



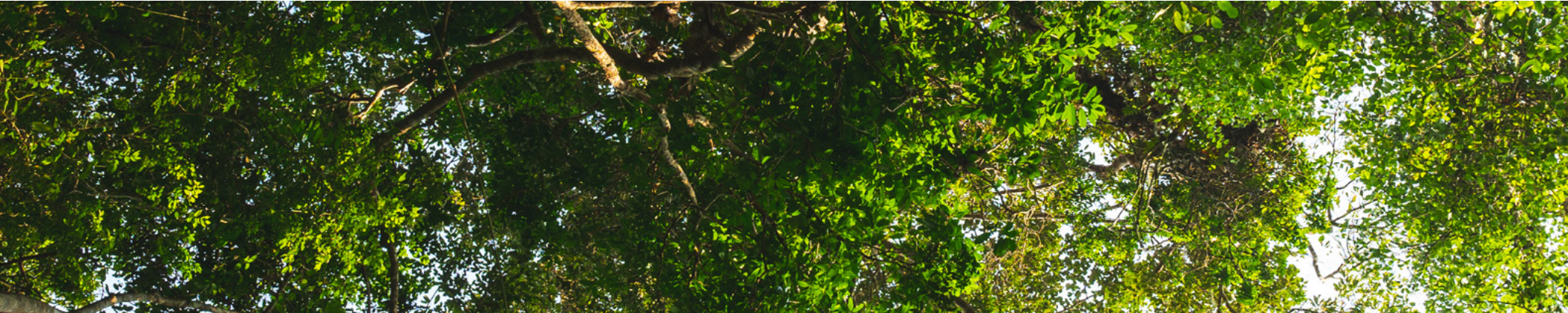
Delivering a Better
TOMORROW

2022 Sustainability Report



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CEO Message from Dan Smith



At Watco, we put an emphasis on improving every day. That's something we constantly talk about, plan for, and act on.

In many ways, that's what sustainability is about: It's looking at what we're doing now and what we can do in the future to ensure we're resilient and growing in ways that are safe, ethical, and best for the environment and communities we serve.

How can we help our team grow and perform even safer than yesterday? Where in operations can we cut back on emissions today? What are new ways to reduce waste tomorrow? These are the kinds of questions we're asking to be sure that our decisions and plans meet our environmental, social, and governance responsibilities.

In the report that follows, we're excited to share our first Watco-wide greenhouse gas (GHG) inventory of 2021 emissions. By analyzing our consumption of fuels and electricity, along with the resulting GHG emissions necessary to move commodities, we can identify inefficiencies and ultimately find ways to improve our business and overall impact on the environment.

Our 2022 sustainability performance could not have been achieved without the commitment of the Watco team. Whether it is looking at safety on a daily basis or focusing on collecting fuel consumption data, our team continues to grow stronger, with a renewed sense of urgency and commitment.

Sustainability requires dedication. I am proud that our Watco team brings that dedication each and every day.

About Watco

Watco is a leading transportation service and logistics company with customers and team members throughout North America and Australia. What sets us apart is our integrated mix of services. In 40 years of operation, our business has grown around our customers' needs. We create solutions to safely and efficiently move our customers' varied commodities, resulting in today's network of short line railroads, railcar switching locations, and a variety of transportation terminals and ports.



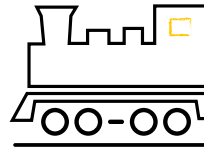
8,250

Track
Miles



1.1M

Carloads
Moved Annually



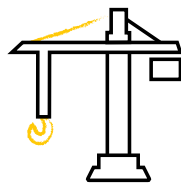
45

Railroads



4,977

Team Members



87 Terminals & Ports

22

Marine
Terminals

18

Dedicated
Facilities

36

Transload
Terminals

11

Mechanical
Terminals

Industries Served



Agriculture



Wind Energy



Aggregates



Waste



Oil/Gas



Automotive



Chemical



Retail



Construction



Coal



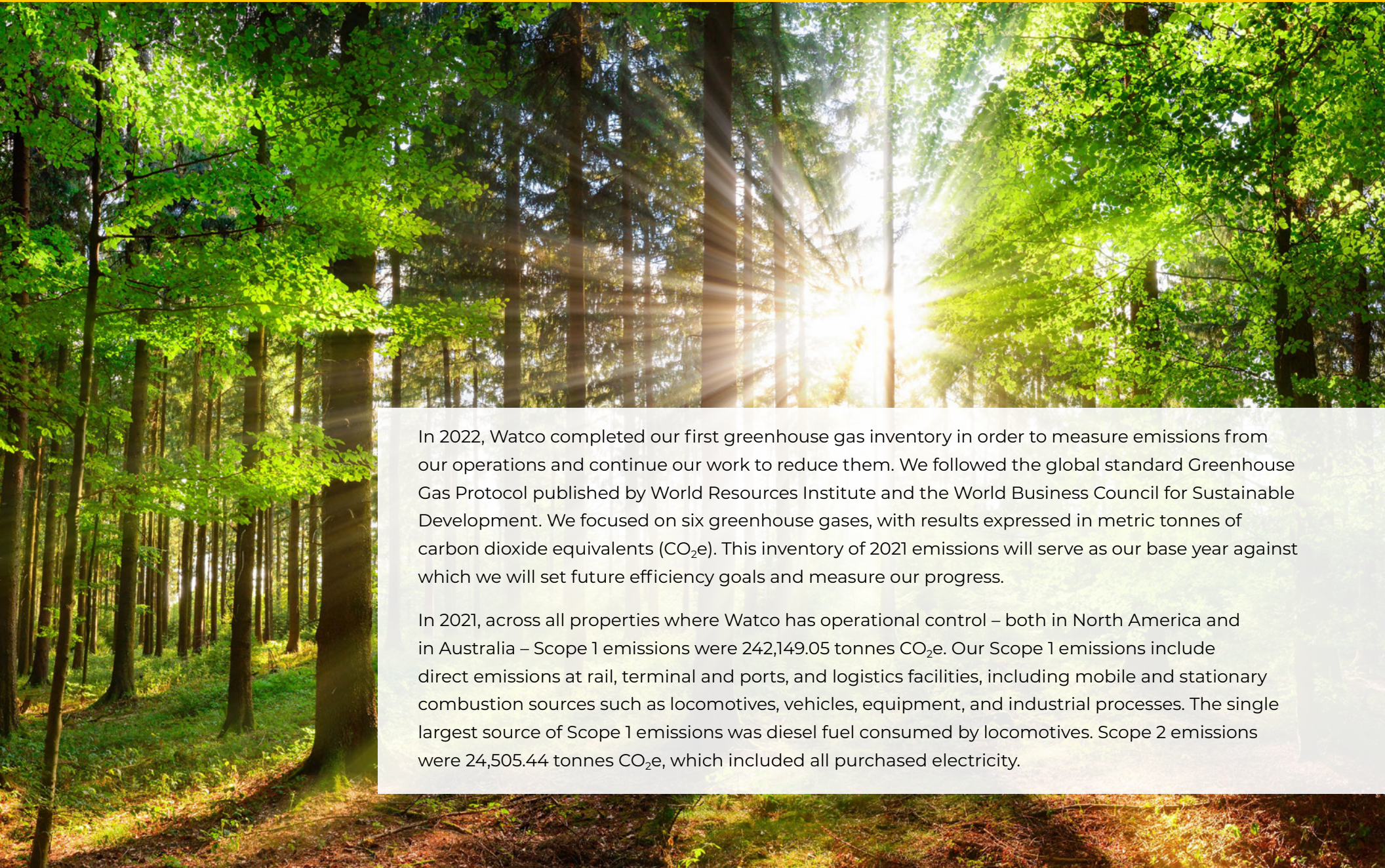
Lumber



Steel

*Numbers updated as of Sept. 1, 2023

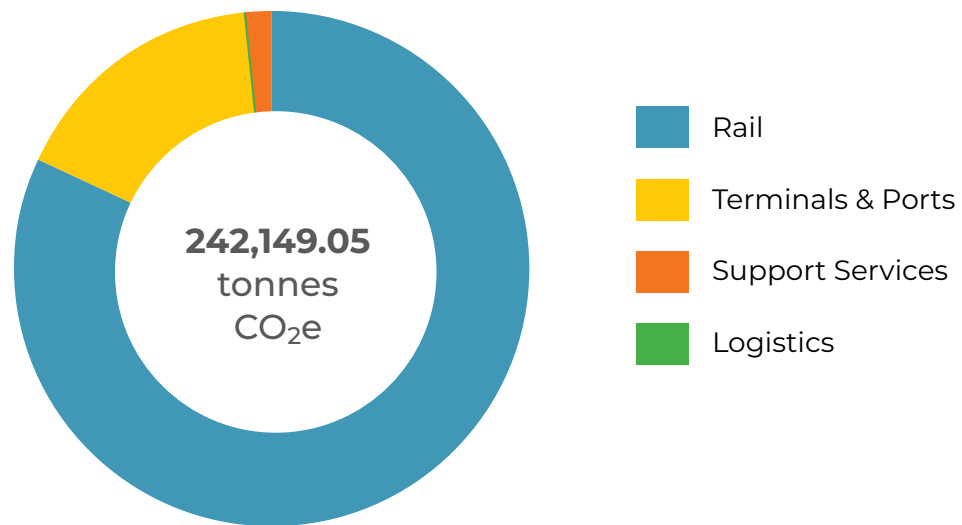
Company Tackles First Emissions Inventory



In 2022, Watco completed our first greenhouse gas inventory in order to measure emissions from our operations and continue our work to reduce them. We followed the global standard Greenhouse Gas Protocol published by World Resources Institute and the World Business Council for Sustainable Development. We focused on six greenhouse gases, with results expressed in metric tonnes of carbon dioxide equivalents (CO₂e). This inventory of 2021 emissions will serve as our base year against which we will set future efficiency goals and measure our progress.

In 2021, across all properties where Watco has operational control – both in North America and in Australia – Scope 1 emissions were 242,149.05 tonnes CO₂e. Our Scope 1 emissions include direct emissions at rail, terminal and ports, and logistics facilities, including mobile and stationary combustion sources such as locomotives, vehicles, equipment, and industrial processes. The single largest source of Scope 1 emissions was diesel fuel consumed by locomotives. Scope 2 emissions were 24,505.44 tonnes CO₂e, which included all purchased electricity.

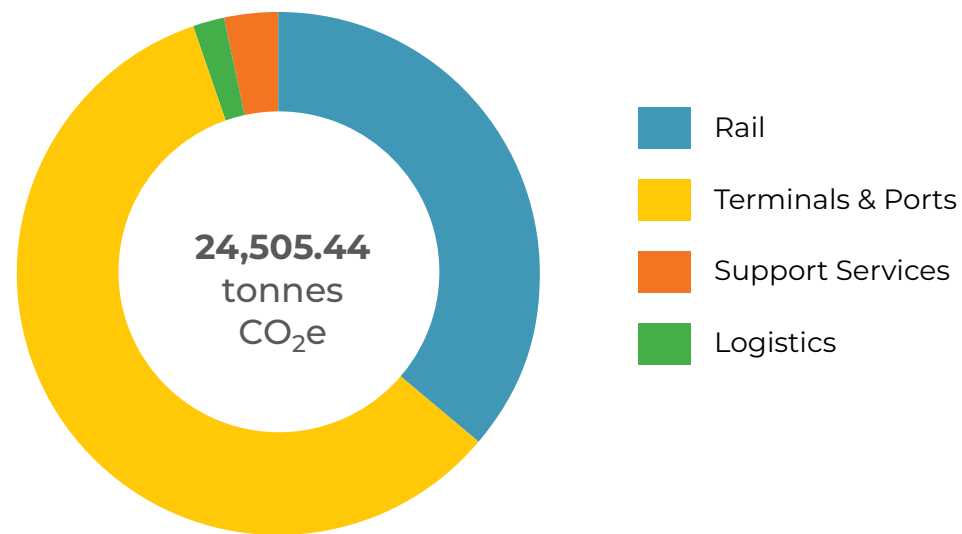
Scope 1



CO₂e - carbon dioxide equivalent

TONNE - 1,000 kg or 2,204.6 lbs.

Scope 2



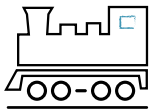
Scope 1

Direct emissions from sources that we own or control, such as fuel used by our locomotives and equipment

Scope 2

Emissions we create indirectly from purchased energy, such as electricity

Energy Consumption



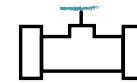
Diesel Consumed
20,653,760
 gallons



Gasoline Consumed
1,780,474
 gallons



Jet Fuel Consumed
82,077
 gallons



Natural Gas
245,103
 mmBtu



Electricity
48,757,252
 kWh

Carbon Intensity

Watco Total: 187.1 tonnes CO₂e / M\$GR

RAIL:

312.62 tonnes CO₂e/M\$GR

TERMINALS & PORTS:

139.62 tonnes CO₂e/M\$GR

LOGISTICS:

2.5 tonnes CO₂e/M\$GR

M\$GR - million dollars of gross revenue **mmBtu** - metric million British thermal unit **kWh** - kilowatt hour

Program Focuses on Hiring Military

Military personnel transitioning from active duty can find it challenging to know how to apply their military skills and duties to a civilian career. Watco helps meet that challenge with its Military Hire and Outreach Program.

Watco has long invested in supporting the military community, giving military non-profits thousands of dollars raised from an annual Independence Day fundraiser. In 2022, the company formalized its process of bringing military veterans into its ranks, hiring a dedicated manager to run the Military Hire and Outreach Program.

The program has already made great strides. Accomplishments in 2022 include:

- Launching online resources dedicated to veteran recruitment
- Supporting 28 different veteran hiring events, which led to hiring 121 veterans
- Establishing an Army-approved Career Skills Program (CSP) for company-wide internships to provide soldiers, while on active duty, skills training to improve their civilian employment options
- Teaming up with corporate partners to enable veteran hiring nationwide:
 - The U.S. Army National Guard's Army Partnership for Your Success program, which guarantees soldiers an interview and potential employment after the Army
 - P3, a private-public partnership with the U.S. Army Reserve fostering employment for reserve members and their families
 - Talents ASCEND, which uses artificial intelligence to match candidates and companies



Newsweek Puts Watco on its Most Loved List



In October 2022, Newsweek named Watco as one of America's Top 100 Most Loved Workplaces®. It was the first time Watco had been named to the list, which Newsweek says “pays tribute to companies that put respect, caring and appreciation for their employees at the center of their business model and, in doing so, have earned the loyalty and respect of the people who work for them.”

Newsweek looked at companies ranging from fewer than 50 employees to more than 10,000. At those companies, hundreds of thousands of employees were surveyed, several hundred company officials were interviewed, and external public rankings were analyzed. Dell Technologies led the list, and Watco was proud to land on it for the first time at No. 92. The list included U.S. companies and those with a strong U.S. presence that are based overseas.

The Newsweek list was created in partnership with Best Practice Institute (BPI), a provider of leadership development, executive coaching, and human resources-related research. BPI certified Watco as a Most Loved Workplace in the spring after conducting a survey among Watco team members and analyzing the results before passing them to Newsweek.



In the survey, Watco team members rated the alignment of their personal values and Watco's, the level of collaboration at the company, their feelings about respect and career achievement, and the future of the company. The survey revealed that 82% of Watco team members would recommend the company to their family and friends. Some of our highest scores were in the categories of trust (people feel they are trusted by each other) and teamwork (people value collaboration and teamwork inside the company).

82%

of Watco team members would recommend the company to their friends and family



Annual Benchmark Report Shows Improvement



Since 2020, Watco has used an independent organization, GRESB, to validate our ESG performance data and provide benchmarks for comparing our performance against peer companies. Each year, Watco receives scores for completing the GRESB Infrastructure Asset Assessment. The GRESB assessment rates entities with infrastructure assets (such as land, track, bridges, and locomotives) on their adherence to standardized ESG criteria relevant to global capital markets.

Annual benchmark reports are based on the data from, and ESG actions taken in, the prior fiscal year and provide ratings on a score from 0 to 100 points.

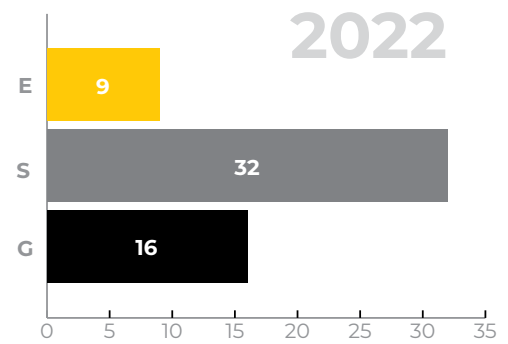
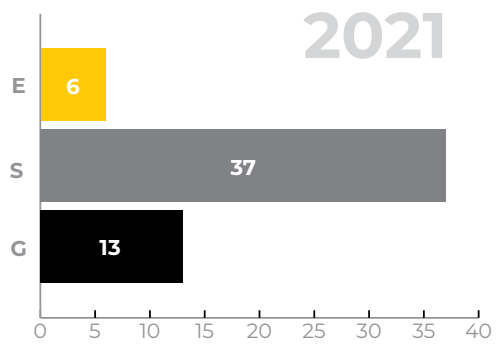
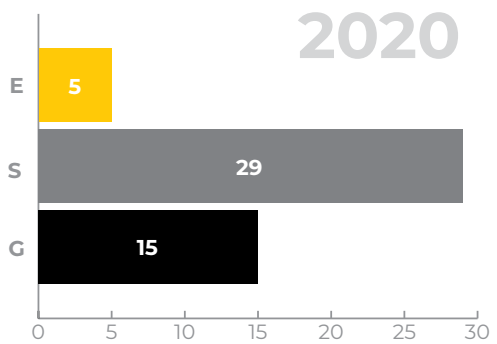
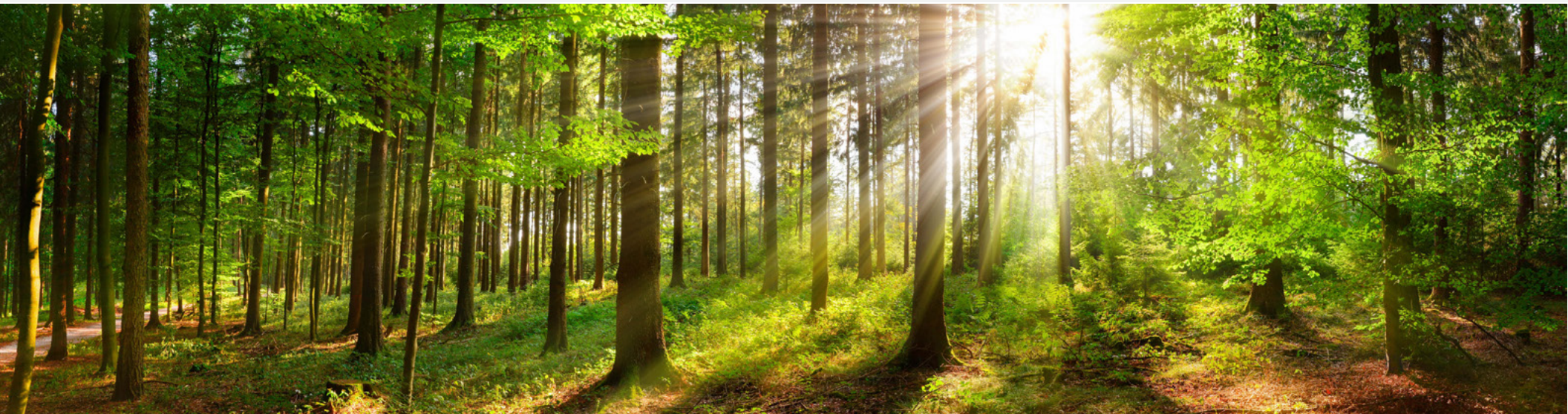
Benchmarked organizations are categorized into peer groups. Watco's diversified portfolio of operations and related assets resulted in its categorization as Transport: Maintenance and Operation. This group has grown from 14 benchmarked entities in 2020 up to 30 in 2022.

Each year, Watco has incrementally improved its overall GRESB score.

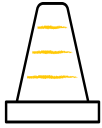
While trailing in some areas, in 2022 Watco substantially outperformed its peer group in the Leadership (86% of peers scored lower), Reporting (62% scored lower) and Health & Safety (55% scored lower) aspects and received perfect scores for Leadership and Health & Safety.



Overall GRESB Scores



Watco Training Center Dedicated to Safety



**Safely Improve
Every Day**

The importance of safety in the transportation industry can't be overstated.

It's so significant at Watco that we dedicate one of our locations to safety. A core team of full-time safety instructors is based at the Watco Safe Performance Center (SPC) in Birmingham, Alabama, with other SPC instructors providing training remotely. The center features multiple classrooms, a conference room, and a lab with 10 locomotive cab simulators.

On the heels of a 2021 expansion that doubled the center's space, more than 700 new conductors, engineers, maintenance of way personnel, and railcar repair and maintenance technicians came through the center in 2022 for essential safety instruction. The expansion furthers Watco's mission of providing centralized, standardized instruction to all operations team members.

Besides ensuring Watco's safety training is uniform, another goal of the SPC is preventing incident or injury. Watco team members at all locations submit safety suggestions and observations that include near-misses (situations that could have become incidents). Each Watco location also conducts safety meetings, inspections, and audits. All preventive activities are tracked, analyzed, and incorporated into training toward the goal of prevention. In 2022, tens of thousands of preventive activities occurred company-wide.



Our Safety Culture

Watco is dedicated to safety. It's central to our culture. Our constant goal is to work without incident, and our greatest responsibility is to keep team members, customers, suppliers, and members of the community out of harm's way.

Watco Team Member Safety Snapshot

	2018	2019	2020	2021	2022
Reportable injuries	75	100	64	85	94
Lost Work injuries	41	49	38	39	41
Total Reportable Incident Rate per 200,000 team member hours	1.95	2.08	1.42	1.87	2.01

Highway-Rail Grade Crossing Incidents

	2018	2019	2020	2021	2022
Injuries	9	6	7	8	6
Fatalities	1	1	0	1	1
Highway-Rail Incidents	40	33	44	49	47

Trespasser Incidents

	2018	2019	2020	2021	2022
Injuries	0	1	1	1	2
Fatalities	0	1	2	1	2

2023 ASLRRA Railroad Safety Awards*

1 President's Safety Award

23 Jake Awards with Distinction

4 Jake Awards

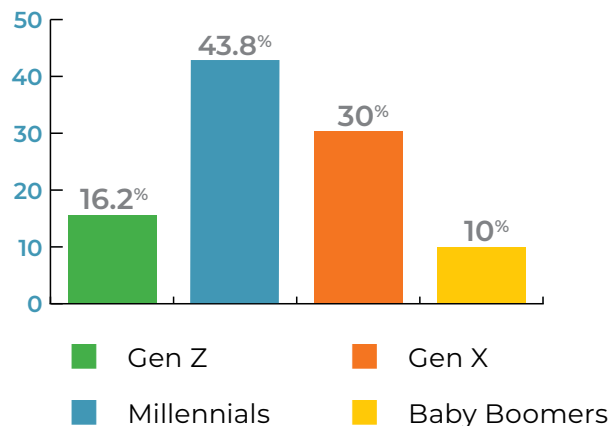
*Based on 2022 performance



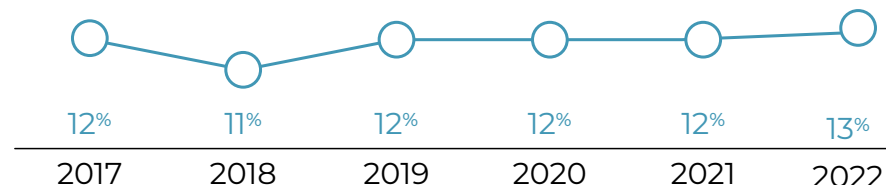
Team Member Inclusion

Watco values our people, not only because we're a socially conscious organization but because it's fundamental to our company and one of our Foundation Principles. We are continually sharpening our focus as a supportive workplace where everyone thrives. It's our priority to maintain a workplace based on an appreciation for and the abilities of all people.

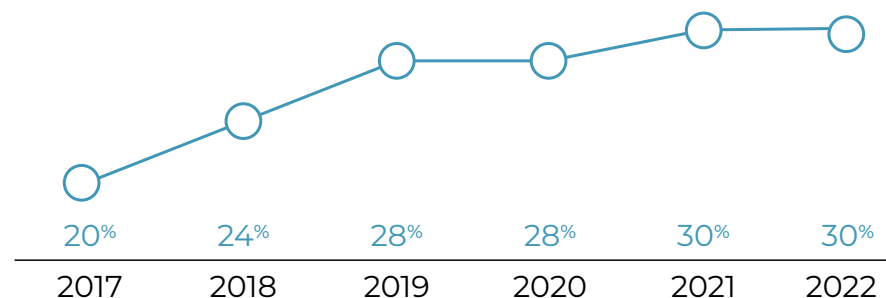
2022 Multigenerational Workforce



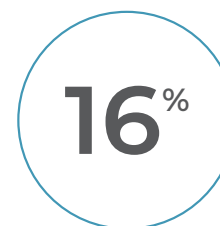
Women at Watco



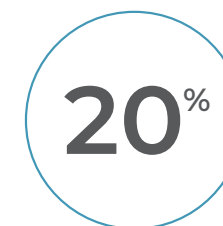
Racial/Ethnic Minorities at Watco



2022 Management Positions



Women



Racial/Ethnic Minorities

*2022 data based on Equal Employment Opportunity Commission demographic classifications

Governance

Watco's governance processes promote accountability, transparency, and ethical behavior by all team members, ensuring the highest level of integrity in everything we do.

Watco adheres to federal, state, and local rules, regulations, and guidance. Oversight by our board of directors reinforces the company's commitment to observing financial, ethical, and safety guidelines.



Financial Governance

Financial Governance

Watco's board of directors is dedicated to the company's long-term financial stability. Board members' combined experience in the business world maximizes sustainable performance, strengthens stakeholder value, and provides opportunities to facilitate customers' access to capital funds for growth opportunities.

Watco also adheres to the accountability policies and guidelines established by our investors and lenders as well as our contractors and service providers. Third-party experts regularly conduct audits to confirm our compliance with laws and regulations and to ensure that our financial reporting and data collection are accurate and timely.



Code of Conduct

Code of Conduct

Team members are Watco's most valuable asset. As such, we hold team members to high standards of personal performance and conduct.

Team members, Watco's board of directors, and business partners are expected to follow behaviors outlined in the Team Member Handbook, vendor agreements, and other contracts and documents. Unacceptable behavior can lead to disciplinary actions or termination of the relationship with Watco. We maintain a dedicated safety and ethics hotline that is monitored to address any potential concerns.



Risk Management

Risk Management

An experienced team supervises risk and crisis management. This team identifies potential liability, income, and personnel exposures to loss. Its goal is the preservation of the company's assets to ensure successful continuation of operations.



Safety Management

Safety Management

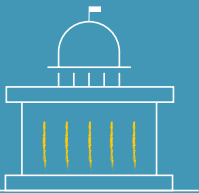
Watco adheres to safety regulations and guidance from federal, state, and local authorities, including the Federal Railroad Administration, Occupational Safety and Health Administration, Environmental Protection Agency, and many others.



Cybersecurity

Cybersecurity

With a growing remote workforce and increased data breaches worldwide, Watco is more focused on cybersecurity than ever. Protecting the company and team members from cyber threats is important as an ethical and financial responsibility. Watco continues to invest in people, prevention, and detection training and software to reduce the risk of cyber attacks.



Government Relations

Government Relations

Watco has an in-house team of government relations professionals whose goals include connecting with stakeholders and working toward common ground. They meet frequently with trade associations and policymakers on Capitol Hill, in state capitals, and with local government leaders in communities across the country to advance the causes of our customers, our company, and the industry. In addition to their advocacy efforts, the team leads grant initiatives and has secured over \$50 million in federal and state grants during the last five years.

CSO Message from Laura McNichol



Like our peers in the transportation space, we are feeling the impacts of climate change in all segments of our business. Flooding or low-water conditions at our river terminals is now a regular occurrence. Extreme weather is exacerbating costly washouts – and lost business – at our railroads. Drought conditions have contributed to the loss of timber trestle rail bridges in recent years.

When we rebuild from these events, we make the necessary investments into larger culverts and bridges with steel and precast concrete spans that help mitigate future risk and allow for swifter return to service.

We also use these events as further motivation to continue our sustainability journey. We know that being a more sustainable company mitigates risk and makes us a better business.

As we analyze the results of our first greenhouse gas inventory and compare it with subsequent years, the opportunity to reduce our emissions while also saving money on fuel and electricity is clear. While there is not yet proven zero-emission technology for high-horsepower, mainline locomotives, and accessing emerging technologies comes with significant financial barriers for short line railroads, we continue our efforts to become more efficient.

Watco continues to partner with organizations like the American Lung Association to deploy fuel-savings technologies such as auxiliary power units for locomotives. We also compete for funding in programs such as the Environmental Protection Agency's Diesel Emissions Reduction Act grant program and the Federal Railroad Administration's Consolidated Rail Infrastructure and Safety Improvements Program to leverage grant dollars to improve our emissions profile.

Our investment in zero-emissions battery-powered switching locomotives is promising, and we look forward to reporting on their deployment and taking fuller advantage of this technology in coming years.

While the challenge ahead is great, Watco is well positioned to provide ever more sustainable and resilient service to our customers.

