



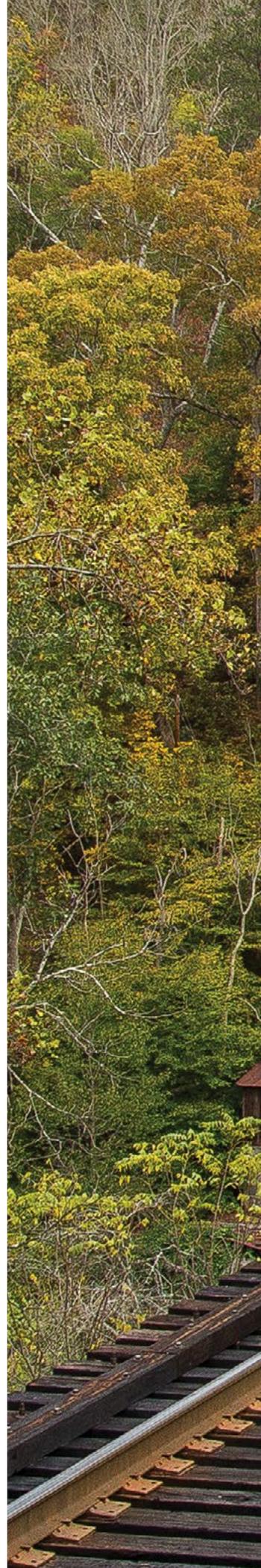
Delivering a Better
TOMORROW

2021 Sustainability Report



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CEO Message



Transportation services companies have always played a critical role in keeping goods moving across the United States and around the world. The last two years have highlighted our industry's importance, first in maintaining the flow of much-needed supplies to fuel and feed North America and, more recently, as an essential component in supply chain recovery.

Watco is known for our culture and for the importance we place on customers, team members, and safety. This “Delivering a Better Tomorrow” report documents our sustainability efforts through the lens of our Foundation Principles. Sustainability is woven through each of these principles and guides every part of our business:

Value Our Customers: We are committed to providing customers with the best service, delivered by a well-governed, socially responsible, and environmentally conscious company that helps them meet their own sustainability goals.

One of many steps we took in this direction in 2021 was to form a new partnership with the American Lung Association to deploy fuel-saving devices on our locomotives, which reduces the carbon footprint for Watco and our customers.

Value Our People: Watco is a company founded on great people – and one that continues to grow and succeed because of great people. Our team members are a critical part of our success and our biggest differentiator. We relentlessly work for an ever-stronger culture that focuses on inclusion, continuous improvement to the team member experience, and returning team members home safely to their families at the end of the day.

These commitments are among the reasons Watco was named to *Forbes'* 2021 list of America's Best Mid-Size Employers – the only transportation and supply chain services company to be awarded this distinction.

Safely Improve Every Day: We strive for a zero-accident workplace but also always work to be a better company and lessen our impact on the environment. We track near-miss observations and safety suggestions, which encourages team members to actively help prevent workplace hazards from turning into accidents or injuries.

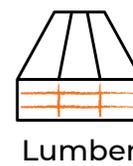
In 2021, we expanded our Safe Performance Center, nearly quadrupling the number of team members who can receive on-site training at any one time. Our Stillwater Central Railroad was honored for reaching the threshold of 50,000-150,000 person-hours worked without an injury. The Wisconsin & Southern Railroad achieved the exceptional milestone of working 1 million person-hours injury free. These are incredible accomplishments, and we are proud of our teams who achieved them.

We voluntarily disclose our full environmental, social, and governance (ESG) efforts as part of a Global Real Estate and Sustainability Benchmarking (GRESB) Infrastructure Assessment, which provides actionable and transparent ESG performance data and peer benchmarks. We are proud of where we stand among our peers in the ESG space. We also acknowledge that we have more work to do. We are committed to delivering an even better tomorrow through sustainable practices that solve customer supply chain challenges with reliable, innovative, and customized transportation solutions.



Dan Smith
CEO

Industries served





Safety

“Safely improve every day” is one of Watco’s Foundation Principles. Safety is an intrinsic part of our culture and the center of everything we do.

To continuously protect our team members, our customers, and people living in the communities where we operate, Watco welcomes and responds to stakeholders, including our operations leaders and safety regulators at the local, state, and federal levels. We influence and uphold safety standards and best practices by learning from and contributing to the Association of American Railroads, the American Short Line and Regional Railroad Association (ASLRRA), and other organizations that shape industry health and safety rules.

These efforts have earned Watco a premier reputation for safety and the confidence and trust of our stakeholders.

Safety Recognition

The ASLRRA recognized 29 Watco railroads with performance-based safety awards in 2021 for their low rates of reportable injuries.

Two Watco railroads earned the organization's prestigious President's Safety Award, which recognizes railroads that, in the previous year, had no injuries or the lowest accident frequency rate among comparably sized member railroads.

- The Wisconsin & Southern Railroad (WSOR) was a Central Region recipient in the category of 250,000-500,000 person-hours worked.
- The Stillwater Central Railroad (SLWC) was a Central Region recipient in the category of 50,000-150,000 person-hours worked.



To view the video, visit watco.com/wsor1m

In addition, the WSOR reached 1 million person-hours injury free. This remarkable success means 160 team members handled over 200,000 railcars across 600 track miles for more than three years without an injury.

The WSOR and SLWC, along with 24 other Watco railroads, received Jake Awards with Distinction, which are given to member railroads with no Federal Railroad Administration (FRA)-reportable injuries for the previous year. Three additional Watco railroads were recognized with Jake Awards, which are presented to railroads that finished the previous year with an FRA injury frequency rate less than or equal to the industry average.

2021 ASLRRA Railroad Safety Awards

2 President's Safety Awards

26 Jake with Distinction

3 Jake Awards



Training

Consistent with the priority we place on safety, Watco makes significant investments in training. We devote considerable time, money, and personnel to preparing all team members to perform their duties safely and uniformly. This is the best way we know to protect our team members who, in turn, maintain the safety of customers, partner contractors, and people in the communities where Watco operates.

Our commitment to safety, coupled with Watco's continued growth, led to the expansion and renaming of the company's dedicated safety training center in 2021.

The Birmingham, Alabama-based Safe Performance Center provides standardized safety training to team members across Watco's network. Nine full-time trainers instruct conductors, engineers, track workers, mechanics, and welders in operating environments similar to those they will encounter in the field once training is complete. Every Watco team member receives, on average, 16 hours of formal safety training. Engineers receive 80 hours of training and new railroad hires receive 120 hours at the Watco Safe Performance Center. This investment in our team prepares individuals for a purposeful, long career at Watco.



The Safe Performance Center's capacity expansion more than doubled the facility's size and boosted the number of team members who can receive on-site instruction from 40 per day to 150 per day. New technology also allows Watco to provide live, interactive, remote training for learners anywhere. The expanded Safe Performance Center is expected to meet Watco's training needs for the next decade, ensuring team members receive consistent, high-quality training that adheres to Watco's standards.

Team Safety & Improvement Committees

More than 90 Team Safety & Improvement Committees (TSICs) operate at our railroads, terminal and port locations, and repair and maintenance terminals. TSICs are team-member-driven, and members voluntarily receive leadership skills training and tools to give their teams a voice in building a stronger safety culture and better workplace. Because respect guides the conversation, TSICs provide an atmosphere where team members are comfortable being candid.

As idea generators, TSICs regularly affect safety-related and other changes at Watco. In 2021, these committees:

- Suggested fencing that was installed to mark a drop-off next to a roundhouse at the WSOR.
- Identified where fire extinguishers needed to be installed at the Hawesville Marine Terminal in Kentucky.
- Researched options for replacing gutters at an older railroad building.
- Volunteered to provide financial support for a team member injured in a motorcycle accident.
- Supported their communities, often alongside customers, by handing out Halloween candy, collecting Christmas toy donations, and volunteering at local charitable organizations.

Watco typically takes 75 to 100 team members through in-person TSIC training each year. Since 2012, about 400 team members have trained for and participated on TSICs. More than 40 of these individuals have been promoted to key leadership roles across the Watco network, from front-line supervisors to vice presidents.

In 2021, 163 team members also completed Watco's two online TSIC training courses.





Steering Change

Amanda Thomas, a customer service representative for Watco's Hawesville Marine Terminal, became chair of her site's TSIC in April 2021 and has seen its impact at her location:

"The biggest benefit of a TSIC is how it strengthens Watco's safety culture. That culture is critical to our company's success.

"In 2021, our TSIC did a safety walk-through of a warehouse space Watco leased for storing customers' materials. We broke into groups and nitpicked everything and came up with a fairly long list of recommended safety improvements we took to our terminal manager and crew leaders.

"The group noticed old signage that needed to be removed. Implementations included pointing out trip hazards and repairing holes in the floor. Several Watco team members installed fitted plates to fill the holes. Because we addressed the space as a group, we were able to be thorough and save time in getting it safe and ready for use.

"Our site has trucks that haul coil racks. Previously, some were secured with chains and some with straps. After a strap broke and a coil rack came off the truck, the TSIC assisted in implementing a rule that all racks must be secured with chains. It's a better and safer solution.

"Besides safety changes, another improvement was starting community outreach. That's a very important aspect of our TSIC. We had a booth at the county fair and collected gifts for Toys for Tots. Many team members want to give to the community. The TSIC is a good outlet for that."

A TSIC's Influence

Kevin Roth is vice president of operations for five terminals and a railroad in four states. He began his transportation career with Watco in 2010 as an operator at a crude-by-rail terminal in Stanley, North Dakota. Within two years, he was promoted to supervisor and then terminal manager. In this managerial role, he recognized the value of a TSIC:

“When I became a terminal manager, I got engaged in the TSIC idea. I knew it was a great opportunity for team members to have a voice, to talk among themselves without leadership being involved, to identify issues and concerns and the needs of the team. Then, once a month, the TSIC chair met with all members of leadership, sharing a list of items the team members needed or wanted. With some requests, we’d have to ask for capital or go to the customer. And if it couldn’t happen, I made sure to explain why in great detail.

“The first thing team members asked for was a windsock. Very quickly, we had a windsock. They were shocked. One of the guys said, ‘We’ve been wanting that forever. We’ve asked for it over and over.’ When the windsock was a ‘yes,’ they recognized they did have a voice. Now, the team felt comfortable bringing concerns to the chairman, and we were able to address them.

“After three or four months, the chairman said, ‘The team has nothing to ask for and just wants to say thank you.’ The TSIC had turned the tide.

“TSIC involvement influenced my professional growth and leadership. Because people are Watco’s No. 1 resource, they should be treated with respect. The TSIC opened communication for the whole team. It helped me understand other team members’ views. It improved our operations. It affected my overall communication and development in how I lead by example, make decisions, and take care of team members.”

Watco Team Member Safety Snapshot				
	2018	2019	2020	2021
Reportable injuries	75	100	64	85
Lost Work injuries	41	49	38	39
Total Reportable Incidence Rate per 200,000 team member hours	1.95	2.08	1.42	1.87

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

Trespasser Incidents				
	2018	2019	2020	2021
Injuries	0	1	1	1
Fatalities	0	1	2	1

Prevention and Preparedness

Tracking and analyzing leading indicators like safety audits and near misses allow Watco to predict incidents that could occur and take corrective action to avert them. Team members are encouraged to report close calls that could have turned into injuries or damage. Watco is among the few short line owners and operators that track near misses, and Watco team members reported nearly a thousand near misses in 2021. Our environmental health and safety tracking software – VelocityEHS – allows us to track and analyze near misses as well as additional data so that when we do experience incidents, as a team, we analyze the causes and implement measures to reduce or prevent them from happening again.

At the WSOR, the railroad was experiencing a rash of incidents where trains were running through the on-track controls, or switches, that guide a train onto a connecting track. These run-throughs can damage a switch and even cause derailments. The WSOR initiated changes that included spray-painting switches with high-visibility paint to capture the engineers' and conductors' attention so they could ensure switches were properly positioned for the desired direction of travel. The results were encouraging. Run-throughs dropped steadily for two years straight, and derailments, at a five-year high in 2020, fell 59% from 2020 to 2021.

Two seasonal programs provide added emphasis on incident prevention. The Summer Spike



program is dedicated to reducing the spike in incidents and injuries that typically occurs during the summer months.



Winter FREEZE (Following Rules Every Day Ensures Zero Errors) encourages Watco team members to spot and report near misses and

offer safety suggestions. These programs have resulted in changing company operating procedures to enhance team member safety and boosting the public's grade crossing awareness.

In one instance, a Watco conductor noticed there was limited visibility at an exit from a customer's facility due to material placed near a railroad crossing that was blocking the view of anyone using the crossing, including approaching trains. The team was alerted to take extra precautions in the area and worked with the customer to have the material moved.



In addition to these internal programs, Watco maintains partnerships with several outside organizations to strengthen public safety. An example is Operation Lifesaver, Inc. (OLI), a nonprofit group committed to preventing collisions, injuries, and fatalities on and around railroad tracks and highway-rail grade crossings. Watco financially supports every OLI organization in each state where it has railroad operations. Watco team members – typically trainmasters, conductor-engineers, and safety managers – are trained OLI volunteers, with three of these volunteers serving on their states' OLI boards of directors. All Watco OLI volunteers take part in local OLI railroad safety events, assisting in presentations to professional truck drivers and bus drivers, local law enforcement and other first responders, students, and the public. Through these collaborations, Watco team members have educated thousands in rail-related safety.

Advancing Safety with RailPulse

Watco is a founding member of RailPulse, a joint venture of railcar owners, builders, and operators who are building a new technology platform that provides real-time data via GPS and other technologies across the North American railcar fleet. This will increase adoption of railcar telematics and improve overall safety as well as provide meaningful insights into railcar performance and help drive growth for freight

rail. The coalition's first product, expected to be released in 2022, will utilize railcar location, condition, and health data to improve asset health and safety. Issues with track and equipment are one of the leading causes of rail accidents, and RailPulse technology will help spot issues before they become critical, improve the timing and quality of preventative maintenance, and decrease asset-caused accidents – making the safest way to move freight over land even safer.

Assisting in Disaster Preparation

To ensure that Watco and the communities we serve are prepared to respond in an emergency, we regularly partner with national, state, and local organizations in mock disaster exercises.



Watco's Kanawha River Railroad took part in a mock train derailment and hazardous material response during Vigilant Guard, an annual large-scale disaster response exercise. Hosted by the West Virginia National Guard and the state's Emergency Management Division, the disaster scenario included flooding, mudslides, and dam breaches. The event brought together more than 1,000 military personnel, first responders, and private-sector partners.



In Texas, the team at Watco's Greens Port facility participated in a drill to cap a leaking offshore oil well. Representatives from multiple Gulf Coast drilling companies, the Coast Guard, and others were on hand as Watco rigging experts simulated lifting and transferring a 27-foot-tall, 190,000-pound capping device with a Watco crane from the dock onto an offshore supply boat. Greens Port's 24/7 supply boat accessibility, warehouse storage for the capping device, expert rigging team, and proper rigging equipment make it an ideal partner to quickly and successfully respond in an emergency.



COVID Response

As an essential business, Watco took deliberate actions throughout the pandemic to keep customers and team members safe while keeping the supply chain moving.

Across many of our railroads, we haul the raw materials that are critical to our economy, our businesses, and our homes. On the Great Northwest Railroad that runs in Washington and Idaho, we haul pulpwood for the manufacturing of toilet paper. On the Austin Western Railroad, we move plastics that are critical to the manufacturing of medical supplies, and on the Kansas & Oklahoma Railroad, we haul wheat that is made into bread. At Greens Port in Houston, we move wind components and energy products that power and heat homes.

During this challenging season, through illnesses and tragic losses, Watco kept moving.

Our Commitment to Health and Safety

To ensure continued essential operation in a manner that protected our team members and our customers, Watco consistently followed guidance from the Centers for Disease Control and Prevention, the Occupational Safety and Health Administration, and the Federal Railroad Administration.



Recommendations and mandates issued by these organizations shaped our enhanced safety measures, which included:

- Maintaining social distancing at all locations
- Encouraging hand washing
- Masking indoors
- Suspending non-essential travel
- Performing frequent cleaning of communal spaces
- Encouraging team members to get vaccinated and offering on-site vaccine clinics
- Providing masks and hand sanitizer at all locations

In 2021, Watco continued to offer flexibility for team members to work from home. For those whose jobs required on-site work, we minimized potential COVID-19 outbreaks by staggering work shifts at field locations.

Team members who contracted COVID-19 received 80 hours of paid sick leave, as required under the Families First Coronavirus Response Act. Although the mandate expired at the end of 2020, Watco continues to offer this benefit to vaccinated team members in the event of breakthrough infections.

In messages to our team, Watco CEO Dan Smith endorsed vaccinations as they became more widely available and showed encouraging results in reducing severe illness. We continue to urge team members to be fully vaccinated and to receive booster shots as they are available.

Value Our People



By reputation and in practice, Watco puts people first. We care deeply about our team, as evidenced by our commitment to communicate openly and treat everyone honestly and fairly. We are committed to building a workforce that represents the communities we serve; where every team member feels included, respected, and heard; and where we ensure fair and equal access at all levels across the business. In every aspect of our day-to-day work, we look out for our team members' safety and overall well-being.

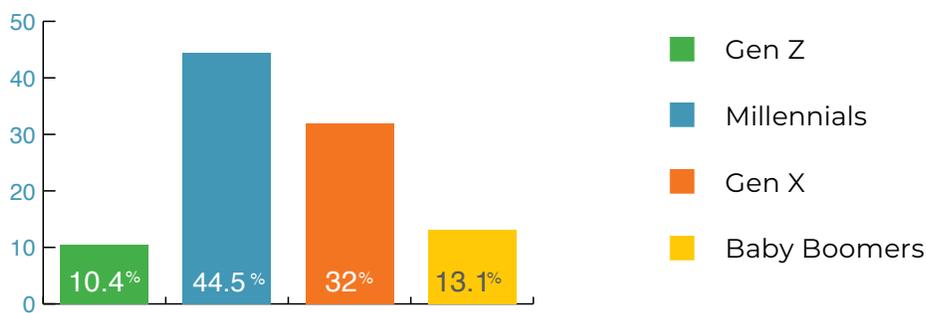
Watco continually displays the value we place on our team members. This respect for one another starts at the top. Leaders seek to form relationships throughout the company and listen to what team members have to say. They are known to travel to field locations to gather feedback and regularly call team members to learn their thoughts and find out what they need. Our People Services managers don't conduct exit interviews; they contact team members for "stay" interviews to understand where Watco can improve and to ensure team members are aware of opportunities for skills development and career progress.



Talent Acquisition

High-performing team members are the lifeblood of Watco's continued growth. As the transportation industry stares down a marked skilled-labor shortage driven by baby boomer retirements, blue-collar workers are in higher demand. In this competitive marketplace, Watco focuses on attracting, developing, and retaining a multigenerational, best-in-class workforce of new and experienced talent with diverse skills, backgrounds, and perspectives. We partner and network with trade schools and community colleges around the country and engage in other relevant programs to find emerging talent. We offer paid on-the-job training. In 2021, we expanded our recruitment team and revamped our online application process to make it more intuitive and user-friendly.

2021 Multigenerational Workforce



Talent Development

Demonstrating care for our people includes working to bring out each team member's personal best, supporting individual goals, and offering personalized opportunities for skills development and broader experiences.

We invest in role-specific, best-in-class training that ensures team members are prepared to perform their jobs safely and responsibly. Newly hired conductors and engineers complete a ground school program at Watco's Safe Performance Center in Alabama. Returning to their railroad or to their switching locations, each is paired with an experienced mentor who provides support and on-the-job guidance. Track workers also complete coursework and participate in hands-on training as needed.

Our Watco University, operating since June 2010, provides culture, team building, leadership, management, and business performance training and development for all team members. Training opportunities are delivered through multiple programs: onboarding, instructor-led training, supervisor programming, leadership development, and ongoing online training. Watco University has trained more than 6,400 team members since 2015.

In 2021, Watco added virtual instructor-led training to provide a new avenue for team members to receive instruction when COVID-19 prevented us from hosting traditional, in-person classes.

Watco offers each team member up to \$1,000 per semester as part of our college tuition reimbursement program. Since 2016, 59 team members have utilized the program.

Recognizing Our Team

Watco loves to recognize and reward team members for their impact in our industry, our company, and our communities.



In 2021, Watco introduced the Be the Difference Awards, a quarterly program that recognizes team members for taking action, living Watco's values, and making a difference in lives and communities. The One Watco, Extra Mile, and Safe Performance awards are one important way we express gratitude for team members who are demonstrating what makes Watco different from other companies.

Watco team members earned the following industry awards in 2021:

- Forbes – America's Best Mid-Size Employers
- Ingram's – 40 Under Forty – Andy Nielsen
- Progressive Railroading – Rising Star – Preston Nelson
- Railway Age – Readers' Influential Leaders – Rick Webb
- Railway Age – 20 Under 40 – Rachael Peterson
- Railway Track & Structures – Fast Tracker 10 Under 40 – Drew White
- Railway Age – Women in Rail – Laura McNichol
- ASLRRA – President's Safety Awards: Wisconsin Southern Railroad, Stillwater Central Railroad
- ASLRRA – 26 Jake Awards with Distinction
- ASLRRA – 3 Jake Awards

Every year, Watco strives to provide benefit options that meet our team members' and their families' needs while managing consistent, steep increases in health care costs. Full-time Watco team members receive comprehensive medical benefits from their first day on the job. The scope of our benefits program, which includes health, dental, and vision coverage; tuition reimbursement; an Employee Assistance Program; Watco-funded life insurance; paid vacation and holidays; and 401(k) and Railroad Retirement programs is highly competitive in the transportation industry. In 2021, Watco paid approximately 75% of the total cost of our team members' medical claims, with the remaining 25% funded through team member premium contributions.



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Diversity and Inclusion

Our workforce often reflects the communities where we operate. As our workforce becomes more diverse, we embrace that change, which helps us relate more closely to the needs of our team members, customers, partners, and other stakeholders. We work hard to create an inclusive culture that supports and appreciates differences and provides fair and equal opportunities for everyone.

Watco conducts annual salary reviews to ensure team members' pay is equitable and competitive in each of our markets.

While we have come a long way in our diversity journey, we have more work to do. One way we plan to meaningfully connect with others in the year ahead is to recognize diversity in our workforce by sharing stories, experiences, and successes. Our ultimate goal is to advance diversity, equity, and inclusion at all levels to build a workplace environment where everyone is welcomed, valued, respected, and heard.

Women at Watco

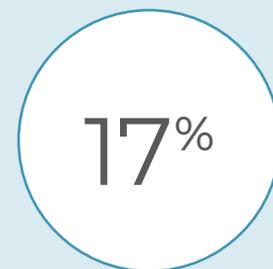


2021 Management Positions



female

Racial/Ethnic Minorities at Watco



racial/ethnic minority

2021 data based on Equal Employment Opportunity Commission demographic classifications

Making a Difference

Giving back is both a responsibility and a privilege. This belief drives Watco to make significant differences in the communities where our people live and work.

Community Giving

Our team members are at the heart of our commitment to giving back. Because they live and work in the thousands of large and small, culturally and geographically diverse communities we serve across North America, they recognize and understand their communities' unique needs. We proudly partner with our team members to identify and fund critical needs where they make their homes.

Watco's charitable giving surpassed \$860,000 in 2021, bringing total donations to nonprofit organizations to more than \$1.8 million over the last three years. As a company, we nimbly respond to specific needs. In 2021 alone, at the local level, we bought kennels for a humane society; sponsored youth baseball teams, charity golf tournaments, and local fireworks displays; provided school supplies to multiple communities; and so much more.



Supporting our veterans and their families is a Watco priority. Each year, we select an organization that supports military veterans to receive proceeds from our annual Independence Day T-shirt fundraiser. In 2021, Watco selected the Honor Flight Network. With our donations, veterans received all-expenses-paid trips to visit the war memorials in Washington, D.C.





Volunteerism

Our team members strengthen our communities, taking time to volunteer, help worthy causes, and build relationships. Volunteering not only gives us a chance to help those towns and cities thrive, but also to bolster our relationships with one another.

Many of our team members volunteer their time by serving on nonprofit boards and committees and by supporting community initiatives. From serving at soup kitchens to delivering pizzas to teachers or painting community buildings or planting trees, Watco team members constantly give back generously to their hometowns.

Helping Each Other

When a natural disaster or a personal hardship occurs, Watco team members support affected communities and each other. Shortly after Hurricane Ida made landfall in August 2021, team members took action to supply aid to the New Orleans metro area. Two Louisiana Southern Railroad team members drove the nearly 300-mile journey twice. And a trio from Freeport, Texas, traveled there as well. Together, they took Watco teammates, business partners, and the United Way more than 400 gallons of gasoline, a generator, tarps, chainsaws, food, water, and \$3,000 collected from local businesses, families, and friends. In addition, Watco organized a special T-shirt fundraiser for the hurricane victims, raising more than \$15,000.



We band together for bone-marrow-match drives and have been known to remodel a team member's house during a critical illness or pay for a funeral. Gestures like these can be expected from a team whose unofficial operating motto is "stronger together."

Dependent Scholarships

Watco steadfastly supports education and training. Each year, Watco awards college scholarships to graduating high school seniors who are eligible dependents of Watco team members. In 2021, Watco awarded eight high school seniors \$500 each. Watco has provided scholarships to 37 high school seniors since 2016.



Environmental Stewardship



Watco is committed to conducting business in an environmentally sound and compliant manner, continually improving efficiency, and investing in technologies that reduce our carbon footprint.

Our greatest asset in meeting this commitment is our people. The Environmental Health and Safety (EHS) team is made up of environmental professionals with diverse backgrounds in various industries. This diversity of thought and experience informs our day-to-day decision making and places environmental impact at the forefront of all conversations regarding corporate growth.

The EHS team also administers our Environmental Management System (EMS), which ensures Watco's compliance with applicable laws and standards and includes policy statements and guidance on topics such as environmental spill response, stormwater, and air quality requirements. Policy documents aim to provide clarity around regulatory programs and outline responsibilities between the environmental managers and our operations group. Individual programs are reviewed monthly with the operations group. Guidance documents provide our stance on certain complex situations that arise regularly in the course of our business.

The EMS and our EHS team ensure our company is maintaining compliance, addressing significant environmental risks, and continuously improving; as such, we have reduced the hazards associated with the materials we use.

With respect to handling hazardous materials, for example, the Watco EHS team ensures that we meet our high standards.

- When transporting hazardous materials, Watco complies with all federal regulations, including inspecting tank cars to minimize the risk of hazardous material release.
- Strict standards set by Watco's safety team ensure that team members have proper personal protective equipment and training to handle the hazardous material being transported. To protect the environment and our communities, teams also are trained to respond to environmental releases if an incident were to occur.
- Watco works alongside and teaches community-based first responders to understand hazardous materials' properties and how to respond to an environmental incident.
- Watco maintains a 24-hour emergency hotline where any release of hazardous materials and other environmental incidents can be reported. Emergency notification signs installed at every at-grade rail crossing list the number so concerned team members or citizens can call immediately.
- Watco has a nationwide contract with the Marine Spill Response Corporation to provide oil spill response services and other emergency response activities across our U.S. network. This partnership helps ensure that any environmental releases will be addressed quickly and professionally.





Watco Environmental Management System

Through the use of our Environmental Management System (EMS), Watco is committed to conducting business practices in an environmentally sound and compliant manner. Environmental performance is a responsibility that is shared by each team member throughout all levels of the organization. The Watco environmental team provides support for the implementation and improvement of the EMS. It is the duty of individual Watco team members to understand their role within the EMS and to be active participants in the implementation of individual environmental programs applicable to their operations.

Watco's policy regarding the protection of the environment is to:

- Adhere to applicable laws, regulations, and recognized industry standards;
- Establish minimum environmental standards applicable to all operations;
- Provide appropriate knowledge, skills, tools and mentoring to team members so they are able to work in an environmentally sound manner and minimize releases to the land, air, or water;
- Promote continuous improvement of the EMS, thereby enhancing environmental performance;
- Monitor and evaluate opportunities to reduce waste streams, greenhouse gases, energy usage, water usage, and potential non-compliance; and
- Lead our peers in the transportation industry in environmental stewardship.

Efficiency, Emissions, and Technology

Environmental Protection Agency (EPA) data shows that freight railroads account for just 0.5% of total U.S. greenhouse gas (GHG) emissions and less than 2% of transportation-related GHG emissions. On average, U.S. freight railroads move 1 ton of freight more than 480 miles per gallon of fuel, making them three to four times more fuel efficient than trucks. Because GHG emissions are directly related to fuel consumption, moving freight by rail rather than on highways lowers GHG emissions by 75% on average.

Therefore, among the most significant ways for Watco to contribute to a more sustainable supply chain is to continue to grow our business, reduce the share of freight being moved on the nation's roads, and ensure that new and existing customers take advantage of the benefits of moving freight by rail wherever possible.

Watco maintains a fleet of 599 locomotives under our care. The economics of short line railroading and the nature of short line "first-mile, last-mile" moves make improving fuel efficiency and reducing emissions a greater challenge for Class II and III railroads than it is for larger, long-hauling Class I railroads. Nevertheless, Watco is committed to increasing fuel efficiency, lowering emissions, and driving innovation across our operations.



In 2021, Watco locomotives consumed 14.96 million gallons of diesel fuel. Based on EPA equivalency calculations, that fuel consumption resulted in the emission of 167,873 tons of carbon dioxide or CO₂, a greenhouse gas. This fuel was consumed in the service of moving 5.7 billion gross ton-miles of freight. Moving that amount of freight by highway would have required the consumption of 48.5 million gallons of diesel, resulting in the emission of 544,334 tons of CO₂. By moving that freight by rail, Watco customers prevented the emission of 376,461 tons of CO₂, the equivalent of removing 1.9 million cars from the road or planting 5.7 million trees.

Watco intermodal moves (where a truck trailer or intermodal container is moved by rail) reduce the burden on the nation's highways and thereby reduce the fuel consumed and pollutants emitted for those movements. Our railroads made 1,680 intermodal moves in 2021, taking trucks off the road, and our logistics team moved 14,099 intermodal loads in 2021, reducing truck drayage and lessening the environmental impact of those moves.

To improve our own fuel efficiency and minimize the emissions resulting from our operations, Watco engages in a number of voluntary actions.

- Watco requires locomotive engineers to comply with fuel conservation instructions and to employ train handling techniques consistent with maximizing fuel efficiency. Train crews are instructed to limit locomotive idling for operational efficiency and to shut down all locomotives when it is known that locomotives will not be utilized for 30 minutes or longer. Certain operating environments require crews to idle longer, but the goal is to minimize this activity.
- Watco runs Envirosave (Gamma 88), investing about \$2 million annually in this fuel additive, which eliminates friction- and heat-inducing engine deposits. This raises fuel combustion, dramatically reduces the risk of fire along railroad rights-of-way, prolongs engine life, and reduces fuel consumption, which reduces emissions. Since we began using this additive in our locomotive fleet in 2016, Watco has achieved an estimated fuel savings in excess of 8%.
- Watco leases nine Lower Emissions And Fuel (LEAF) GenSet switching locomotives at our Freeport, Texas, facility. This alternative locomotive design incorporates multiple smaller diesel engines rather than one large engine. The design maximizes tractive effort while minimizing fuel costs and emissions. The LEAF locomotive reduces nitrous oxide (NO_x) emissions (a greenhouse gas) and particulate matter by 92% and 99%, respectively, and reduces fuel consumption 45% - 72% over a conventional locomotive. For every 50 gallons per day of diesel not burned, GHG emissions are reduced by 400,000 pounds per year.
- Watco continues to automate processes and make use of electronic systems where we would have relied upon paper in the past. In recent years, we have moved to electronic car accounting systems, railcar repair orders, purchase orders, and train lists. In early 2021, we continued this trend by converting our hours-of-service timesheets to electronic versions.



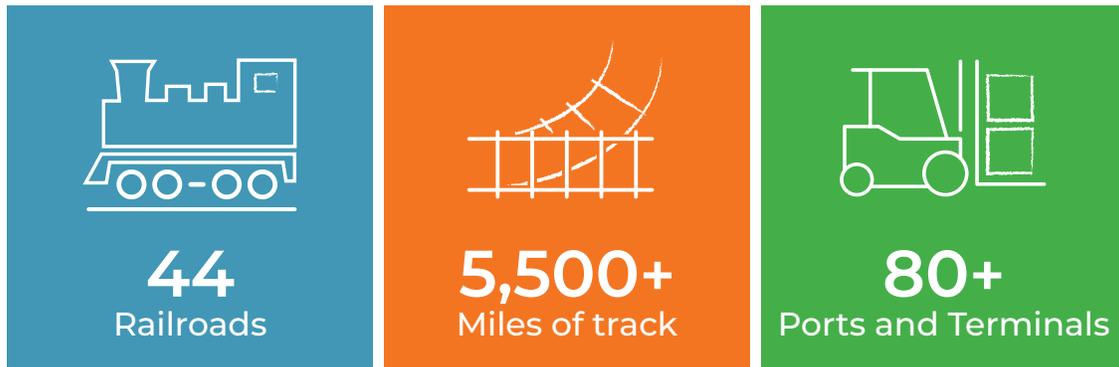
- In 2021, Watco was awarded Texas Emissions Reduction Plan match funding to help build our first all-electric, zero-emission locomotives. Watco is partnering with Medha Servo Drives Pvt. Ltd. to convert two switching engines to an all-electric propulsion system. These locomotives will be deployed in 2022 at our Greens Port terminal along the Houston Ship Channel. By not returning the two diesel-powered switch engines to service, Watco estimates it could reduce GHG emissions by roughly 19 metric tons annually.



- In colder environments, idle reduction heating systems allow larger engines in 110 Watco locomotives to be shut down while alternative power sources or warming units keep locomotives from freezing up. This action reduces fuel consumption and resulting emissions. In 2021, we signed an agreement beginning a partnership with the American Lung Association to deploy 23 new Hotstart Thermal Management auxiliary power systems on locomotives at the Decatur & Eastern Illinois Railroad and the Grand Elk Railroad using EPA Diesel Emissions Reduction Act funds.







As of December 31, 2021

In addition to operating 44 railroads on over 5,500 miles of track across North America and Australia, Watco operates more than 80 ports and terminals across the United States and in Mexico. In our continuing efforts to reduce fuel consumption and cut emissions, Watco evaluates electric alternatives when purchasing new or replacing older equipment. Two Watco terminals recently took this step.

- The New Johnsonville Dedicated Terminal in Tennessee purchased an electric Sennebogen material handler to replace an older, less-efficient, diesel-burning piece of equipment. The change will reduce emissions and save an average of 10,035 gallons of diesel per year, in turn preventing roughly 112 tons of CO₂ from entering the atmosphere annually.
- Watco's Decatur, Alabama, terminal installed electric-powered conveyors to replace two Mack dump trucks and a material handler used for unloading sand barges. Given that the terminal unloads approximately 350 sand barges per year, the electric conveyors will eliminate the consumption of 19,890 gallons of diesel per year. This will prevent approximately 223 tons of CO₂ from being emitted annually.

Resiliency and Efficiency

In the last two years, several of Watco's railroads and terminals were named the recipients of state or federal matching grant dollars, allowing these properties to make once-in-a-generation, transformational upgrades that will drive efficiency and build resiliency.



In partnership with the Kansas Department of Transportation and the Oklahoma Department of Transportation, the South Kansas and Oklahoma Railroad (SKOL) achieved a notice to proceed in 2021 on a \$40.6 million federal Consolidated Rail Infrastructure and Safety Improvement (CRISI) upgrade that will not only allow for the railroad to safely handle industry-standard 286,000-pound (286k) railcars on its busiest subdivisions, but also to increase the speed at which traffic moves, from 10 mph to 25. This dramatic increase in efficiency better positions the railroad to attract more traffic, which will lessen the environmental impact of those freight loads. It also improves the efficiency of existing freight moves, resulting in less diesel consumed for existing freight movements. This is a monumental project for the SKOL and its customers due to upgrades to more than 20 bridges, the replacement of 34 miles of rail (some of which is more than 100 years old), and 150,000 new crossties.



Most recently, the Wisconsin & Southern Railroad was the recipient of two federal grants that enable critical bridge upgrades that will allow the bridges to be rated for 286k railcars. This project not only considered climate change and environmental justice in its planning, but also will directly mitigate and reduce climate change impacts, consistent with the Wisconsin Governor's Task Force on Climate Change Report. By improving regional rail freight service and increasing efficiency for goods movement utilizing rail, the project will reduce the modal shift to truck currently occurring because of load restrictions on the bridges.



In another CRISI project, the Eastern Idaho Railroad (EIRR) and its applicant partner, the Idaho Transportation Department, received a \$9.4 million grant that will have significant operational and environmental benefits. Using existing railroad right-of-way, the project will allow the expansion of yard track so that classification of local rail traffic can be completed without blocking a busy state highway. Today, the EIRR occupies a crossing that blocks the state highway for nearly two hours each weekday on average. Reduced traffic delays alone will save residents more than \$20 million per year. Combined with rail operating efficiencies, the reduction in emissions due to this project will be significant for this rural community.

These projects are a few examples of the more than \$60 million in projects in progress across Watco that will drive safety, operational efficiency, customer growth, and environmental stewardship for generations to come.



Rails to Trails

More than 15 years ago, when the Ecusta Paper Mill closed, freight trains stopped moving on the rail line connecting Hendersonville, North Carolina, to Brevard. Local communities quickly turned their attention to a possible rails-to-trails project. This local vision is now a reality, thanks to the work of local leaders and the support of Watco and the Blue Ridge Southern Railroad.

When Watco started the Blue Ridge Southern Railroad in 2014, a group of legislators approached the company about railbanking the out-of-service line. Watco committed to work with the community on a trail conversion if no business use could be found within five years. True to its word, the company gave the community an opportunity to secure the corridor as a trail for generations to come, and the Ecusta Trail will now become a reality.

We are grateful to the entire team at Watco for making this dream come true for our region and for their care of the communities they serve.

John Mitchell, Henderson County Manager

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.



Sustainability

Sustainability

Watco voluntarily discloses our full ESG efforts as part of the Global Real Estate and Sustainability Benchmarking (GRESB) Infrastructure Assessment, which provides actionable and transparent ESG performance data and peer benchmarks. Our 2021 GRESB scores, based on 2020 data, place us in line with our peers in the transport sector, with particularly strong marks in the "social" category and significant improvement over our 2020 score. We will continue to use this benchmark to help measure our progress across all categories and strive for steady, continuous improvement.



Looking Forward

with Watco Chief Sustainability Officer Laura McNichol



At Watco, our goal is to be ever-improving stewards – of our customers, our team members, and our planet.

Building off of the lessons learned from our Global Real Estate and Sustainability Benchmarking (GRESB) Infrastructure Assessment, we will continue to advance our ESG efforts. In 2022, we will complete our first full inventory of greenhouse gas emissions following the GHG Protocol's Corporate Accounting and Reporting Standard. We will also build upon internal materiality determinations and conduct a materiality assessment engaging external stakeholders.

More broadly, we aim to lead the short line railroad industry in ESG efforts. We will continue to use available technologies to reduce our carbon footprint in a way that is sustainable for our business and do our part to advance technological development to achieve even more. We will work to stretch every gallon of fuel and every kilowatt hour of energy as far as we can – to continue delivering a better tomorrow.



 **WATCO**