



2023

SUSTAINABILITY REPORT



2023/2024

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Dear Stakeholders,

we are honoured to present to you Hector Rail's Sustainability Report for the fiscal year 2023. As the CEOs of Hector Rail GmbH and Hector Rail AB, we are deeply committed to ensuring that our operations are conducted with the utmost responsibility towards society, our personnel, and the environment. This report serves as a testament to our ongoing dedication to sustainability and our efforts to drive positive change within the railway industry.

At Hector Rail, we recognize our role as a vital player in the transportation sector and understand the significant impact our operations can have on the customers and communities we serve and the environment we operate in. Therefore, we have embedded sustainability principles into the core of our business strategy, aiming to balance economic growth with social progress and environmental stewardship.

Throughout this report, you will find detailed insights into our sustainability initiatives and performance across various key areas, including:

1. **Social Responsibility:** We understand that our employees are our most valuable asset. Hence, we prioritize their well-being, safety, and professional development. We are committed to fostering a diverse, inclusive, and equitable workplace where all employees feel valued and empowered to reach their full potential.
2. **Environmental Stewardship:** As a railway undertaking, we recognize the importance of minimizing our environmental footprint. Through investments in energy-efficient driving procedure and eco-friendly purchasing strategy of our energy, we strive to reduce our carbon emissions and promote environmentally responsible practices across our operations.
3. **Community Engagement:** We actively engage in understanding the needs and concerns of our staff and their families and strive to be a responsible corporate citizen wherever we operate. By collaborating with stakeholders, we aim to create shared value, support community development initiatives, and contribute to the well-being of society at large.
4. **Ethical Business Practices:** Integrity and transparency are fundamental to our business ethos. We uphold the highest standards of ethical conduct in all our dealings, fostering trust and accountability among our stakeholders.

As we navigate the complexities of the modern world, Hector Rail remains steadfast in our commitment to sustainability. We understand that our actions today will shape the future for generations to come, and we are dedicated to making a positive impact every step of the way. We extend our sincere gratitude to our stakeholders for their continued support and partnership on this journey toward a more sustainable future.

Yours sincerely,

Marc Giesen and Claes Scheibe

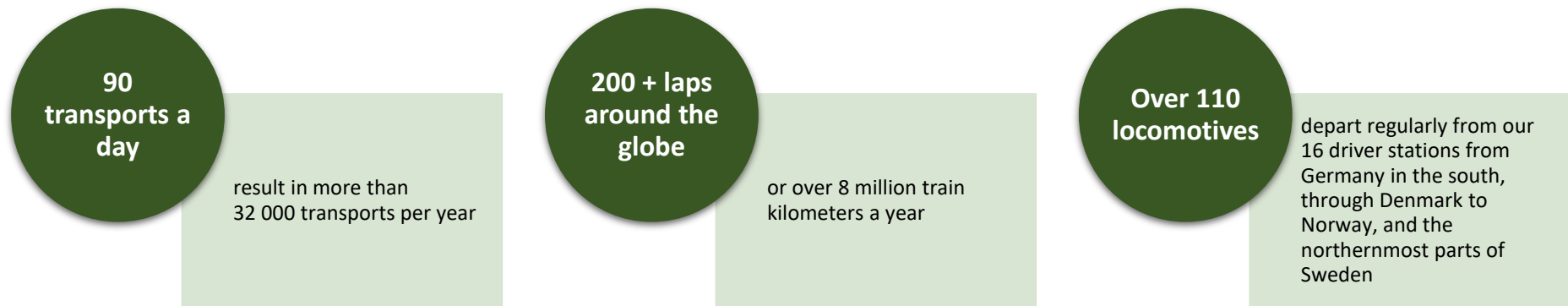


Hector Rail Group

Hector Rail Group consists of Hector Rail AB (HRAB), the largest private rail freight provider in Scandinavia and Hector Rail GmbH (GmbH), a private rail freight provider focused on Germany, Europe's largest freight market. Hector Rail AB was founded in 2004 and is celebrating twenty years in business.

Hector Rail aims to create value by means of sustainable and environmentally friendly logistics services across Germany and Scandinavia at a fraction of the carbon footprint of road, sea, or air freight alternatives.

As a group, Hector Rail possesses vast experience in carrying out cross-border transportation, intermodal freight on national and across corridor tracks, transport of heavy industry products, raw and refined materials as well as in providing passenger traffic.





Our Mission

Through **fast**, **smart**, and **safe** rail transport, we connect Scandinavia and the European continent and make it easy for industries and travellers to **reduce** their **climate footprint**.

Our Vision

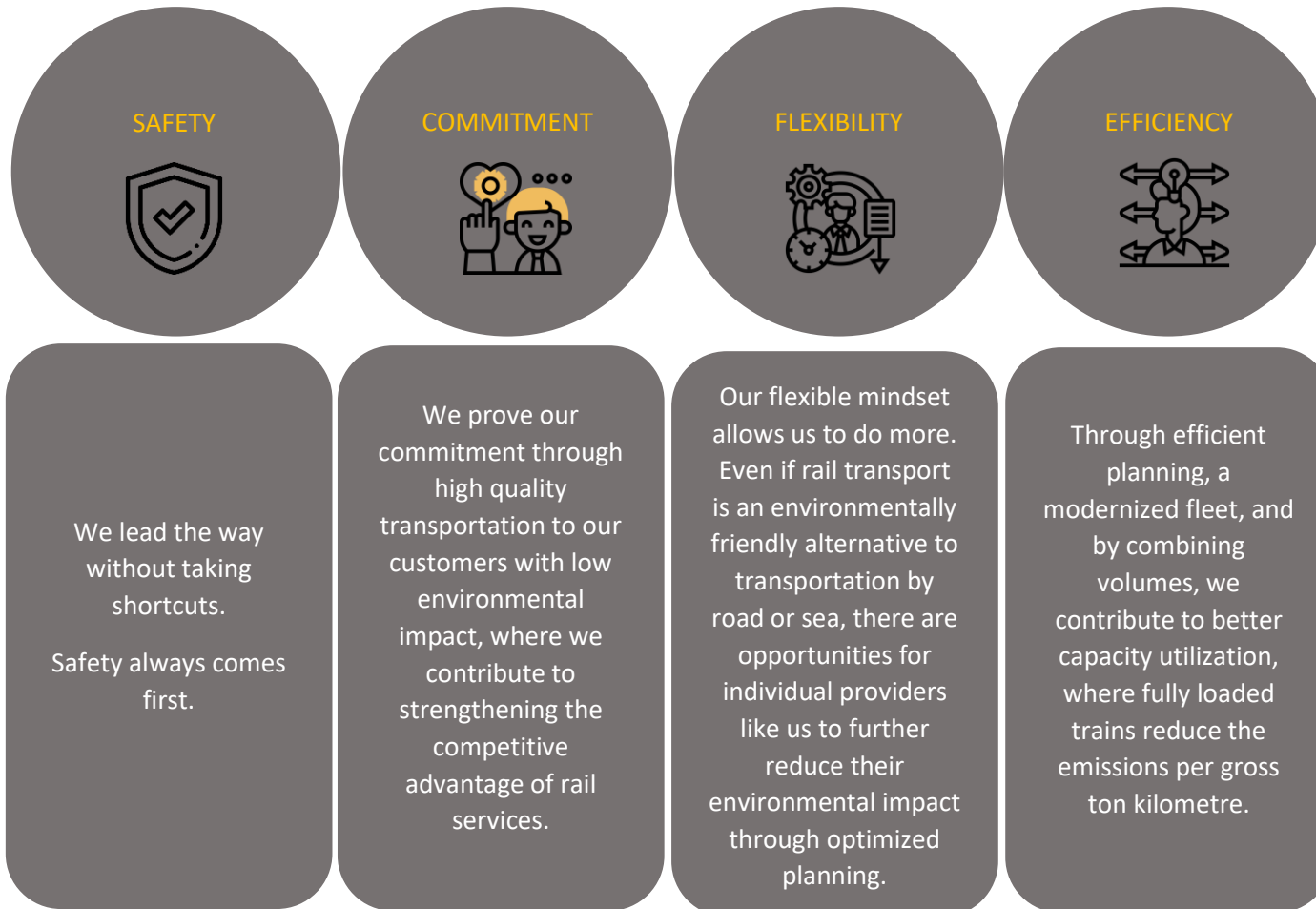
We make the **railway** the **obvious transport solution**.

Our Passion

We want to look back at our time at Hector Rail and say, “I was part of **changing** the railway business”.



Hector Rail's mission and vision are reflected in our guiding principles:





Our Stakeholders

Our Customers

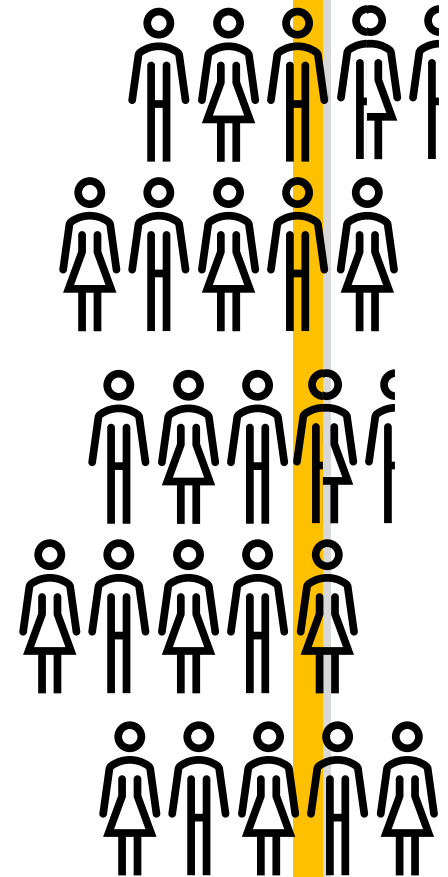
Our customers are key. It is through their belief in us as a trusted supplier that we succeed. Our customers expect us to deliver reliable services in accordance with our agreements. We hold regular customer meetings and perform customer surveys to be able to anticipate their every need.

Our Employees

Front and centre in everything we do are our employees, our most valuable assets. Without locomotive drivers, shunters, and onboard personnel through to planners, engineers, and our core support functions, we would not be Hector Rail.

Our Owners

Hector Rail Group is owned by Ancala Partners (Ancala) who emphasize sustainable business practices in their investments. These are well placed to deliver inflation-linked returns, while also enabling growth that enhances the communities and environments our portfolio companies serve. Integral to this belief is Ancala's firm commitment to investing responsibly and encouraging the highest standards of business conduct and ESG management of portfolio companies and in its own practices.





Ancala recognises their role in contributing to the global sustainable agenda as set out by the United Nations' Sustainable Development Goals and supports the transition to a net-zero emissions economy as well as the goals set out in the 2015 Paris Agreement on climate change and recommendations of the Taskforce for Climate-related Financial Disclosures. Ancala has been a signatory of UNPRI¹ (Principles for Responsible Investment) since 2018².

Our Business Partners

Our strategic suppliers help us deliver on our promise by their products, services, and commitment. To follow up on supplier performance, we audit our critical suppliers to improve quality of delivery and cooperation.

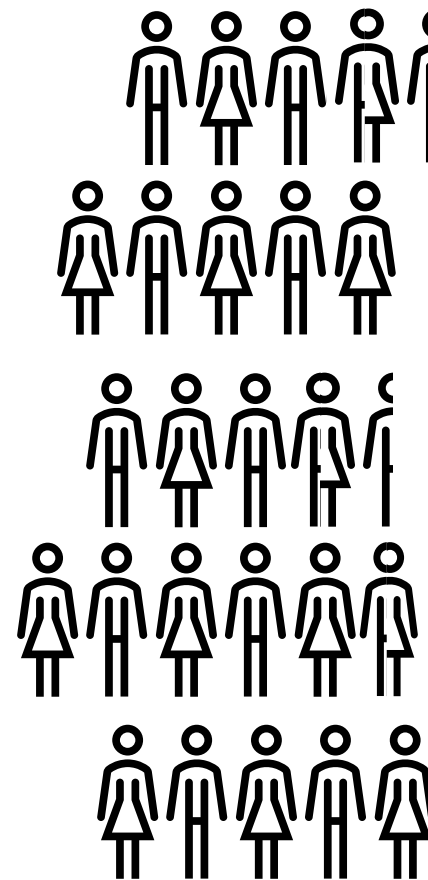
Regulatory Bodies

Regulatory oversight is primarily handled through governmental bodies, both in Scandinavia and Germany, and is complemented through additional audits of ISO, ECM and SQAS certifications.

HRAB currently holds the Single Safety Certificate (SSC) from the European Union Agency for Railways (ERA), whereas GmbH holds the Safety Certificate (VO 1158/2010), issued by the German Federal Railway Authority, valid for the rail network in Germany. GmbH started the application process to obtain the SSC in 2023.

The General Public

Our obligation to the public and all external stakeholders is to clearly communicate and attest to our organizational values to continue developing and expanding a sustainable transport sector, to attract both new customers and employees to railway logistics.



¹ <https://www.unpri.org/>

² <https://ancala.com/sustainability/>



2023 – climate change, global unrest, and new sustainability legislation

2023 was a year of continued global upheaval. A year marked by war, political unrest, and climate change. Forest fires, storms, droughts, and floods affected people and societies, but also travellers, freight customers, and the railway industry as a whole.

Global unrest and supply chain disruptions followed and continued to drive inflation as well as energy prices.

The railway industry continued to experience a shortage of operational staff and loco drivers which fuelled the competition for talent between railway companies.

Despite all challenges and the bleak global outlook, there were highlights.

Hector Rail expanded the business portfolio compared to previous years by engaging significantly in passenger traffic, where we increased the productive train kilometres compared to 2022 and produced nearly 5 billion net-ton kilometre throughout the calendar year.

While the future holds many uncertainties, Hector Rail is confident and committed to continue creating value for our customers, business partners and stakeholders.







The EU Corporate Sustainability Reporting Directive (CSRD)

New EU legislation requires large companies and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact the society and the environment. The new rules will ensure that investors and other stakeholders have access to the required information to assess the impact of companies on people and the environment and for investors to assess financial risks and opportunities arising from climate change and other sustainability issues³. The new regulation is called the *EU Corporate Sustainability Reporting Directive* (CSRD).

Furthermore, the European Sustainability Reporting Standards (ESRS) specify the sustainability reporting requirements and specifies both the information that companies in all sectors should disclose alongside information that companies should disclose depending on size, origin, and sector of activity.

Hector Rail Group is expected to start reporting according to CSRD and ESRS for the fiscal year 2025, i.e. in 2026. Work towards alignment of our materiality assessments, goals, and Key Performance Indicators with CSRD requirements have already started.



³ https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en



The Global Goals for sustainable development

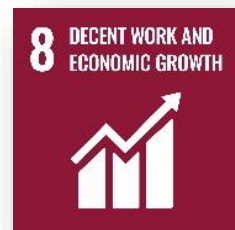
At Hector Rail, we have aligned our ESG work and ambitions with the Global goals for sustainable development number 7: “Affordable and clean energy” and number 8: “Decent work and economic growth”. How to contribute towards each of these goals is taken into consideration when performing our materiality assessment⁴.



Affordable and clean energy

Ensure access to affordable, reliable, sustainable, and modern energy for all.

Renewable energy solutions are becoming cheaper, more reliable, and more efficient every day. Our current reliance on fossil fuels is unsustainable and harmful to the planet, which is why we have to change the way we produce and consume energy. Implementing these new energy solutions as fast as possible is essential to counter climate change, one of the biggest threats to our own survival.



Decent work and economic growth

Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.

Economic growth should be a positive force for the whole planet. This is why we must make sure that financial progress creates decent and fulfilling jobs while not harming the environment. We must protect labour rights and once and for all put a stop to modern slavery and child labour. If we promote job creation with expanded access to banking and financial services, we can make sure that everybody gets the benefits of entrepreneurship and innovation.

⁴ <https://www.globalgoals.org/goals/>



The Hector Rail Sustainability Ambition

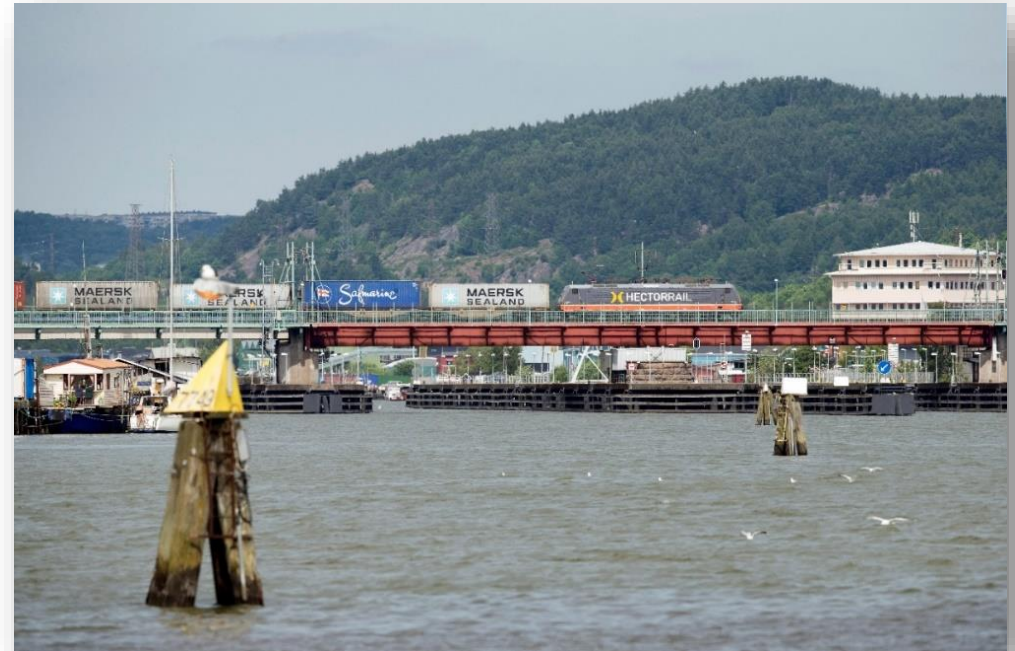
Key priorities in the materiality assessment for 2023 stand unchanged from 2022; safety, equal opportunities for all, and the reduction of emissions are front and centre in our sustainability goal setting.

Based on the materiality assessment made, the Hector Rail Sustainability Ambition – our key priorities – are grouped into four areas, each consisting of KPIs that correspond to material issues:

- Working Conditions
- Diversity and Equality
- Energy Efficiency
- Climate Change

HRAB and GmbH report regularly on the KPI performance to keep the Board of directors informed about the progress against long term targets.

This Sustainability Report is issued at Hector Rail Holding AB level and contains information from Hector Rail AB and its German subsidiary Hector Rail GmbH.





Management system and ISO Certifications

The Hector Rail Management systems in HRAB and GmbH cover safety, quality, information security, and environmental processes. GmbH is certified according to ISO 9001, whereas HRAB holds the ISO Certificates for 9001, 14001 and 27001. ISO standards are reviewed annually with recertification every three years.

Code of Conduct

The respective Codes of Conduct of HRAB and GmbH have been rolled out to all employees and are part of the Hector Rail onboarding program for all new employees. They are also shared with our customers.

A separate Supplier Code of Conduct and an Information Security Supplier Guideline have been published during 2023 to improve governance of our value chain.





The Hector Rail Sustainably Goals

To align established reporting processes with the upcoming CSRD requirements, the sustainability and ESG KPIs will be continuously reviewed and adjusted. The introduction of a double materiality assessment is planned for 2024, whereas the public report on KPIs according to CSRD is planned for 2026. The below table summarizes the ESG KPI's, the long-term and short-term targets as well as the annual results. (– means KPI not in place at the time)

KPIs and indicators	2021	2022	2023	Trend	Target for 2023	Long-Term Target (2028)
WORKING CONDITIONS						
Traffic safety: Number of serious accidents	1	2	2	●	0	0
Employee safety: LTIs per 100.000 working hours below 2	2,3	1,6	1,7	●	< 2	< 2
Employee satisfaction ⁵	71,6%	71,6%	71,6%	●	> 75%	> 75%
DIVERSITY AND EQUALITY						
Increase no of women (%) in Management positions	26,7%	27,8%	31,4%	●	29%	> 50%
Increase no of women (%) in Hector Rail Group	21,3%	21,5%	19,5%	●	22%	> 30%
ENERGY EFFICIENCY						
Decrease in Energy usage: Wh/Gross ton-km	17,99	17,53	17,33	●	17,4	15,9
CLIMATE CHANGE						
Decrease in GHG emissions: gCO2e/gross ton-km	1,0	0,91	0,88	●	0,9	0,80
Increase in transport efficiency: Net ton-km	-	-	4,9 Billion	●	4,9 Billion	5,4 Billion

⁵ results stand from previous year.



Working Conditions

Our mantra is: *If you cannot do it safely, don't do it at all.* Nothing is more important than for all our employees and other stakeholders to experience an accident-free environment and to arrive home safely.

Our Working Conditions ambition covers Traffic safety and Employee safety. The KPIs for safety performance are closely monitored, each incident is followed by a detailed root-cause analysis and action plans to prevent similar incidents in the future. Internal safety audit plans are updated at least annually, and internal and external audits are carried out regularly throughout the year.

In addition to recording and reporting occurred accidents and incidents, Hector Rail also records so-called near miss incidents; hazardous situations in which no incident occurred yet could have occurred had the circumstances been different. All employees are encouraged to report such instances to help preventing accidents and to collectively achieve a zero-accident environment.

Whistleblowing

To ensure the possibility for all employees, customers, and suppliers to raise concerns, Hector Rail Group maintains both externally and internally reachable whistleblowing portals.

The portals allow any person to remain completely anonymous. Concerns raised through these channels will automatically reach the highest level of management and members of the board.

The portals can be found here:

[HRAB](#)
[GmbH](#)



Traffic safety: Zero serious accidents.

For traffic safety, the definition of serious accidents by the Swedish Transport Agency: *Allvarlig olycka*⁶ is used, in accordance with the definition of *signifikante Unfälle*⁷ by the German Federal Railway Authority.

A serious accident occurred when one of the following conditions is met:

- At least one person died.
- At least one person injured enough to require hospitalisation for more than 24 hours.
- Damages to railway vehicles, railway infrastructure, the environment and/or other property exceed 150.000 €.

Furthermore, the cause of these accidents must lay within Hector Rails responsibility.

HRAB recorded 0 serious accidents in 2023, whereas two serious accidents occurred within the railway operations at GmbH.

One event occurred during train preparation when the coupling bracket slid and hit a loco driver, resulting in a severe shoulder injury with months of rehabilitation. During the second accident, the thumb of a loco driver got caught in the locomotive door, resulting in a severed fingertip with weeks of rehabilitation.

⁶ TSFS 2011:86 (https://www.transportstyrelsen.se/tsfs/TSFS%202011_86.pdf)

⁷ https://www.eba.bund.de/SharedDocs/Downloads/DE/Bahnbetrieb/Sicherheitsbericht/10_leitfaden_sicherheitsbericht.pdf?__blob=publicationFile&v=8



At Hector Rail, every accident, incident, and near miss event is reviewed and analysed separately to ensure that safety regulations and procedures are in place, accurate, and up to date.



Both serious accidents in 2023 prompted additional investigations of the accidents and the safety regulations aiming at ensuring that the railway operations in Germany guarantee the safety of all employees involved in all imaginable situations.

In 2023, GmbH did not record any serious accidents within the operations for passenger trains, no incidents involving members of the public and no suicides or attempts within the overall operations.



Employee safety: Number of LTIs per 100.000 working hours below 2.

LTIs – Lost Time Injuries – are work accidents that result in employee downtime, absence due to injuries, medical leaves, hospitalisation, or, in the worst case, a fatality. LTIs tend to occur within the operational environment at Hector Rail and are less frequent in the offices as operating locos and shunting wagons are physically laborious activities which by nature hold a higher risk of injury.

Both HRAB and GmbH recorded LTIs during 2023. The overall result is 1,7 LTIs per 100.000 working hours, successfully keeping occurred Lost Time Injuries below the acceptable maximum of 2 LTIs per 100.000 working hours.

Examples of LTIs in 2023 include – in addition to the two serious accidents – events such as slipping on ice or uneven surfaces, bruising, traffic accidents and twisted limbs.

Securing a safe working environment is an ongoing effort within Hector Rail. HRAB and GmbH are continuously working on improving the work environment and conditions, e.g., by ensuring that work equipment meets or exceeds regulatory requirements. Hector Rail maintains a constant dialogue with authorities, customers, infrastructure





providers, and suppliers to record safety-hazards within the rail network. Furthermore, at Hector Rail, each incident is recorded, analyzed, and reviewed together with the operational staff to raise awareness and to avoid incidents and accidents as much as possible.

Employee satisfaction: above 75%.

Employee satisfaction is measured as a weighted index based on the latest employee engagement survey made in GmbH and AB respectively.

HRAB pushed the 2023 employee survey to Q2 2024. We therefore cannot summarize a weighted total score but continue to use the score from previous year's report.

The employee survey at GmbH aimed at collecting insights and feedback about employee views regarding the organisational culture, internal processes, procedures, and the current operational structure, as well as factors influencing day-to-day operations. Results and findings were analysed by working groups and the management team to draw conclusions and define clear measures and next steps. The findings and associated measures were subsequently communicated to all employees, the measures are set for implementation during 2024.

The next employee survey at GmbH is planned for Q2 2024.





Key activities performed in 2023

- Crisis management training focusing on IT and cybersecurity was performed with the HRAB Leadership team in Spring 2023.
- HRAB and GmbH maintained the ECM Certifications (Entity in Charge of Maintenance) in 2023.
- GmbH prepared the submission of the documentation to obtain the new Single Safety Certificate (SSC), issued by the European union Agency for Railways (ERA), for the next five years.
- GmbH obtained the ISO recertifications for ISO 9001:2015. HRAB kept the 9001:2015, 1400:2015, and 27001:2017 certifications.
- GmbH updated the internal Code of Conduct to cater for the Whistleblower Protection Act (HinSchG).
- GmbH experienced a data protection monitoring audit by an external data protection officer.
- At GmbH, yearly training sessions for all operational employees are conducted to review and discuss recorded safety events, incidents and near miss incidents to raise overall awareness.
- In HRAB a monthly Security report highlighting key events and summarizing monthly security KPI status is sent to all employees and published on the intranet.
- Since January 2023, GmbH offers all employees free counselling and psychological support to support mental health, prevent illnesses and provide an anonymous safe space with trained psychologists to discuss all topics, both work-related and private, that cause strain or stress. In September 2023, HRAB started offering a similar service for Swedish, Danish, and Norwegian employees.
- Amplification of passenger traffic in addition to freight traffic by GmbH. To ensure safe train operations – especially with regards to passenger safety – comprehensive training- and qualification-courses were conducted across all departments. This traffic shift was accompanied by internal





adjustments regarding the overall shift scheduling, train and loco planning, and operational conduct to ensure smooth implementation and conduct. No recorded safety incidents involving passenger trains in 2023 prove the effectiveness of the preparation and qualification of all employees.

Activities in focus 2024

- Preparation for CSRD reporting.
- Preparations for ISO monitoring audits in HRAB and GmbH.
- Continuous improvements based on annual safety targets, KPIs, audits and action plans made at Hector Rail. 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.
- Ergonomics training for operational personnel in HRAB.
- Obtaining the new Single Safety Certificate (SSC) for GmbH for the next five years.
- Preparation and conduct of an ECM monitoring audits.
- Preparation for the Federal Railway Authority audit at GmbH.
- Restructuring of the safety department to expand the control function for all safety- and quality-related subjects.
- Ongoing development and expansion of safety- and quality-related reporting.
- Review and updates of all established policies.
- Continuation of the free counselling and psychological support for all employees.



Diversity and Equality

At Hector Rail, we believe that the organisation and its culture should reflect the society we live in. A diversified workforce and inclusive practices should therefore positively affect job satisfaction and the quality of life of all employees. We are convinced this also has a positive effect on the service quality delivered to our customers.

Hector Rail strives to achieve diversity with regards to gender, age, ethnicity, nationality, as well as in all other respects that contribute to stimulating equal opportunities in the workplace. We work with our steering documents, such as the Code of Conduct and internal policies, to fully reflect the work environment we are striving to create.

We work proactively to achieve greater gender equality in the male dominated rail transport market. When looking at the industry average in Sweden, 82% of loco drivers and 84% of ground staff are male⁸, while similar pattern exists in all countries where Hector Rail operates.



⁸ https://www.statistikdatabasen.scb.se/pxweb/sv/ssd/START__AM__AM0208__AM0208B/YREG61N/



are ongoing to attract a diversified workforce and to reach the long-term target.

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

Our goal is to be more diverse than the industry average, by encouraging female applicants as well as fostering a culture of equal opportunities, where discrimination – on any grounds – does not occur.

Increase number of women (%) in Hector Rail Group

The gender diversity KPIs are measured as the number of female employees divided by total number of employees. We currently do not track the number of non-binary employees.

Counting all employees, the overall share of female employees decreased from 21,5% in 2022 to 19,5% in 2023. Throughout 2023, the workforce of HR Group grew by 4% compared to 2022, with very little fluctuation of female employees while the amount of male employees rose more significantly, resulting in the decrease of the female share.

Activities, such as locomotive driver school visits,



Increase number of women (%) in Management positions

Management is defined as Directors as well as Management staff reporting directly to a Director and includes all Managers with direct reports.

For management positions, the share of women increased from 27,8% in 2022 to 31,4% in 2023 thus surpassing the yearly goal of 29%.

Key Activities performed in 2023

- Annual strategy workshop to reassess and realign the long-term strategy by the management teams of HRAB and GmbH.
- HRAB implemented a new HR- and recruitment system to streamline and improve recruitment processes and employee management as well as the candidate experience.
- HRAB made continuous improvements to the career section of our external webpage outlining our employee offer and all its benefits.
- In HRAB, monthly information meetings with the CEO continue to be held and recorded, where all employees were given the opportunity to ask questions directly to the CEO in the meeting.
- HRAB focused on promoting job opportunities via an updated recruitment tool, clearer descriptions of compensation levels and recorded movies with male and female locomotive drivers to promote Hector Rail as an employer.
- HRAB conducted a competence mapping to create a competence development program on all levels of HRAB.
- GmbH made further development of employee appraisal & performance reviews and introduction of new systems to ease documentation, administrative efforts and sharing of information.
- GmbH increased application of employee dialogues with focus on “health management”, aiming at finding individual “working models and conditions” based on their current situation. Examples include adjustments to working hours, working hour models, job descriptions and functions.
- Hector Rail Group participated at international exhibition “transport logistic” in Munich to present Hector Rail as a railway company to potential new clients and employees.
- GmbH continued external communication by regular communication campaigns and press releases via social media and internal communication via regular newsletters as well as live and digital channels to share information, keep all employees up to date and to facilitate and enhance internal communication.



- Intensification of partnerships with educational providers to actively promote and facilitate apprenticeships of new talents within the rail industry, to complement their formal education with first hands-on and practical experiences. In 2023, GmbH engaged a total of 15 interns, of which 6 were subsequently hired as full-time employees.

Activities in focus 2024

- An internal female drivers' network is to be started in HRAB to help attract more female loco drivers.
- Employee satisfaction surveys to be performed in HRAB and GmbH.
- Further utilization of social media, also as a recruiting-tool by HRAB and GmbH.
- Strengthening of the brand Hector Rail, focused on Hector Rail as a logistics provider and employer.
- Conception and completion of development workshops for all members of the management.
- Adjustments to established HR-related processes, such as enhanced focus of employee recruitment to grow the company, intensification of exit interviews to obtain more detailed information about reasons to leave and the introduction of new system to ease administrative efforts.
- Review and potential adjustments within the onboarding-process for new employees and interns.
- Continuation and further intensification of partnerships with educational providers to actively promote and facilitate apprenticeships of new talents within the rail industry.
- Adjustment of the established company agreement for all operational employees to cater for changes in the operational structure and to increase the overall flexibility of all employees.
- Introduction of an additional, individual compensation package to supplement the current regular compensation package for all employees.
- Modifications to the organizational structure by means of establishing new functions to enhance expertise and focus as well as to improve the alignment within the internal value chain while maintaining the established flat hierarchy.



Energy Efficiency and Climate Change

To achieve a sufficient shift in reaching global climate and emission targets, it is necessary to promote rail transportation over road and air for both freight and passenger services as well as reducing the emissions from actual transports within our control.

According to IEA, “Rail is the least emissions-intensive mode of [...] transport – its expansion will help reduce overall emissions”, as it “transports around 7% of global passenger-km and 6% of tonne-km but accounts for only around 1% of transport emissions.”⁹

For the Swedish market, the transport sector is important, as emissions from transports constitute just under one third of the total Swedish emissions of greenhouse gas¹⁰. While there is ongoing political debate around promoting rail transportation, there are several key challenges to create a sustainable and level playing field on the market.

Infrastructure charges have increased – partly significantly – over time, to cover the cost for rail infrastructure maintenance. At the same time, road transportation does not have to carry any corresponding costs for maintenance of the road network. As customers evaluate transport modes based on cost, this relative cost increase for rail transport reduces competitiveness, and therefore comes at an additional cost for the environment.

The Federal Government in Germany introduced the infrastructure subsidy “TraFöG” in 2018 to subsidize the costs for train slot fees. TraFöG aims at promoting rail as a feasible, competitive, and eco-friendly alternative to other transportation modes. While it does not reduce fees, it helps rail companies that qualify



⁹ <https://www.iea.org/energy-system/transport/rail>

¹⁰ <https://www.naturvardsverket.se/Sa-mar-miljon/Statistik-A-O/Vaxthusgaser-utslapp-fran-inrikes-transporter/>



for subsidization to offset increasing fees. Whereas infrastructure fees continue to increase year over year, the Federal Government decided to continue TraFöG until 30th November 2024¹¹⁾ – while reducing the subsidy rate from between 46% to 61% of infrastructure fees in 2023 to roughly 20%.

In addition to increasing infrastructure fees, energy prices surged throughout 2022 and 2023. 2023 also proved to be a challenging year in terms of energy acquisition due to high energy prices paired with a high volatility – which required close and constant monitoring of the energy markets – and increased competition across the industry due to at times vastly different purchasing strategies, accompanied by uncertainty about the years to come.

Swedish infrastructure and electricity provider Trafikverket chose to move from offering renewable energy as the only alternative to instead providing a range of options, including renewable, fossil free or residual mix energy alternatives for railway companies. When given the choice, most customers chose the renewable or fossil free option, but not all. However, our certificates covered all consumption for 2023.

It remains to be seen if this distribution will change in the future, especially considering the introduction of the previously mentioned stricter sustainability reporting legislation across the EU.

In Germany, in light of the increased economic burden, especially for small and medium sized enterprises, the Federal Government introduced the “electricity-price brake” in 2023.

The brake aimed at cushioning the overall effect of surging energy prices, both for consumers and enterprises. For railway companies, the market price per kWh was capped for 90% of historic energy consumption. Remaining kWh (exceeding 90% of the historic consumption) were invoiced based on the market price at the time of purchase.



¹¹ <https://www.dbinfrago.com/web/schienenetz/leistungen/trassen/trassenpreise/trafoeg-10907232>



While the brake proved valuable from a financial and operational perspective of a medium-sized company, the subsidy application process and requirements proved challenging and laborious. For 2024, based on legislation and the current market prices, the Federal Government decided to discontinue the “electricity-price brake”.

Despite all challenges, for the entire operational electricity volume in 2023, GmbH secured the proof of origin of renewable energy to minimize the overall CO2 emissions of the railway operations.

Energy usage (Wh/gross ton-km): Decrease by 2% per year.

Energy usage is expressed in Wh/gross ton-km and comprises the energy consumption of electricity and diesel for train operations. Diesel consumption is converted to kWh by means of the conversion rate of 9,96 kWh per litre¹². Gross ton-km are used as a denominator to measure the KPI to be able to capture improvements made from running longer and heavier trains.

The energy usage in 2023 was 17,33 Wh per gross ton-km, a decrease of 1,2% compared to 2022 showing that our efforts in reducing use are bearing fruit.

With the continuous modernization of the loco fleet and the optimization of locomotives for each type of traffic, the goal of a 2% reduction of energy per annum is deemed achievable.



¹² https://miljobarometern.stockholm.se/content/docs/tema/trafik/Berakningsmodell_SCB.pdf
https://www.bafa.de/SharedDocs/Downloads/DE/Energie/eew_infoblatt_co2_faktoren_2021.pdf?__blob=publicationFile&v=2



GHG emissions (gCO₂e/gross ton-km): Decrease by 2% per year.

Emissions are divided into scope 1-3 as outlined in the GHG protocol¹³:

- Scope 1 is defined as direct emissions through burning of fuels of the emitter, whereas,
- Scope 2 is focused on indirect emissions generated by purchased electricity for own use.
- Scope 3 involves all indirect emissions of an organisation that are generated within their value chain in up- and downstream processes related to their own operational activities, i.e. by suppliers.

The measurement of GHG emissions at Hector Rail is based on total CO₂e emissions in grams and includes Scope 1 and 2 emissions for HRAB and GmbH, generated by diesel (Scope 1) and electricity consumption (Scope 2) for train operations. Scope 2 emissions from our own offices are excluded as they are deemed to be a negligible part of the total. All offices are rented, and energy use is mostly included in the rent.

For 2023, Hector Rail aimed at reducing GHG emissions per gross ton-km to 0,9 gCO₂e at most. In 2023, Hector Rail generated 0,88 gCO₂e per gross ton-km, compared to 0,91 gCO₂e per gross ton-km in 2022, successfully achieving the annual target.

Considering the performance in 2023, the trends of past years, as well as the long-term goal of maximum of 0,8 gCO₂e per gross ton-km in 2028, Hector Rail is confident in achieving further improvements in the upcoming years.

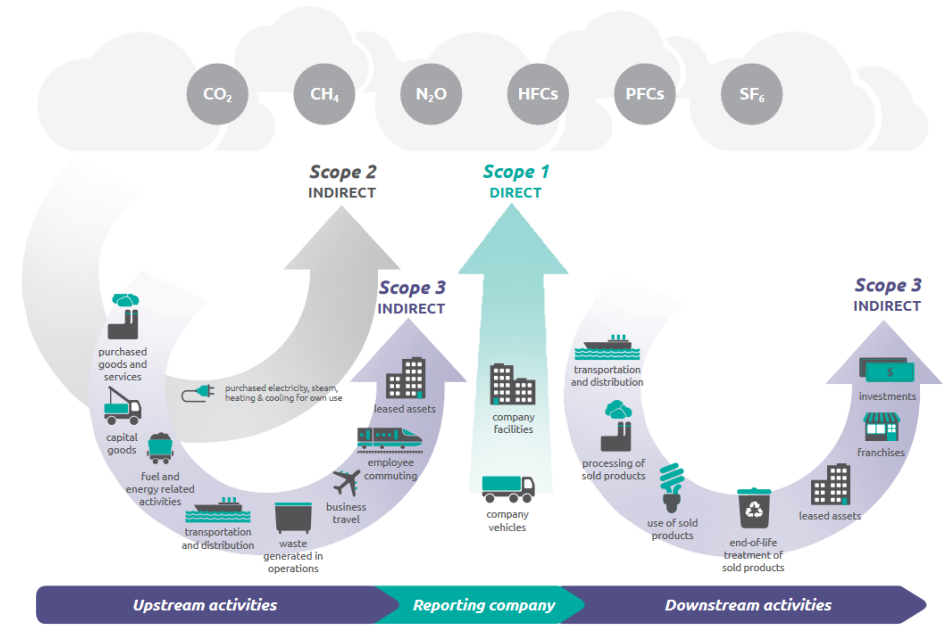


Figure 1 Image from https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf, page 5

¹³ <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>



In light of the introduction of CSRD and the upcoming reporting requirements, Hector Rail began building the foundation for the future Scope 3 emission reporting in 2023 by compiling the carbon inventory for operations while considering all up- and downstream activities of the railway operations.

Based on the assessment, emissions generated by the following upstream activities are material for the associated carbon footprint of Hector Rail's value chain in HRAB and GmbH:

- Category 1: Purchased goods and services
- Category 2: Capital goods
- Category 4: Transportation and distribution
- Category 6: Business travel

With the assistance of Hector Rail's business partners and through guidance from external consultants Beyond Intent, Hector Rail was able to obtain important insights about its carbon footprint.

We plan to build on this foundation in the following years to prepare the reporting processes required to comply with CSRD.

At present, all calculated emissions have not been verified by third parties.

Increase in transport efficiency: Net ton-km.

In addition to expanding the GHG emission reporting, Hector Rail introduced a new KPI to supplement existing targets for energy efficiency: the performance and increase of net ton-km within railway operations.

The metric of capturing net ton-km comprehensively across all Hector Rail operations was measured for the first time in 2023 and amounted to 4,9 Billion net ton-km.





Hector Rail set the goal of increasing net ton-kms annually by about 2 % in order to achieve the long-term target of 5,4 billion net ton-km by 2028. The metric is measured to track the modal shift within the global logistics sector.

Key activities performed in 2023

- Expansion of internal GHG emission reporting in HRAB and GmbH.
- HRAB continued to develop the long-term locomotive strategy for ensuring the ongoing acquisition and rental of efficient and environmentally friendly locomotives and acquired several electric locomotives.
- Increased utilization of the modern electrical fleet for more energy efficient operations.
- Development of a replacement plan to substitute old electric locomotive models with modern and more efficient models.
- Hector Rail continued to promote eco-driving that included training drivers and improving on the emission feedback to drivers where possible.
- Utilization of loco simulators in training situations to streamline activities and save travel and loco time.

Activities in focus 2024

- Continue implementing/selecting the most economical routes for roundtrips/traffics to actively manage and ensure energy efficient operations.
- Work together with infrastructure owners to lobby for electrifying tracks that require diesel locomotives today.
- Continue to modernize the diesel fleet and aim for a high utilization of the modern electrical fleet, which will enable more energy efficient operations.
- Continue to develop of a replacement plan to substitute old electric locomotive models with modern and more efficient models.
- Continue to aim for a decrease in emissions overall through promoting rail transport as a sustainable alternative to road and sea.



Hector Rail is part of the future of rail transport

The European Union Agency for Railways' (ERA) vision and mission is *A sustainable, safe European transport system without frontiers*. Furthermore, ERA believes that rail has the potential to become the backbone of the European multimodal transport and mobility system.¹⁴

Hector Rail shares this vision and will continue to do our part by providing safe, flexible, and environmentally friendly transport solutions for freight and passenger traffic in Sweden, Norway, Denmark, and Germany while at the same time creating a safe and rewarding place of work for our employees.

Hector Rail

We make the railway the obvious transport solution.

¹⁴ <https://www.era.europa.eu/agency-you/agency/vision-mission-values-tasks>

