





## This is Hector Rail Group

Hector Rail Group is an independent line haul provider for the European Rail Transport Market, providing traction and related services across Scandinavia, Germany and UK. We offer environmentally friendly transportation solutions on rail, to industrial companies, forwarders, and other rail operators. In 2017, the Group consisted of Sweden's largest (Hector Rail AB) and UK's third largest (GB Railfreight) private rail freight companies, operating a total fleet of more than 230 locomotives, with approximately 900 employees, performing over 14 million train kilometres.

Sustainability is an integrated part of our operations. Through our services and our connection to the railway we have the opportunity to make a difference – to the environment, to our employees and to society.

Safety always comes first, and we believe that an accident free working environment is both desirable and possible to achieve. Our dedicated safety functions continuously monitor the regulatory environment and the safety management system in each country, to ensure compliance of laws and regulations everywhere we operate. In order to achieve improvements in traffic and worker safety, we are willing to pursue mitigating activities above those required by current regulations.

Through high quality delivery to our customers, we contribute to strengthening the competitive advantage of rail services. When the railroad is used for goods that were previously transported by road, we contribute to a better environment, and help our customers meet their environmental responsibilities. In the UK, where diesel engines are used, rail freight's CO<sub>2</sub> emissions are 76% less than road per tonne carried, and with the electrified tracks in Scandinavia, the benefit to the environment is much greater. Rail also has an advantageous performance in harmful emissions such as nitrous oxide and particulates. To contribute to the growth of the rail freight industry itself, is therefore to contribute to sustainable development.

Even if rail transport is an environmentally friendly alternative to transportation by road or sea, there are also opportunities for individual providers to reduce the environmental impact even further. We achieve this by choosing environmentally friendly energy sources (CO<sub>2</sub>e neutral electricity), and through the implementation of Eco driving, for more energy efficient operations. Through a modernised fleet, better planning and by combining volumes we can also contribute to better capacity utilisation, where fully loaded trains reduce the emissions per gross tonne kilometre.

Sustainable business practices are also emphasized by our owner EQT, the first Nordic private equity firm to become a member of the United Nations-supported Principles for Responsible Investment, who has since embedded this policy into its core processes. Through its sustainability blueprint, EQT aims to support value creating sustainability activities in its portfolio companies. Mandatory requirements include adherence to UN Global Compact Principles, a sustainability-related code/policy that is known by all employees in the organization as well as management and Board level involvement in the development of sustainability activities and targets.<sup>1</sup>

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<sup>1</sup> Link to more information on EQT sustainability reporting: <https://www.eqt.com/our-responsibility/sustainability>



## Hector Rail Sustainability Ambition

The EQT blueprint provides a solid sustainability foundation, but in order to truly foster and inspire sustainable value creating behavior, these mandatory requirements are joined with Hector Rail specific sustainability activities and KPIs, which are designed to capture and manage market and sector specific opportunities and risks.

The sector specific opportunities and risks have been identified in a materiality assessment, where environmental, social, governance, human rights, anti-corruption and other factors are evaluated, based on the assessed risk of our own operations, together with the potential impact to stakeholders in terms of the economy, environment and/or society. The materiality assessment is updated and approved annually by the Board of Directors.

Based on the requirements of EQT and the specific risk factors for Hector Rail, a number of prioritized sustainability areas have been identified. These are the areas where we see the greatest opportunity to make a meaningful positive contribution. Together with our owners and Board, Hector Rail has also set a number of clear sustainability targets for each area.

Key priorities that stand out in the materiality assessment for Hector Rail are safety and environment, but we are also committed to promoting openness and involvement, through equal opportunities in the workplace and through the prevalence of sound business ethics in everything we do.

The Hector Rail sustainability ambition is summarized in the following way:

- Safety First
- Green Value Creation
- Promoting Diversity
- Sound Business Ethics

Each of these areas include a number of sustainability KPIs and focus areas. The performance against these is reported on a monthly basis, to keep the Group management and Board of directors informed of progress against set targets.



The KPIs and focus areas are also broken down into relevant targets on every level of the organisation. Performance is tracked monthly on all management levels, and progress and potential improvement activities are discussed. The sustainability activities and targets are revised annually by Hector Rail management and Board of directors, to ensure they remain relevant over time.

The assessed impact in the materiality assessment, key risk factors, relevant policies and chosen KPIs are summarised the matrix below.



Table 1: Summary of Hector Rail sustainability assessment and ambition

	HEALTH AND SAFETY	ENVIRONMENT	EMPLOYEES & SOCIAL RESPONSIBILITY	ANTI-CORRUPTION & HUMAN RIGHTS
<b>IMPACT ACCORDING TO MATERIALITY ASSESSMENT</b>	High 	High 	Medium 	Low 
<b>KEY RISK FACTORS</b>	<ul style="list-style-type: none"> <li>Traffic and worker safety, through:               <ul style="list-style-type: none"> <li>Incidents and accidents</li> <li>Safety compliance</li> </ul> </li> <li>Trespassing and suicides</li> </ul>	<ul style="list-style-type: none"> <li>Energy efficiency</li> <li>GHG emissions</li> <li>Road and Sea vs Rail</li> <li>Fleet age</li> <li>Green value proposition</li> </ul>	<ul style="list-style-type: none"> <li>Employee satisfaction and retention</li> <li>Diversity</li> <li>Job creation</li> <li>Drivers' working environment</li> </ul>	<ul style="list-style-type: none"> <li>Limited impact as Hector Rail Group does not operate in high risk countries</li> <li>Procurement mainly from European suppliers</li> </ul>
<b>HECTOR RAIL SUSTAINABILITY AMBITION</b>	<b>Safety First</b>	<b>Green Value Creation</b>	<b>Promoting Diversity</b>	<b>Sound Business Ethics</b>
<b>POLICIES AND GUIDELINES (SELECTION)<sup>2</sup></b>	<ul style="list-style-type: none"> <li>Safety policy</li> <li>Safety manuals</li> </ul>	<ul style="list-style-type: none"> <li>Environmental policy</li> </ul>	<ul style="list-style-type: none"> <li>Employee policy (HRAB)</li> <li>Modern Slavery and Human Trafficking statement and plan (GBRf)</li> </ul>	<ul style="list-style-type: none"> <li>Code of Conduct "Staying on Track"</li> <li>ABC policy (GBRf)</li> <li>Modern Slavery and Human Trafficking statement and plan (GBRf)</li> </ul>
<b>RELEVANT KPIS (GROUP)</b>	<ul style="list-style-type: none"> <li>High risk safety events</li> <li>RIDDOR<sup>3</sup> reported injuries</li> </ul>	<ul style="list-style-type: none"> <li>GHG emissions</li> <li>Energy usage</li> </ul>	<ul style="list-style-type: none"> <li>Gender diversity</li> <li>Employee satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Ethics and anti-corruption training</li> </ul>
<b>FOCUS AREAS</b>	<ul style="list-style-type: none"> <li>Maintaining a culture where safety comes first</li> <li>Continuous improvements, based on detailed safety targets in each company</li> <li>Safety process and system improvements in Hector Rail AB</li> </ul>	<ul style="list-style-type: none"> <li>Continue to develop and implement eco driving</li> <li>Strengthening rail competitiveness through longer and heavier trains</li> <li>Modernising fleet</li> <li>Investigation of carbon offsetting opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Apprenticeship positions to encourage young workers, school leavers and unemployed applicants (GBRf)</li> <li>Promote increased diversification in the recruitment process</li> <li>Supporting charities</li> </ul>	<ul style="list-style-type: none"> <li>Zero tolerance for bribery and corruption on all levels of the organisation</li> </ul>

<sup>2</sup> Policy exists for Hector Rail AB (HRAB) and GB Railfreight (GBRf), unless otherwise stated

<sup>3</sup> RIDDOR stands for the *Reporting of Injuries, Diseases and Dangerous Occurrences Regulation*. For more information: <http://www.hse.gov.uk/riddor/>



## Safety first

Safety always comes first in Hector Rail, and this is reflected in our sustainability goals as well as in our operations. Our dedicated safety functions continuously monitor the regulatory environment and the safety management system in each country, to ensure compliance of laws and regulations everywhere we operate. A number of processes, management control systems and KPIs are aimed at achieving further improvements in traffic and worker safety. KPIs for safety performance are closely monitored, and incidents that occur are followed by detailed root-cause analysis and action plans.

We believe that an accident-free working environment is desired and possible. On Group level the ambition of an accident-free working environment has been divided into the areas of Traffic and Worker safety respectively.

### KPI Target

**Traffic safety: No high-risk safety event**

**Worker safety: No RIDDOR reported injuries**

High-risk safety events are defined as any significant safety events occurring which have been defined as high risk, such as serious near misses, which had the potential to cause a major injury or death, or high risk OSPA/SPAD<sup>4</sup> where potential conflicting movement has been identified.

The worker safety target is defined as number of work related injuries reportable according to RIDDOR, the UK standard for work-related injuries.

The KPIs and definitions were reviewed in 2017, with the aim to implement common KPI definitions on Group level. Since the definitions changed from previous reporting periods, 2017 is used as a base year.

### Result in 2017

No high-risk safety event occurred in GB Railfreight (GBRf) in 2017.

Hector Rail AB (HRAB) had one high-risk safety event in 2017, due to a collision with another cargo train in Leese-Stolzenburg in Germany. Hector Rail's train was at a standstill following dispatcher instructions and the driver was receiving orders when identifying another train approaching on the same track. In the resulting frontal collision, the drivers of both trains were injured, both locomotives severely damaged, and four wagons derailed. One wagon on the Hector Rail train contained dangerous goods, but was not damaged. Until that could be established, nearby residents were evacuated. Both drivers were released from hospital in the week following the accident. This is the largest and most serious accident HRAB has been involved in. The internal investigation concluded that the Hector Rail driver acted in accordance with standard procedures for the line in question.



<sup>4</sup> OSPA is an abbreviation for *Obehörig stoppsignalpassage*. SPAD is the UK near equivalent, for *Signal passed at danger*



In total, two RIDDOR reportable injuries occurred in 2017, one in GBRf and one in HRAB. In GBRf, the person injured in the single RIDDOR incident fractured their foot and had 23 days of lost time as a result. In HRAB, one employee was seriously injured during shunting activities in Borlänge. The driver slipped while disembarking a wagon set moving at low speed and was hit in the back by the wagon, causing minor fractures to the spine.



In addition, there was a suspected suicide during Hector Rail AB operations in 2017, as a person lying on the track was hit by a moving train. The loco driver was immediately taken out of service and received trauma support.

In 2017, Hector Rail did not reach the target of zero high-risk safety events and RIDDOR related accidents. However, we continuously work to maintain and improve our safety process and culture, with this ambition in mind. Key activities performed in 2017 include:

- A new mobile app system for incident management implemented in HRAB, including a mobile app for reporting of safety-related incidents, with a direct connection to the safety register
- A mobile app for the distribution of policy documents and safety related messages implemented in HRAB, to facilitate communication and ensure relevant information reaches all employees

**Activities in focus 2018**

- Maintaining and enhancing a culture where safety comes first on all levels of the organisation. The work to embed a safety culture is constantly ongoing
- Continuous improvements based on annual safety targets and action plans set in each company. The safety targets and action plans are rigorous, and the active work with these are key to continue to improve our health and safety performance
- Safety process and system development in HRAB. Focus areas in 2018 include further system improvements for incident management, as well as the initiation of a project to become ISO certified

**Green Value Creation**

Rail transport is an environmentally friendly alternative to transportation by road or sea, but Hector Rail aims to reduce the environmental impact of our operations even further. In order to achieve this, we have a focus on reducing the overall energy usage as well as reducing emissions through the use of sustainable energy sources.

We set targets both for energy usage, which measures the total consumption, and for GHG emissions, where CO<sub>2</sub>e neutral emissions are excluded.

**KPI Target**

**GHG emissions (CO<sub>2</sub>e/train km): Decrease by 2% per annum**

**Energy usage (kWh/train km): Decrease by 2% per annum**



The measurement of Green House Gas (GHG) is based on total CO<sub>2</sub>e emissions in metric tons, and includes scope 1 emissions for HRAB and GBRf, defined as diesel and electricity for train operations, as well as scope 2 emissions for facilities in GBRf. Scope 2 emissions in HRAB are excluded as they are deemed to be negligible. Calculated emissions have not been verified by a third party.

Energy usage is defined as kWh, based on electricity and diesel for train operations. Diesel consumption is converted to kWh using the SCB conversion rate (1 litre diesel = 9,9633 kWh)<sup>5</sup>

Both KPIs are measured using train km as a denominator, to ensure the target remains relevant when volumes change. The target is to decrease the environmental impact of each train km run.

Due to the acquisition of GB Railfreight in 2016, the prerequisites have significantly shifted. Hector Rail has moved from a largely Scandinavian market context with electrified rail tracks, to include UK operations, which are based on diesel powered engines. To ensure relevance, the KPI target is therefore set to reduce energy usage per train km by 2% per annum, using 2017 as a baseline.

**Result in 2017:**

GHG emissions was 7,6 metric tons CO<sub>2</sub>e per train km, but with significant variation between countries.

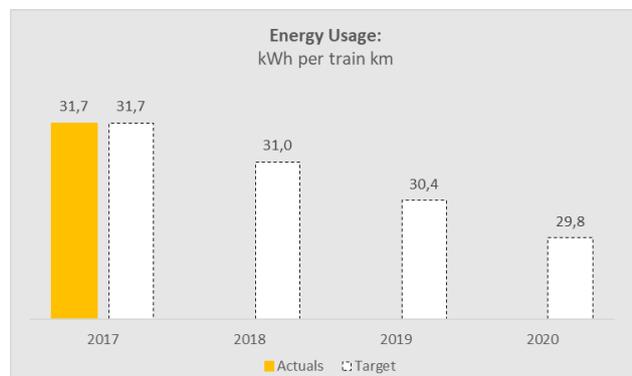
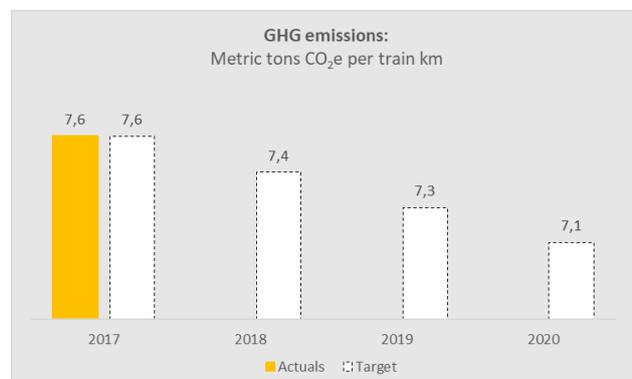
7% of the GHG emissions were due to operations in Sweden, Norway and Denmark. In all these countries, 100% of Hector Rail's electricity in train operations come from sustainable CO<sub>2</sub>e neutral energy sources (wind and water power). The GHG emissions in Scandinavian markets is therefore limited to the operation of diesel locos in areas without electrified tracks.

12% of GHG emissions were from German operations, where a standard mix of electricity was used.

The remaining 81% of GHG emissions were from diesel operated train services in the UK, and this is also where the main potential exists to further reduce GHG emissions. In 2017, work was initiated to identify carbon offsetting opportunities in GBRf. The project to evaluate opportunities together with carbon offsetting companies and customers will continue in 2018.

Energy usage in 2017 was 31,7 kWh per train km. Just as for GHG emissions, the 2017 value is used as a baseline from which a 2% decrease is targeted. A number of activities were also performed in 2017, to take steps towards achieving this target.

In HRAB, significant investments have been made to modernise the fleet, and the first of a total of 20 Siemens Vectrons were introduced in traffic in 2017. A conservative estimate is that a 20% improvement in energy usage can be achieved by replacing old locomotives with more



<sup>5</sup> Rate utilised in several SCB publications. For instance: [http://www.scb.se/Statistik/TK/\\_dokument/Anv%C3%A4ndarhandledning2010.pdf](http://www.scb.se/Statistik/TK/_dokument/Anv%C3%A4ndarhandledning2010.pdf)



fuel efficient modern locomotives, and a modern fleet is therefore an important part of reducing energy use.

In order to promote eco driving, HRAB also uses Drivekeeper, an internal benchmarking system where loco drivers see their own performance in kWh per train km ranked with other performances on the same distance.

GBRf detailed a fuel management plan in 2017, with a number of activities to achieve long term reductions in fuel usage over the next 5 years. Activities include reduction in light engine movements, improvements to training for economic driving, and the introduction of more fuel-efficient locomotives to the fleet.

#### Activities in focus 2018:

- Evaluate potential for carbon offsetting opportunities in the UK. GBRf to investigate the opportunities for collaborations with customers towards a carbon neutral journey
- Continued implementation of the Fuel management plan in GBRf
- Continue to modernise the fleet. In 2018, a key activity will be the deployment of Vectrons in HRAB, which will enable more energy efficient operations, and the running of longer and heavier trains
- Continued application of Eco driving across all our operations. Project initiated in HRAB together with Transrail to trial CATO, a system that displays the optimal Eco driving pattern for trains

#### Promoting Diversity

Our ambition to be an attractive employer and recruit talented and ambitious employees for all positions. To be attractive, Hector Rail focuses on openness, involvement and personal development.

We are committed to the involvement of employees in the continuous, joint development of our business, and the coaching of employees to meet personal and corporate development objectives.

In Hector Rail we believe that a diversified workforce increases job satisfaction and quality of life for our employees, and that it has a positive effect on the quality of services delivered to our customers. Hector Rail therefore strives to achieve diversity with regard to gender, age and nationality, as well as in other respects that contribute to a stimulating equal opportunities workplace.

We work proactively for gender equality, in the male dominated rail transport market in which we operate. 84% of loco drivers in Sweden are male, and 83% of ground staff<sup>6</sup>. In UK, male domination in the industry is even more predominant.

Our goal is to be more diversified than the industry average, by encouraging female applicants as well as fostering a culture of equal opportunities, where discrimination in employment and occupation does not occur.

Hector Rail also supports a number of charities, and we encourage our employees to engage in the communities where we operate.

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<sup>6</sup> SCB, Yrkesregistret med yrkesstatistik 2016.

[https://www.scb.se/contentassets/ae540cb0a7a0409fa223ca872f68fe90/am0208\\_2016a01\\_sm\\_am33sm1801.pdf](https://www.scb.se/contentassets/ae540cb0a7a0409fa223ca872f68fe90/am0208_2016a01_sm_am33sm1801.pdf)



KPI Target - Promoting diversity

**Women (%) in Management positions: 40%**

**Women (%) in Hector Rail Group: 25%**

**Employee satisfaction: 75%**

The gender diversity KPIs are measured as number of female employees divided by total number of employees. Management is defined as directors and management staff reporting directly to a director.

In management positions, we see an opportunity to stretch the diversity target further, as the gender bias there is less predominant.

The employee satisfaction is measured as a weighted index based on an employee engagement survey.

Result in 2017

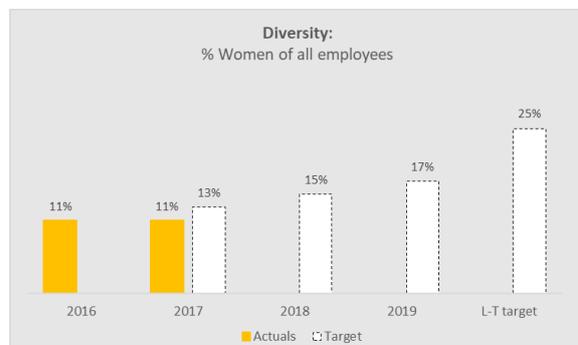
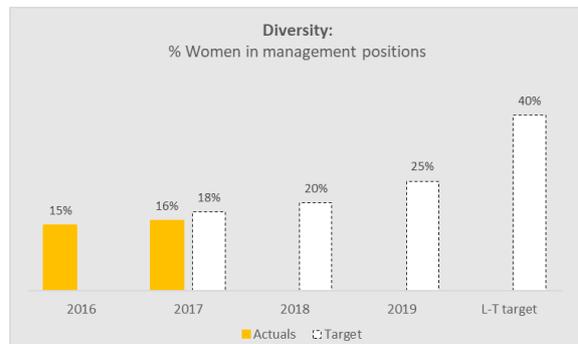
The diversity KPIs are long-term targets for Hector Rail, as they are partly dependent on attracting more women to the industry, and partly on the existence of vacancies to be filled.

In management positions, the % of women increased from 15% 2016 to 16% in 2017. This was fuelled by HRAB, which saw an increase from 16% to 24%, while the share of women in management positions decreased somewhat in GBRf.

When looking at all employees, the number remained on the same level in 2017 compared to previous year. However, a number of activities were performed in 2017 that aim to increase gender diversity, and that will continue in 2018.

GBRf regularly train and employ individuals who have come from a non-railway working background and see this as an important activity to maintain to create more diversity internally and to support local communities. In 2017, GBRf created +40 roles in the London community to support the delivery of the Crossrail contract, selecting candidates with little or no railway experience, and delivery of a 10-week Rail Operator training programme to equip them with new skills for their railway career. GBRf also recruited 5 school leaver Apprentices during 2017 and are supporting them to complete national vocational qualifications relevant to their job roles.

When it comes to employee satisfaction, a new staff survey was developed in 2017, in order to harmonise and develop existing employee engagement surveys in GBRf and HRAB. Due to this development work, and the resulting change of supplier, no employee survey was conducted in 2017. The new survey will be conducted for HRAB and GmbH in the first half of 2018, to assess 2017 performance.





In 2017, Hector Rail Group also provided support for a number of charity events, for example Musikhjälpen, British Heart Foundation, Working Homes and Ripple Project. In GBRf, a record-breaking £160,000 was raised, through organising numerous corporate charity events across the country, which relied on staff volunteering to the fundraising projects.

#### Activities in focus 2018

- Apprenticeship positions, and continued focus on promoting job opportunities for those new to rail by engaging and advertising with local job centres and local universities
- Promotion of gender diversity in the recruitment process
- Conduct survey assessing 2017 employee engagement and set plan for annual assessments going forward

#### Sound Business Ethics

Overall, the risk of anti-corruption and violation of human rights is assessed to be limited. Hector Rail operates exclusively on regulated markets in Germany, UK and Scandinavia and predominantly uses European suppliers. An annual assessment is made of the supplier base, using the EQT framework for identifying high-risk countries. The framework is based on The Financial Action Task Force list, The European Union restrictive measures (sanctions) in force<sup>7</sup>, and the United Nations Security Council Sanctions. In the assessment for 2017, Hector Rail had no suppliers from any of the 32 identified high-risk countries.

Nevertheless, questions of equality, moral judgement and integrity of decision making are relevant in all workplaces, and the prevalence of sound business ethics and equal human rights is important to Hector Rail. To facilitate discussions and ensure awareness on all relevant levels, the expectations on managers, employees and suppliers is detailed in the Hector Rail document “Staying on Track”. The document contains the Group Code of Conduct, together with essentials regarding improper payments, supplier relations, anti-money laundering and competition law.

*Table 2: Hector Rail Code of Conduct*

<b>1</b>	Be honest, fair and trustworthy in all of your activity and relationships within the Hector Rail Group
<b>2</b>	Obey applicable laws and regulations governing our business in each country
<b>3</b>	Respect the equal rights and value of all people regardless of nationality, race, religion, sexual preference or any other factor. Hector Rail Group has zero tolerance for discrimination of people
<b>4</b>	Fulfil your obligation to be the voice that keep us on track and promptly report any concerns you have about compliance with law, policies or this code
<b>5</b>	Simple compliance is more effective compliance. Effective compliance is a competitive advantage. Work to run the company in as competitive way as possible – to be different, better and faster

<sup>7</sup> USA is excluded even though some EU sanctions are in place



KPI Target – Sound Business Ethics

**Ethics and anti-corruption training: All employees to know ‘Staying on Track’.**

Staying on Track was approved on Group level in 2017. The target was to have completed training on management level in 2017, and of all employees during 2018.

The training on employee level is to be performed by a train-the-trainer approach, where management introduces and discusses the Staying on Track document in their respective functions. Implementation to be assessed at year-end 2018.

Result in 2017

All managers were trained in 2017, in line with set target. Staying on Track was presented and discussed on management conferences during the year.<sup>8</sup>

The reported value in 2017 includes the participants in management conferences, as a % of all employees. Actual percentage trained is likely to be higher, as roll-out to employees started already in 2017. However, awareness on employee level remains to be verified.



In 2017, Hector Rail Group also established an externally managed whistle blowing service. This service allows any person to remain completely anonymous, and concerns raised through this channel will automatically reach the highest level of management and the board of Hector Rail Group. The service can be found at: <https://report.whistleb.com/en/HectorRail>

Activities in focus 2018

- “Staying on Track” document to be translated into German and Swedish
- Document to be rolled out to all employees
- “Staying on Track” to be included in the on-boarding programme in Germany, Scandinavia and UK

<sup>8</sup> The performance in 2016 is related to anti-corruption training completed by the HRAB management team