board and/or the DfT).

6. Financial Framework

Funding

Funding for East Coast activities will be provided by DOR and/or the DfT in accordance with the Services Agreement and/or the Financial Framework between East Coast, DOR and the DfT.

Expenditure, including capital investment, must be properly authorised and justified.

7. Internal Control and Risk Management

The Managing Director will prepare and publish each year an Annual Report and Accounts on the Company's financial performance and progress.

As part of the Annual Report and Accounts the Managing Director, is required to sign a Statement of Internal Control (SIC), which states whether he/she is maintaining a sound system of internal control that supports the achievement of the Company's policies, aims and objectives, and regularly reviewing the effectiveness of that system. A sound system of internal control is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide assurance against material misstatement of loss. A robust governance framework including a risk management process involving a systematic approach, evaluation and control of risk is required to support this.

As a result, the company has in place systems of internal control to identify, mitigate and report weaknesses in internal control.

8. Review arrangements

The framework for corporate governance will be reviewed annually to take account of changes in guidance and the structure of the company and its supporting Committees.



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