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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 and Germany.

We offer sustainable, environmentally friendly transportation services of heavy industry products, raw materials, and intermodal freight, as well as passenger traffic.

Hector Rail Group consists of Hector Rail AB (HRAB), Sweden's largest private rail freight company operating across Scandinavia, and Hector Rail GmbH (HRGmbH), a German operator servicing both international traffic to Scandinavia and the domestic German market.

Hector Rail's values are reflected in our four guiding principles:

- Safety
- Commitment
- Flexibility
- Efficiency

Safety – we lead the way without taking shortcuts. Our dedicated safety functions tirelessly monitor the regulatory environment and the safety management system in each country, to ensure compliance with laws and regulations everywhere we operate. To ensure continuous improvement of traffic and employee safety, we train personnel, audit our business, and pursue risk mitigating activities beyond those required by existing regulations.

Commitment – we prove our commitment through high quality delivery to our customers with low environmental impact, where 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 cleaner environment, which in turn helps our customers meet their environmental responsibilities. In Scandinavia and Germany, most of the rail network is electrified, enabling the use of electricity-powered locomotives, where the CO₂ emissions per ton carried are significantly lower than for road transport of the same goods. Rail also has an advantageous performance when it comes to harmful emissions such as nitrous oxide. To contribute to the growth of the rail freight industry overall, is therefore to contribute to a more sustainable development of the transport sector.

Flexibility – our flexible mindset allows us to do more. Even if rail transport is an environmentally friendly alternative to transportation by road or sea, there are opportunities for individual providers to further reduce their environmental impact. We achieve this by choosing environmentally friendly energy sources (CO₂e neutral electricity), and through the continuous implementation of Eco driving, for more energy efficient operations.





Efficiency – Through efficient planning, a modernized fleet, and by combining volumes, we can also contribute to better capacity utilization, where fully loaded trains reduce the emissions per gross ton kilometre.

Sustainable business practices are heavily emphasized by our owner, Ancala Partners (Ancala).

Ancala believes that by taking a proactive approach and applying sound practices to environmental, social and governance (ESG) matters throughout the investment cycle, value can be created for all stakeholders. 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. Key to meeting this commitment is a robust governance approach. Ancala is an active and effective owner of businesses and engages with their portfolio companies to make improvements and achieve outcomes in line with our objectives.

As an investment manager of essential infrastructure assets, Ancala recognise their role in contributing to the global sustainable agenda as set out by the United Nations’ Sustainable Development Goals and supporting the transition to a net-zero emissions economy and 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.

2021 – easing into a “new normal”

2021 was a year of continuing to adapt to the effects of the Covid-19 virus that emerged in 2020 and had an unprecedented impact on global health and resulted in significant economic and societal disruption. Different countries and markets took different routes for trying to quell the continued spread of the emerging variants and Hector Rail followed the development closely. We continuously updated our health and safety routines for drivers and office personnel, in order to adhere to government recommendation and do our utmost to keep our staff safe, and held regular internal information meetings to share the latest developments across Scandinavia and Germany.

At the time of writing, the pandemic is not yet over, and our customers, suppliers and own personnel have grown accustomed to delivering products and services while simultaneously navigating constantly changing demands in a more volatile business environment than in previous years. At Hector Rail, we continue to be proud of our delivery and how we managed to not lose sight of our overarching sustainability ambition - even during a global pandemic.

Sustainability highlights include:

- Eco-driving initiative that included training drivers and improvement of the emission feedback to drivers
- 100% renewable energy for Hector Rail’s electricity in train operations in Sweden, Norway, Denmark, and Germany come from sustainable CO₂e neutral energy sources (wind and hydro power).
- ISO certification for ISO 9001 (quality), 14001 (environment) and 27001 (information security) achieved in spring 2021 for HRAB

¹ <https://www.unpri.org/>

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



The Hector Rail Sustainability Ambition

Ancala sets clear expectations on their portfolio companies' sustainable business practices through their overarching ESG focus. To foster and inspire sustainable value creating behaviour, Ancala's portfolio company requirements in turn guide Hector Rail's sustainability goals, KPIs and activities, which are designed to capture and manage market and sector specific opportunities and risks.

Sector specific opportunities and risks are identified and reviewed in a yearly materiality assessment, where environmental, social, governance, human rights, anti-corruption, and other factors are evaluated. The evaluation is 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 serves to identify and prioritise key risks and opportunities, where Hector Rail can make a meaningful and positive contribution to our stakeholders and society. The risks and opportunities are used to articulate our sustainability ambition, which forms the basis for specific KPI targets and focus activities in the coming years.

The key priorities in the materiality assessment for 2021 are safety and environmental issues, together with current regulatory and infrastructure limitations that hinder the growth of sustainable transport alternatives. We are also committed to promoting equal opportunities in the workplace and through the prevalence of sound business ethics in everything we do.

The Hector Rail sustainability ambition is summarized as:

- Safety First
- Green Value Creation
- Promoting Diversity & Inclusion
- Sound Business Ethics
- Promoting Rail Transportation



The two operating companies, Hector Rail AB (covering the Scandinavian operations) and Hector Rail GmbH (operating in Germany) report on performance of KPIs per focus area to keep the Board of directors informed of progress against set targets.

The KPIs are also broken down into relevant targets on every level of the organization. Performance is tracked on all management levels, and progress and potential improvement activities are discussed. The sustainability activities and targets are revised annually, or more frequent if required, by Hector Rails management and Board of directors, to ensure they remain relevant over time.

The sustainability ambition, key risk factors, relevant policies and chosen KPIs are summarized in more detail in the table below.



Table 1: Summary of Hector Rail sustainability assessment and ambition

	HEALTH AND SAFETY	ENVIRONMENT	EMPLOYEES & SOCIAL RESPONSIBILITY	ANTI-CORRUPTION & HUMAN RIGHTS	REGULATORY & INFRASTRUCTURE
IMPACT ACCORDING TO MATERIALITY ASSESSMENT	High 	High 	High 	Medium 	High
KEY RISK FACTORS	<ul style="list-style-type: none"> Traffic and worker safety, through: <ul style="list-style-type: none"> Incident & accident reporting Safety compliance Trespassing & suicides 	<ul style="list-style-type: none"> Energy efficiency GHG emissions Road and Sea vs Rail Fleet age Green value proposition 	<ul style="list-style-type: none"> Employee satisfaction & retention Diversity Drivers' working environment Worker health 	<ul style="list-style-type: none"> Ethics & Anti-corruption Legal compliance 	<ul style="list-style-type: none"> Rail infrastructure maintenance & management Unfair competition Road and Sea vs Rail
HECTOR RAIL SUSTAINABILITY AMBITION	Safety First	Green Value Creation	Promoting Diversity & Inclusion	Sound Business Ethics	Promoting Rail Transportation
POLICIES AND GUIDELINES (SELECTION)³	<ul style="list-style-type: none"> Safety policy Safety guidelines 	<ul style="list-style-type: none"> Quality & Environmental policy 	<ul style="list-style-type: none"> Employee policy Code of Conduct 	<ul style="list-style-type: none"> Code of Conduct 	<ul style="list-style-type: none"> Code of Conduct
RELEVANT KPIS (GROUP)	<ul style="list-style-type: none"> High risk safety events Lost Time Injuries (LTI) 	<ul style="list-style-type: none"> GHG emissions Energy usage 	<ul style="list-style-type: none"> Gender diversity Employee satisfaction 	<ul style="list-style-type: none"> Ethics and anti-corruption training 	<ul style="list-style-type: none"> Infrastructure waiting time (Swe.) Reduced infrastructure costs
FOCUS AREAS	<ul style="list-style-type: none"> Maintaining a culture where safety comes first Continuous improvements, based on detailed safety targets in each company Safety process and management system improvements 	<ul style="list-style-type: none"> Continue to develop and implement eco driving Strengthening rail competitiveness through longer and heavier trains Modernizing fleet 	<ul style="list-style-type: none"> Ensuring worker health in the pandemic Promoting increased diversification in the recruitment process Code of Conduct part of onboarding 	<ul style="list-style-type: none"> Zero tolerance for bribery and corruption on all levels of the organization Code of Conduct part of onboarding 	<ul style="list-style-type: none"> Promoting rail freight under fair market conditions towards decision makers Working with infrastructure owners on better utilization of the infrastructure Code of Conduct part of onboarding

³ Policy exists for Hector Rail AB (HRAB) and Hector Rail GmbH (HRGmbH), unless otherwise stated



Safety first

Safety comes first in Hector Rail, as reflected in our guiding principles, our sustainability goals as well as in our day-to-day operations. Our dedicated safety functions continuously monitor the regulatory environment and safety management system in each country, to ensure compliance with laws and regulations where we operate. Processes, management controls and KPIs are set to drive continuous improvement of traffic and employee safety. The KPIs for safety performance are closely monitored, and incidents are followed by detailed root-cause analysis and action plans. Audit plans are updated at least yearly, and audits are carried out regularly throughout the year.

We believe that an accident-free working environment is both desirable and achievable. On Group level, the ambition of reaching an accident-free working environment has been divided into the areas of Traffic safety and Worker safety.

KPI Target

Traffic safety: No serious accidents

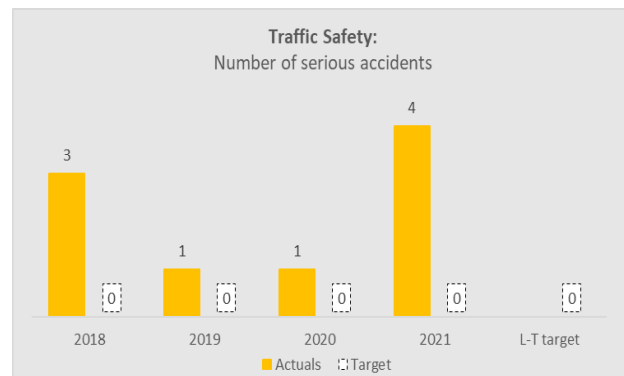
Employee safety: Number of LTIs/100 000 working hours < 2

For traffic safety, the following definition is used; collision between train and railway vehicle, train collision with obstacles, train derailment, breakage of wheels and/or axles on rolling stock.

As stated in the previous report from 2021, the employee safety target has been changed from the earlier RIDDOR measurement to the number of Lost Time Injuries (LTI) being less than 2 per 100 000 working hours. This change was made as LTI better reflects how well we manage to avoid injuries that cause time off work for more than one day.

Result in 2021

HRAB recorded one serious accident in 2021, where a breach of safety routines caused a costly derailment of several wagons. The accident was followed up in line with safety protocols and routines to identify direct and underlying causes, and relevant measures implemented on individual and company-wide level to mitigate future breaches. In HRGmbH, three high-risk safety incidents occurred in 2021, among them a human error that caused smoke from a locomotive. Consequentially, the Fleet Manager has been in constant dialogue with the with the ECM IV agencies establishing procedures to avoid similar events in the future. Two instances of locomotive derailment occurred during shunting due to human errors. Significantly property damage occurred, but no people were injured. Consequentially, the drivers were blocked by the emergency service supervisor and were trained on the shunting rules as part of the regular annual in-service training by the Staff Manager.

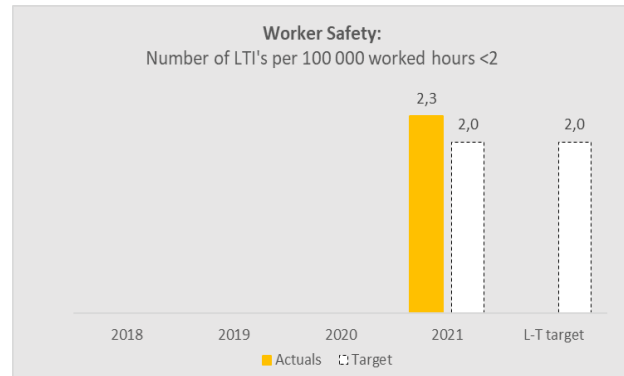


Therefore, Hector Rail did not reach the target of zero serious accidents in 2021.



Both HRAB and HRGmbH recorded LTIs during 2021, and the index per 100 000 working hours, came to 2,3. The target of less than 2 was thereby not reached during 2021.

LTIs tend to occur in and around traffic in Hector Rail Group and less so in the offices. Some examples of LTIs for 2021 include drivers slipping on ice, resulting in broken bones and minor head injuries from bumping into equipment



HRAB and HRGmbH are continuously working on improving the work environment for locomotive drivers, e.g. by ensuring that work equipment meets or exceeds regulatory requirements while maintaining a constant dialogue with authorities to record safety-hazards within the rail network.

Key safety-related activities performed in 2021 include:

- HRAB participated in the ERA European Rail Safety Climate Survey⁴ and presented the results in group meetings across the organisation. The results were also used as input to the annual security plan which outlines detailed safety goals for the coming year
- Company wide information security training was made part of onboarding program for all employees in HRAB during 2021
- Training in Health, safety & quality management reporting system Synergi (made part of onboarding program for all employees in HRAB during 2021)
- HRAB achieved ISO certification for ISO 9001 (quality), 14001 (environment) and 27001 (information security) in spring 2021
- HRGmbH established a
 - “Safety Board”, a by-weekly safety meeting, to discuss safety-related events, regulatory inspections, as well as to review the performance of annual safety goals
 - “ASA-Meeting”, a quarterly health and safety committee, to ensure both health and safety of all employees
 - A weekly "Corona Meeting" was implemented to address decisions by the federal government as well as to review and update internal measures, such as the hygiene concept
 - During the by-weekly Management Meetings, current and upcoming safety topics (e.g. onset of winter, slippery roads, etc.) are addressed continuously
- HRGmbH’s ISO9001:2015 inspection was successfully passed without incidents

Activities in focus 2022

- Maintaining and enhancing a culture where safety comes first on all levels of the organization. The work to embed a safety culture is constantly ongoing in both companies
- Continuous improvements based on annual safety targets, KPIs and action plans made 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.
- Fully utilising the Synergi Risk and Barrier modules in our HRAB operations.

⁴ https://www.era.europa.eu/content/erscs_en



- Hector Rail to advance the existing risk analyses by identifying and evaluating new risks.
- Hector Rail to continue to conduct on-site investigations for major incidents and initiate appropriate actions with the respective agencies.
- HRGmbH to monitor adherence of the the “2G+ Regelung” hygiene concept, in accordance with the requirements by the federal government. It specifies that employees must either be recovered or vaccinated to be eligible to work, in combination with daily negative COVID tests. Furthermore, only essential functions are working from the office while most staff are working remotely to keep physical contacts as low as possible. and all employees are regularly provided with medical masks as well as rapid test kits and disinfecting agents.



Green Value Creation

On average, rail requires 12 times less energy and emits 7-11 times less Green House Gas emissions (GHG) per passenger-km travelled than private vehicles and airplanes, making it the most efficient mode of motorised passenger transport.⁵ Aside from shipping, freight rail is the most energy-efficient and least carbon-intensive way to transport goods; according to an IEA tracking report from 2021.

Hector Rail, however, aims to reduce the environmental impact of our operations even further. To achieve this, we focus on reducing our overall energy usage as well as reducing emissions using sustainable energy sources. We set targets both for energy usage, which measures the total consumption, and for GHG emissions, where CO₂e neutral emissions are excluded.

KPI Target

GHG emissions (CO₂e/gross ton- km): Decrease by 2% per annum

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

Emissions can be divided into scope 1-3.

- Scope 1 is defined as direct emissions through burning of fuels of the emitter, whereas
- scope 2 and 3 are indirect emissions generated by purchased electricity for own use and production of purchased services and materials, respectively.

The measurement of GHG in Hector Rail is based on total CO₂e emissions in metric tons and includes scope 1 and 2 emissions for HRAB and HRGmbH, defined as diesel and electricity for train operations. Scope 2 emissions from offices are excluded as they are deemed to be a negligible part of the total. All offices are rented, and energy use is included in the rent. Scope 3 emissions are also excluded. Calculated emissions have not been verified by a third party.

Energy usage is defined as Wh based on electricity and diesel for train operations. In previous years' reports, diesel consumption has converted to kWh using the Swedish SCB conversion rate (1 litre diesel = 9,9633 kWh)⁶. From 2021, we will instead be using the conversion rate; 1 litre diesel= 10,9 kWh⁷. to align for portfolio company reporting to our owners. Therefore, we have recalculated previous years' results to be able to compare the development over time.

We use gross ton-km as a denominator to measure both KPIs to be able to capture improvements made from running longer and heavier trains.

100% of Hector Rail's electricity in train operations in Sweden, Norway, Denmark, and Germany come from sustainable CO₂e neutral energy sources (wind and hydro power). GHG emissions in our markets will therefore be fully limited to the operation of diesel locos in areas without electrified tracks.

⁵ IEA (2021), Rail, IEA, Paris <https://www.iea.org/reports/rail>

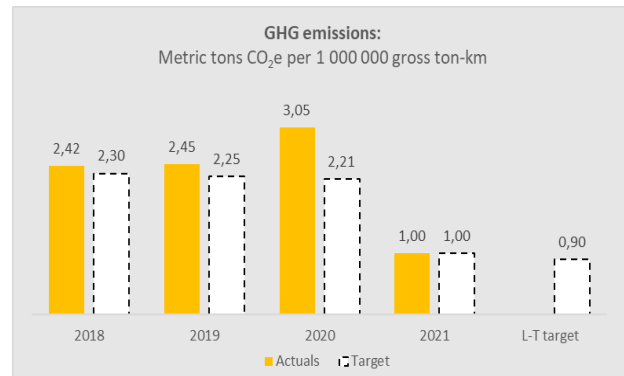
⁶ Rate utilised in several SCB publications. For instance:
http://www.scb.se/Statistik/TK/_dokument/Anv%C3%A4ndarhandledning2010.pdf

⁷ <https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting>

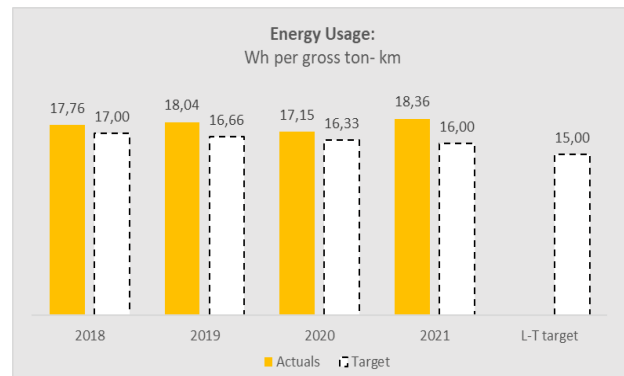


Result in 2021

The GHG emissions came to 1,00 metric tons CO₂e per 1 000 000 gross ton-km in 2021. The sharp dip since previous years' high, is the result of our electricity now solely coming from sustainable sources for both HRAB and HRGmbH. We have therefore adjusted our long-term target to a significantly lower number than in previous years number which was above 2.



Energy usage in 2021 was 18,36 Wh per gross ton-km, an increase compared to 2020, but mostly from sustainable CO₂e neutral energy sources. A reason for the increase is continuous improvements to the way HRAB measure energy usage in our more widely used Vectron locomotives. It is also due to the introduction of passenger traffic into the Hector Rail portfolio as passenger traffic drives the energy use per gross to-km to a higher level than a densely stacked freight train.



However, with the ongoing modernization of the fleet and the optimization of locomotives for each traffic, the goal of a 2% reduction of energy per annum is still deemed achievable. A conservative estimate is that a 20% improvement in energy usage can be achieved by continuing to replace old locomotives with more fuel-efficient modern locomotives.

Key activities performed in 2021 include:

- A shift to green energy in HRGmbH so that 100% of Hector Rail's electricity in train operations now come from sustainable CO₂e neutral energy sources.
- HRAB invested in five new G6 shunting locomotives for a more energy efficient production and to give our drivers a better working environment
- HRAB ran an eco-driving initiative that included training drivers and improvement of the emission feedback to drivers

Activities in focus 2022

- Continue to modernize the diesel fleet and aim for a high utilization of the modern electrical fleet in Hector Rail, which will enable more energy efficient operations.
- Investigate the long-term potential in utilizing Eurodual technology where electricity and diesel engines are combined in one locomotive to allow for minimised diesel operation in areas without electrified tracks.
- Continued application of Eco driving across all our operations. This is spearheaded through simulator training, and direct feedback to drivers on use of energy per trip made
- Extend the analysis of energy consumption to find stretches where savings in energy consumption can be realized from reduced speed, without negative business impact



- 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



Promoting Diversity and Inclusiveness

In Hector Rail we believe that the business should reflect the society we live in. A diversified workforce and inclusive practices should therefore increase job satisfaction and quality of life for our employees, and we are convinced this also has a positive effect on the quality of services delivered to our customers. Hector Rail therefore 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 also work with our steering documents, such as the Code of Conduct, to fully reflect the inclusion we are striving to promote.

We work proactively to achieve greater gender equality in the male dominated rail transport market where we operate. When looking at the industry average in Sweden, 82% of loco drivers are male, and 84% of ground staff⁸, and a similar pattern exists in all markets where Hector Rail operates. 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.

KPI Target - Promoting diversity

Women (%) in Management positions: Long-term target: 40%

Women (%) in Hector Rail Group: Long-term target: 25%

Employee satisfaction: above 75%

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

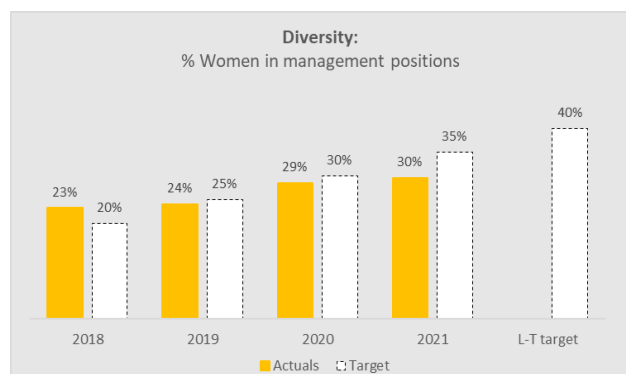
Management is defined as directors and management staff reporting directly to a director and includes all Managers with direct reports.

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

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.

Result in 2021

For management positions, the % of women increased to 30%, from 29% in 2020. This was in line with, but not fully reaching, the targeted development for the year. However, we are seeing a steady increase towards the long-term goal of 40%.⁹



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

⁹ There was an erroneous calculation presented in the previous report that misstated the female manager total as 35%. This has now been corrected for 2020 to 29%.

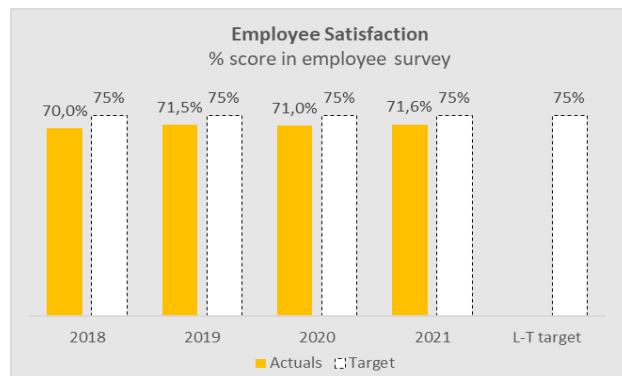
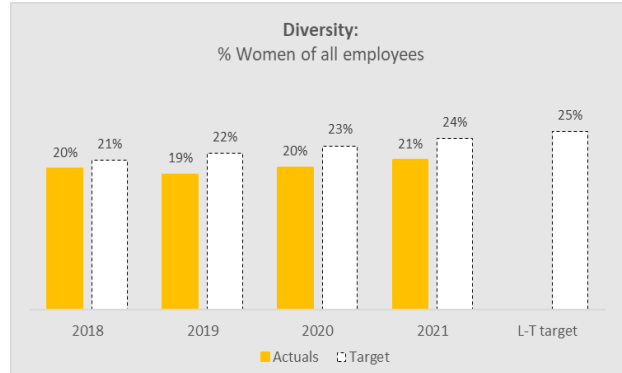


When looking at all employees, the number of women was 21 %, which is more than in 2020. This is below target but above the industry average described above. Activities are ongoing to attract a diversified workforce.

The latest employee survey was conducted in HRAB in late 2021¹⁰. For HRGmbH the 2018 value remains in 2021. The overall Hector Rail employee satisfaction index was 71,6% and the total employee satisfaction results have thus improved compared to previous years without fully surpassing the desired 75%.

Key Activities 2021:

- At HRGmbH, employee satisfaction and the internal atmosphere have been captured continuously during annual evaluation meetings with employees as well as during the weekly “RFUs/ Regelmäßiger Fortbildungsunterricht” (regular advance training) and frequent meetings between Loco Drivers and the Management Staff.
- In 2021, HRGmbH advertised job opportunities with local universities, resulting in additional staff new to the rail industry.
- Throughout 2021, HRGmbH improved internal communication by sharing frequent memos/newsletters as well as COVID-Updates. HRGmbH also implemented weekly meetings for all Staff Members to facilitate communication and exchange, which were suspended in Q4 due to COVID.
- Furthermore, Hector Rails Social Media Activities were extended to improve external communication as well.
- In HRAB monthly information meetings with the CEO are held and an employee satisfaction survey was performed in Q4



Activities in focus 2022

- Put together and all-encompassing management training program in HRAB to establish the same baseline level of training is given to all employees with management responsibilities
- Continued focus on promoting job opportunities for those new to rail by engaging and advertising with local universities
- Promote gender diversity in the recruitment process
- Continue to improve internal communication, so that all employees are consistently kept up to date with and can actively communicate and contribute to company developments
- Personnel development campaign in HRGmbH: intensify training courses for all Staff Members to facilitate personal development and specialize employees.

¹⁰ Employee survey conducted every second year in HRAB.



- Implementation of tools in HRGmbH to improve internal communication, e.g. complement newsletters with internal social media tools to further facilitate and encourage communication, HRGmbH's feedback culture, to conduct employee satisfaction surveys, etc.
- Establish a reward system in HRGmbH to encourage new ideas and to strengthen commitment.



Sound Business Ethics

Hector Rail operates exclusively on regulated markets in Germany and Scandinavia and predominantly uses large, well established, and well-known European suppliers with their own sourcing strategies in place. Hector Rail has no suppliers from any of the identified high-risk countries on the Financial Action Task Force list, The European Union restrictive measures (sanctions) in force¹¹, and the United Nations Security Council Sanctions. Based on this, the risk of corruption and violation of human rights is assessed to be limited.

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 are detailed in the Hector Rail Code of Conduct for AB and GmbH. The documents contain essentials regarding improper payments, supplier relations, anti-money laundering and competition law as well as information security and environmental goals.

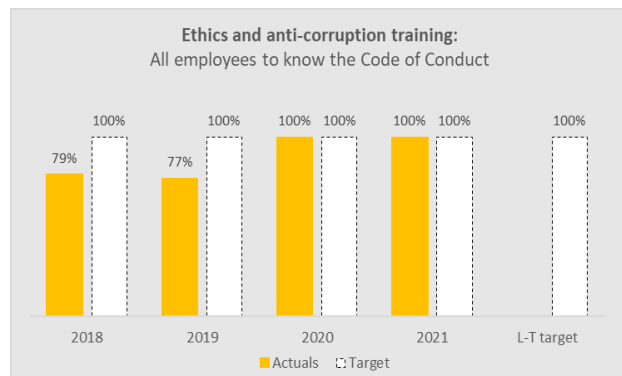
KPI Target – Sound Business Ethics

Ethics and anti-corruption training: All employees to know the Code of Conduct.

During 2020 and 2021 both AB and GmbH updated the Code of Conduct for the respective companies and the earlier joint Code was phased out. The goal of rolling out the updated Code of Conducts will therefore remain until next year’s report, when new Business Ethics KPIs will be introduced.

Result in 2021

The Code of Conduct is currently updated and will be fully rolled out for HRGmbH in Q1 2022. A new Social Media guideline was implemented and rolled out for all employees to act in line with the Hector Rail values in 2021. In 2021, the updated Code of Conduct was fully rolled out in HRAB and was also included in the onboarding program for all new employees.



To ensure ability for all employees to raise concerns, Hector Rail Group also has an externally managed whistleblowing 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 members of the board of Hector Rail Group. The service can be found at: <https://report.whistleb.com/en/hectorrail>

Activities in focus 2022

- Code of Conduct training now a part of the onboarding of all new employees in HRAB
- Increased focus on sound business ethics to be implemented in supplier and customer audits for HRGmbH and AB

¹¹ USA is excluded even though some EU sanctions are in place



Promoting Rail Transportation

With the Hector Rail sustainability ambition “Green Value Creation”, we focus on what Hector Rail can do within rail transportation, to reduce the environmental impact of our operations. To achieve a sufficient shift to reach the global climate and emissions targets, however, it is necessary to also promote rail over road for both freight and passenger services.

The rail sector globally carries 8% of all passengers and 9% of total freight volume but represent only 3% of total transport energy demand. Promoting a shift from road to rail therefore has potential to drastically reduce emissions¹².



The Swedish climate target is to reduce emissions of greenhouse gas by 70% between 2010 to 2030, with a mere 20% achieved by 2020. The transport sector is important, as emissions from transports constitute one third of the total Swedish emissions of greenhouse gas¹³. While there is ongoing political focus on promoting rail transportation, there are several key challenges to create a sustainable and level playing field on the market.

Infrastructure charges have increased significantly over time, to cover the cost for rail infrastructure maintenance, while road transport modes do not carry the corresponding cost for maintenance of the road network. As the end customers evaluate transport modes based on cost, this relative cost increase for rail transport reduces competitiveness, and therefore comes at a cost also for the environment.

In the German market, the German Federal Ministry for Digital and Transport (Bundesministerium für Verkehr und digitale Infrastruktur (BMVI)) introduced the “TraFög” (Trassenpreisförderung im Güterverkehr) to subsidize train slot fees, specifically for rail transport companies with environmental-friendly transports. Introduced in 2018, the “TraFög”-Initiative aims at promoting freight transports via rail as a feasible, competitive, and eco-friendly alternative to other transportation modes, while stimulating further innovations within the rail industry. The “TraFög”-Initiative does not reduce infrastructure fees but helps rail transport companies that qualify for subsidization to offset increasing fees within Germany and is set until 30th June 2023.¹⁴

It is critical to use the infrastructure in an efficient way and that freight transportation is treated fairly. Due to the generally lower speed of freight trains, they are often pushed aside to prioritize the passenger side of train transports. The infrastructure waiting time (“skogstid”, or forest time) is typically 15 % of the total transportation time for freight trains and is a focus area in our

¹² IEA (2021), The Future of Rail, IEA, Paris IEA (2021), Rail, IEA, Paris <https://www.iea.org/reports/rail>

¹³ <https://www.naturvardsverket.se/Sa-mar-miljon/Statistik-A-O/Vaxthugaser-utslapp-fran-inrikes-transporter/>

¹⁴ <https://www.bmvi.de/SharedDocs/DE/Artikel/E/schiene-schienengueterverkehr/trassenpreisfoerderung.html>



Scandinavian operations, particularly in Sweden. This results in higher production cost and delayed customer services. In addition, there is an environmental impact, as breaking leads to energy losses that would otherwise not have happened.

The Scandinavian rail transport market has limited competition. State owned incumbents have ongoing profitability issues, partly due to the structural issues described above. When targeted support to state-owned companies is used as a solution to the profitability problem, it risks pushing out the private alternatives that do not benefit from such support. This is not a level playing field and comes at a cost for the end customer with fewer options. As the largest private rail freight transport alternative on the Scandinavian market, Hector Rail therefore works through industry organisations and in the public debate, to achieve support mechanisms that promote competition and create a level playing field.

KPI Target – Regulatory & infrastructure

Infrastructure waiting time: Decrease by 10% per annum (measured for HRAB)

Infrastructure fees: Stable or reduced from 2020 level

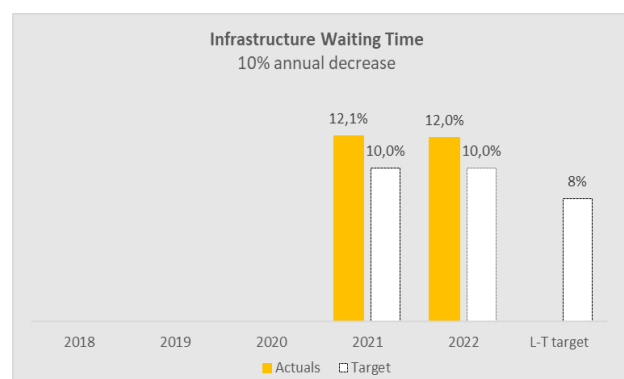
The Regulatory & infrastructure focus area was added to the Sustainability Report in 2020, and this is the first year KPI results are presented in the report.

Contacts with key decision makers within the Swedish government and the Traffic Committee of the Parliament and Trafikverket (The Swedish Transport Administration) are always ongoing. The MD of HRAB sits on the Board of Tågforetagen (ASTOC), a trade organization for the Swedish train operators. HRGmbH is a member of both the NEE (Netzwerk Europäischer Eisenbahnen – Network of European Railways) and the VDV (Verband deutscher Verkehrsunternehmen – Association of German Transport Companies).

HRAB also signed a climate declaration together with ScanMed in late 2021. Both parties will strive to reduce our total CO₂e emissions by promoting rail transportation as a climate and enterprise friendly way of transporting goods and people.

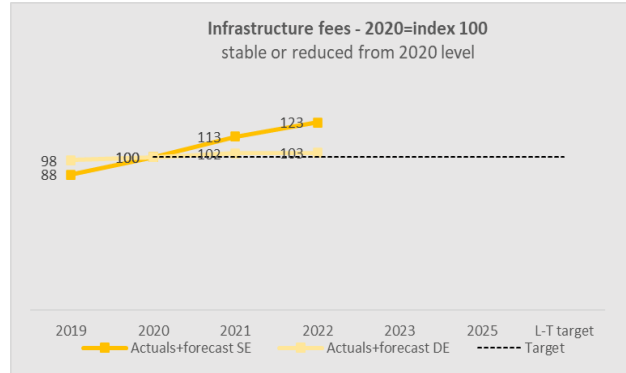
Result in 2021

Infrastructure waiting time for the agreed 2021 timetable (T21) from the Swedish Transport Administration was at 12,1% and had decreased to 12,0% for the agreed 2022 timetable (T22). The decrease of 10% was therefore not achieved in 2021. This goal is measured for HRAB only as this is the part of the group where reduced waiting time would drastically improve energy usage and arrival times. We will continue to lobby for less waiting time in the timetables to come.





Infrastructure fees are included for the first time in this report. As they are not comparable between countries, the annual change in base slot prices is presented for HRAB and HRGmbH separately. To eliminate the effect of changes in the traffic mix from year to year, the costs were calculated for each year (2019-2022) based on the traffic mix during 2021. One-off Covid support, such as the one granted in Germany in 2021, are excluded from the calculations.



From 2019 to 2020, the base slot fees increased by 13,2% in Sweden and 2,3% in Germany. While the target was stable fees from 2020 levels, the fees have continued to increase 2020-2022, in Sweden by 23% and in Germany by 3% vs 2020. The result of this continued cost increase is that it continues to reduce the overall competitiveness for rail transports.

Activities in focus 2022

- Hector Rail to continue to promote the railway as the solution for freight transportation and fair market conditions.
- HRAB to continue
 - arguing for reduced infrastructure fees together with Tåg företagen to make rail freight more competitive versus road transportation.
 - working with Trafikverket for better utilization of the infrastructure in general and assure that the application for Hector Rail T23 (timetable for 2023 traffic) has as little waiting time as possible.