2023 GHG Inventory Summary REPORT

Introduction

Addressing greenhouse gas (GHG) emissions is critical to HLI because we understand the threats climate change poses to society and the future of business. Currently, the logistics industry is particularly dependent on the combustion of fossil fuels; therefore, it is imperative that we prioritize low-carbon and energy-efficient solutions.

HLI is focused on quantifying, managing, and reducing our GHG emissions to reduce our impact on the environment, offer low-carbon solutions to our clients, and to ensure we remain competitive and successful in the low-carbon future that we are working towards. To accomplish this goal, our first task was to conduct a detailed review of GHG emissions and climate impacts of our operations. Documenting our climate impacts is a critical piece of the process in order to set goals and tracking performance as we work to improve the sustainability and competitive advantage of our business model.

Together with the support of our key stakeholders, such as our suppliers and clients, we will identify opportunities to reduce our GHG emissions throughout our supply chain and work towards lowering the carbon footprint of our operations. In our commitment to these goals, we have partnered with GreenStream Sustainability Consulting. Together, we will track our GHG emissions, set science-based targets, and identify new opportunities to improve GHG efficiency throughout our operations and supply chain.

About This Report

This report summarizes the results of HLI's 2023 GHG inventory. This is our second annual GHG inventory report. The purpose of this report is to measure, track, and disclose HLI's GHG performance and progress toward our reduction targets. HLI will continue to measure its GHG emissions and publish the results annually.

Our GHG inventory was conducted by an expert third-party consultant in accordance with the GHG Protocol Corporate Accounting and Reporting Standard and Scope 2 Guidance (GHGP Corporate Standard). The GHG Protocol is the world's leading standard outlining requirements and guidance for corporate-level and organizational-level GHG emission inventories. As of 2016, approximately 92% of Fortune 500 companies responding to the CDP—an investor-led effort to increase corporate carbon disclosures—referenced the GHGP Corporate Standard to conduct their GHG inventories.[1]

HLI has adopted the operational control approach, and our inventory boundary includes all entities that HLI has operational control over or in which HLI has greater than or equal to 50% financial interest. The operational boundaries of this inventory include the following entities:

- **HLI Companies (Parent)**
- **HLI Laredo, LLC**
- **HLI Rail and Rigging, LLC**

The GHG emissions assessed in this report include carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O). Non-CO_2 GHGs were converted to CO_2 equivalent (CO_2e) based on the 100-year global warming potentials (GWPs) published in the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (AR6).[2]

Sources and Scopes

The inventory of HLS includes all scope 1 (direct) and scope 2 (indirect, purchased electricity) emission sources, which are outlined below. Scope 3 (other indirect) GHG emissions are optional under the GHG Protocol and are not included in this GHG inventory. However, HLI plans to include scope 3 emissions in the future.

Scope 1

- **Mobile Combustion**
  - Road Vehicles
  - Rail Cars
  - Equipment Fuel Consumption
- **Stationary Combustion**
  - Office Fuel Consumption

Scope 2

- **Grid Electricity Consumption**

GHG Emission Estimation Methods

HLI conducted dual reporting (location- and market-based approaches) for indirect GHG emissions from purchased electricity in accordance with the GHG Protocol Scope 2 Guidance. Location-based scope 2 emissions were calculated based on electrical consumption data from utility bills and EPA eGRID[3] emission rates, representing the emissions based on the actual energy mix

of the corresponding eGRID subregions. The market-based approach accounts for renewable energy purchases. Market-based scope 2 emissions were calculated and disclosed separately. The market-based approach accounted for the renewable energy purchased from the utility by the HLI Texas office. For our locations that have not purchased renewable energy, scope 2 emissions were estimated using Green-e® Residual Mix Emissions Rates[4], which are grid emission rates that account for renewable energy that has already been sold and accounted for by specific consumers.

GHG emissions from stationary and mobile combustion were calculated based on EPA Emission Factors for Greenhouse Gas Inventories (April 2023).[5]

[2] https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Chapter_07_Supplementary_Material.pdf
[3] https://www.epa.gov/egrid/summary-data
[4] https://www.green-e.org/2023-residual-mix
[5] https://www.epa.gov/system/files/documents/2023-03/ghg_emission_factors_hub.pdf

Summary of Results

HLI's total scope 1 and 2 GHG emissions were estimated to be 160.52 $mtCO_2e$ in 2023, which consisted of 119.86 $mtCO_2e$ of scope 1 emissions and 40.66 $mtCO_2e$ of [market-based] scope 2 emissions. Under the location-based approach, scope 2 emissions amounted to 47.66 $mtCO_2e$. Performance improvements and reduction targets will focus on market-based emissions to account for renewable energy purchases. The largest contributor to HLI's GHG emissions in 2023 was mobile fuel combustion, which contributed to 66% of our total GHG inventory. Mobile combustion includes fuel consumption by road vehicles, rail cars, and mobile equipment.

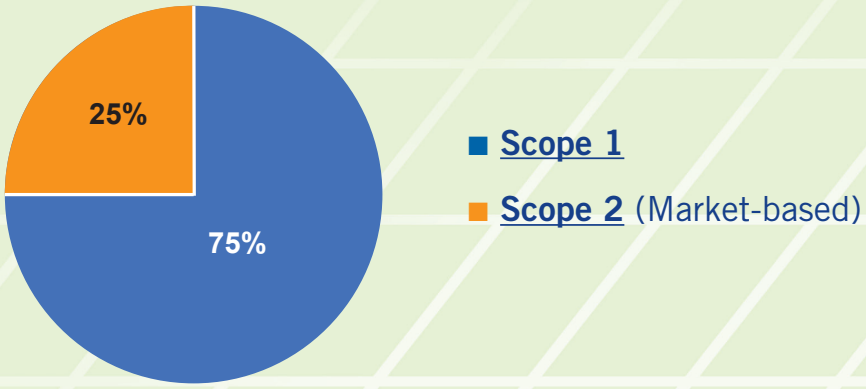
In 2023, total scope 1 and 2 emissions increased 12.63% compared to the 2022 baseline; however, scope 1 and scope 2 emissions are expected to decline in the near future as we implement energy and emissions reduction initiatives. While overall emissions increased, emissions from mobile combustion have decreased 6.29% and emissions from road vehicles decreased -57.35%. This can be attributed in part to the reduction of HLI's fleet of vehicles. Emissions from electricity consumption and equipment increased 83.56% and 16.57%, respectively, due to the expansion of operations and addition of equipment at the Laredo location.

The table below exhibits a breakdown of emissions per GHG.

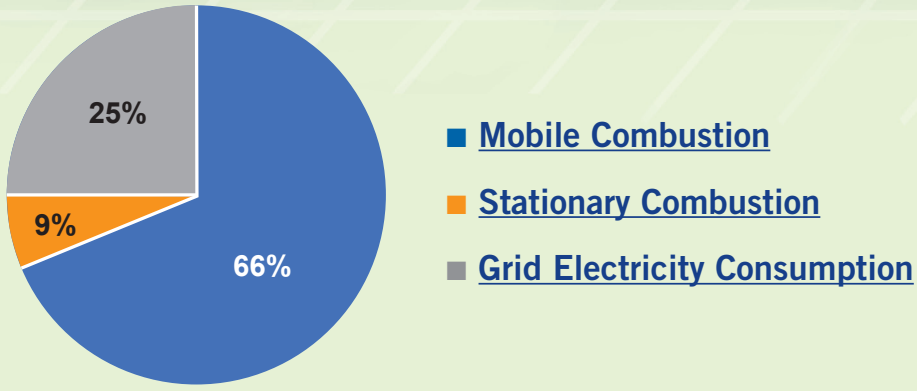
Emissions by GHG		
GHG	**Emissions (tonne)**	**Emissions ($mtCO_2e$)**
CO_2	159.45766	159.45766
CH_4	0.01057	0.29600
N_20	0.00282	0.76973
Total		**160.52**

The figures below show HLI's GHG emissions broken down based on scope, emission sources, and location. HLI's Texas office is carbon neutral, as 100% of electrical consumption in 2023 was from zero-emission renewable energy purchased from the utility.

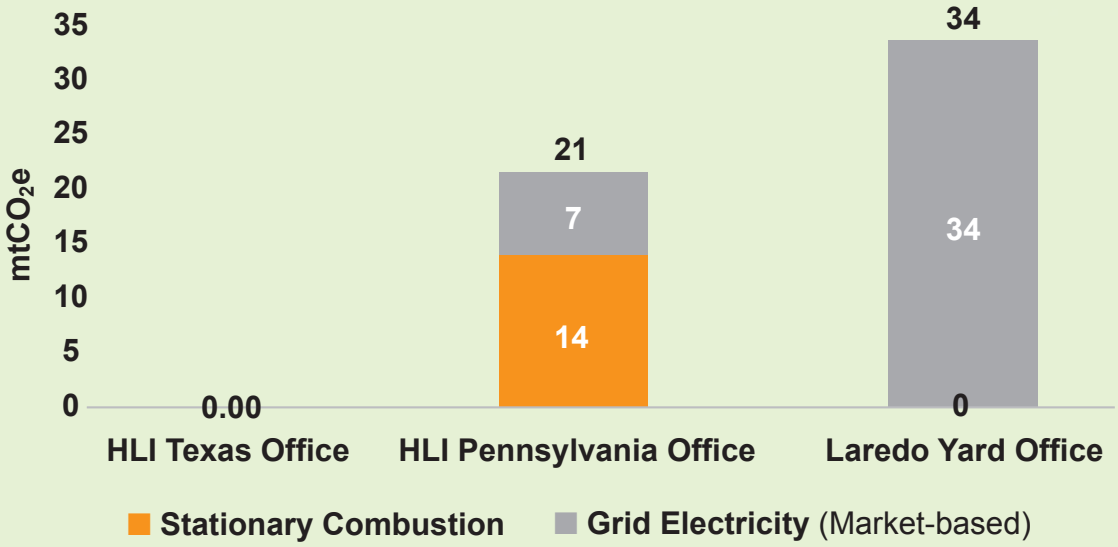
Breakdown of GHG Emissions by Scope:



Breakdown of GHG Emissions by Source Category:



Breakdown of GHG Emissions by Location:



Looking Forward

In the future, HLI will continue to monitor our emissions and identify opportunities to lower our carbon footprint. In cooperation with other stakeholders, we will strive to reduce our GHG emissions throughout our supply chain and offer low-carbon logistics solutions.

In 2023, HLI began assessing the GHG performance and strategies of our suppliers and we are committed to engaging with our clients and partners to help reduce GHG emissions throughout the supply chain. As such, we have sent our comprehensive Supplier GHG Assessment to all our suppliers and began receiving responses. In addition, in 2023, we collected more granular activity and GHG data at the project level. The results of these efforts will also help quantify and reduce our scope 3 emissions in the future and identify and offer low-carbon transportation options to our clients. Our team is now focused on producing our strategic GHG reduction plan, which involves setting ambitious GHG reduction targets and selecting specific action items to reduce our carbon emissions and create low-carbon solutions for our stakeholders.

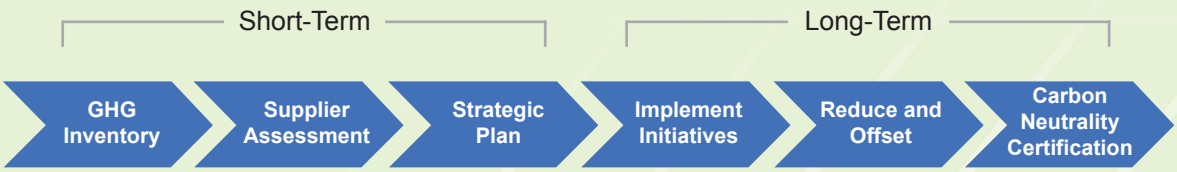
HLI is committed to setting targets that align with the scientific consensus of the IPCC. As such, we intend to have our targets validated by the Science Based Targets Initiative (SBTi) and anticipate being verified as carbon neutral and/or net zero no later than 2050. Progress toward our GHG reduction targets will be measured and disclosed annually relative to the baseline set by the 2022 GHG inventory.

Opportunities that will be evaluated and considered by HLI include, but are not limited to, the following:

- *On-site renewable energy generation*
- *Renewable energy purchases*
- *Fuel-efficient and alternative vehicles*
- *Energy-efficient facility improvements*
- *Route optimization*
- *Reducing dwell time, idling, and unnecessary stops*
- *Alternative fuels*
- *Working with clients to outline low-carbon project alternatives and mitigation options*
- *Improving partner/supplier assessment, collaboration, and selection*
- *Carbon reduction devices*
- *Carbon offsets*

HLI's anticipated milestones are exhibited in the figure below.

Milestones



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