

PKP CARGO - diversity and remuneration system

Diversity policy

In the Company, no formal diversity policy has been prepared with regard to the Company's corporate bodies; nevertheless, the policy carried out by the Company in all the processes, especially recruitment, takes into consideration such diversity aspects as sex, education, age and professional experience, accepting diversity and equal opportunities as significant competitive advantages, which make it possible to win and retain talented employees and benefit from their professional capacity.

PKP S.A. is authorized to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board. At least one of the Supervisory Board members appointed by PKP S.A. complies with the conditions of independence within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089) and is qualified in accounting or auditing.

The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board. The rules and regulations for running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal were adopted by the Supervisory Board with resolution on 30 March 2016. A failure to elect the Supervisory Board members representing the employees does not prevent the Supervisory Board from being appointed or from adopting effective resolutions.

Independent PKP CARGO S.A. Supervisory Board Members satisfy the independence criteria for Supervisory Board Members defined by the European Commission in Annex II to the Commission Recommendation of 15 February 2005 and additional requirements specified in the "Best Practice of GPW Listed Companies 2016".

Remuneration system in PKP CARGO S.A.

In PKP CARGO S.A., the compensation rules are established in accordance with the generally applicable laws and internal regulations in force in the Company.

The compensation system is comprised of the following:

- Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units;
- Resolutions of corporate bodies of PKP CARGO S.A. to establish and introduce the rules for compensating key staff at PKP CARGO S.A., the employees of the Company's Headquarters and the employees on management and independent positions in the Company's work establishments;
- Regulations for paying bonuses to employees in place in the work establishments.

Pursuant to the provisions of the Company Collective Bargaining Agreement, the Company employees who in 2018 represented 83.84% of total number of employees, were eligible for compensation elements, benefits and perks as well as other rights which are not contemplated in the commonly prevailing regulations or are regulated in a less favorable manner.

These employees' compensation consists of fixed and variable elements, depending on their position.

Fixed compensation components include basic compensation, special duty allowance and seniority allowance. Variable compensation components include allowances for work in conditions that are detrimental to health, burdensome and hazardous, for overtime work, for work on Sundays and holidays, for work during night, allowance for kilometers and allowance for one-person traction service.

In addition, the employees who receive compensation under the Company Collective Bargaining Agreement are eligible for monthly bonus paid according to the company bonus payment rules. The bonus fund includes a pool of funds earmarked for payment of bonuses for ongoing performance of tasks and for payment of bonuses to the employees for individual achievements.

Pursuant to the delegation contained in the Company Collective Bargaining Agreement, the employees of the Company's Headquarters and the employees on management and independent positions in the Company's work establishments, who in 2018 represented 16.16% of total number of employees, receive their compensation based on the principles defined in the Resolution adopted by the PKP CARGO S.A. Management Board based on the individual wage coefficient appropriate for the job and the average monthly wage in the enterprise sector published by the Central Statistical Office (GUS).

The employees receiving compensation under the Resolution adopted by the PKP CARGO S.A. Management Board may be paid, depending on their position, the quarterly discretionary bonus, which is disbursed if the Company's business goals are achieved to a specified degree, or annual bonus based on the Management Through Objectives Program in place in PKP CARGO S.A. if the Program is launched in the given year.

In addition, the compensation system includes, among others, the following benefits and perks: jubilee award, disability severance pay, retirement severance pay, coal allowance in the form of cash equivalent, benefits in the form of passenger train tickets, a benefit paid on the occasion of the Railway Employee Day, additional holidays for which employees on certain positions are eligible.

In connection with the IPO of PKP CARGO S.A.'s shares on the Warsaw Stock Exchange, on 2 September 2013 the Employee Guarantee Package ("Package") was adopted by the signatories of the Company Collective Bargaining Agreement, which has a significant impact on the performance of the Company's HR policy.

The Package introduced several solutions that were beneficial to PKP CARGO S.A. employees, including, among others, the following:

- guaranteed employment, compensation and place of work on the conditions stipulated in the Package, excluding management positions;
- one-off benefit in the form of employee shares;
- participation of crew representatives in the Supervisory Board and the Management Board of the Company;
- participation of crew representatives in negotiations of annual compensation increase depending on the Company's result and financial standing.

Reconstruction of the compensation system towards its modernization and adjustment to the current market situation is determined by the willingness to achieve consensus and unanimity by all signatories of the Company Collective Bargaining Agreement, i.e. the employer and 12 trade union organizations.

Under the agreements entered into between the PKP CARGO S.A. Management Board and the Trade Unions operating in the Company, a pilot project of quarterly task bonuses for Q4 2018 for all Company employees was launched. A bonus may be granted if the tasks for the whole Company and individual tasks of the Head Office department or the Company's unit have been performed.

The quarterly task bonus program for Q4 2018 is a pilot project. Therefore, if it is evaluated favorably by the Social Partners, it will serve as the basis for developing a permanent solution the objective of which will be to strengthen the incentive function of the PKP CARGO S.A. employee compensation system by creating a framework for rewarding employees for the completion of assigned tasks and achieving the Company's targets.

As part of the non-compensation incentive system for employees, a program of additional fringe benefits in the form of discounts on cultural events, goods or services for all employees of PKP CARGO S.A. was introduced. The Company's offer of discounts and rebates on products and services is more attractive than what is available on the open market. The employer makes sure that in terms of geolocation its offer is available to the largest possible number of employees. Employees are informed about the offer through such communication channels as the Intranet, e-mail, local messages and newsletter distributed in electronic and paper form.

The broadly construed employee compensation system also covers the rules for compensating key management, i.e. PKP CARGO S.A. Supervisory Board Members, Management Board Members, directors of the Head Office departments and directors of the Company's Units. These rules constitute an internal element of the corporate governance principles in effect in PKP CARGO S.A. established in accordance with the generally applicable laws and internal regulations in force in the Company, including in particular the provisions of the Articles of Association, the Bylaws of the Shareholder Meeting, the Bylaws and Resolutions of the Supervisory Board and the Bylaws of the Management Board.

This document contains a collection of general rules for compensating key management and constitutes an important element of the development and safety of PKP CARGO S.A., and its main objective is to support the strategies aimed at achieving the Company's assumed business goals.

At the beginning of 2018, the provisions of this regulation were amended. The most significant amendments included:

- change in the form of employment of the Company's Management Board Members;
- specification of the minimum and maximum levels of base compensation for the Company's Management Board Members;
- provision of detailed rules for setting and evaluating the achievement of management objectives and the amount and method of payment of the variable compensation component;
- specification of the Company's right to incur costs related to the discharge of managerial functions by Management Board Members;
- change in the rules for compensating Management Board Members for their membership in the management boards or supervisory boards of subsidiaries and companies other than members of the Company's group;
- specification of the amount of benefits in the event of termination of the discharge of a managerial function by a Management Board Member, including severance pay and compensation for an extended competition ban;
- specification of the maximum amount of compensation for members of the Company's supervisory body.