



CSR OF PGO GROUP

Report on non-financial information for 2018



# Spis treści

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## Letter of the President of the PGO SA Management<sup>1</sup>

On behalf of the PGO SA Management Board I present the Sustainable Development Report of the PGO Group for 2018. I address this document, as the President of the PGO SA Management Board, to our Trading Partners, Shareholders, Employees and other Stakeholders.

The year 2018 was a favourable one for the PGO Group companies, but also full of challenges in the dynamically changing macroeconomic environment. Our production companies, due to the consistent implementation of the strategy, effectively used the economic situation by increasing sales revenues. However, the success of a business is not only growing sales bars, but also meeting the expectations of our stakeholder. Therefore, our everyday activities are accompanied by awareness of the impact we exert on the environment. By operating in a difficult heavy industry, we have in mind the natural environment, social surroundings and our employees. Every day we strive to minimize our negative impact and maximize the positive one. Taking care of the natural environment, we modernize our plants and modernize our production processes so as to leave a minimal carbon footprint. We support local communities through participation in charity events and sponsorship of sport, education and culture. We know that our employees are behind our success, which is why we strive to provide them with stable and safe working conditions and the possibility of professional development.

Sustainable development of the Group would not be possible without innovative products. In 2018, two development projects were co-financed by the European Regional Development Fund under the Smart Growth Operational Programme 2014-2020.



Thanks to the implementation of these projects, our plant in Piotrków Trybunalski creates an installation for the production of innovative castings intended for use in extreme operating conditions. In the foundry in Srem, the technology of manufacturing cast iron for the production of castings with increased quality parameters is being implemented. In 2019, both projects enter the main phase of implementation. As a result, our offer will expand with products that will be used in industries requiring products resistant to extreme conditions of application. The implementation of projects has an impact on the acceleration of the assembly of modern, energy-efficient elements of production lines.

In conclusion, I would like to thank our employees and other stakeholders who, thanks to their work, commitment, understanding and support, have contributed to the success of the Group. You are the source of inspiration for our actions.

A stylized, handwritten signature in black ink that reads 'Petrus'.

Łukasz Petrus  
President of the PGO SA  
Management Board

<sup>1</sup>G4-1, 102-14

# ABOUT US



## Management

PGO Group means all subsidiary companies with PGO SA as their parent company. PGO Group Management Board means the PGO S.A. Management.

The production companies included in the Group are: Odlewnia Żeliwa Śrem Sp. z o.o (Iron Foundry Srem), Pioma-Odlewnia Sp. z o.o [Pioma-Foundry], together with the Stalowa Wola branch and Kuźnia Glinik Sp. z o.o. (Forge Glinik). PGO S.A.<sup>2</sup> is the parent company and headquarters of the PGO<sup>3</sup> Group. As the parent company in the Group, it conducts holding operations and provides management and administrative services to subsidiaries.

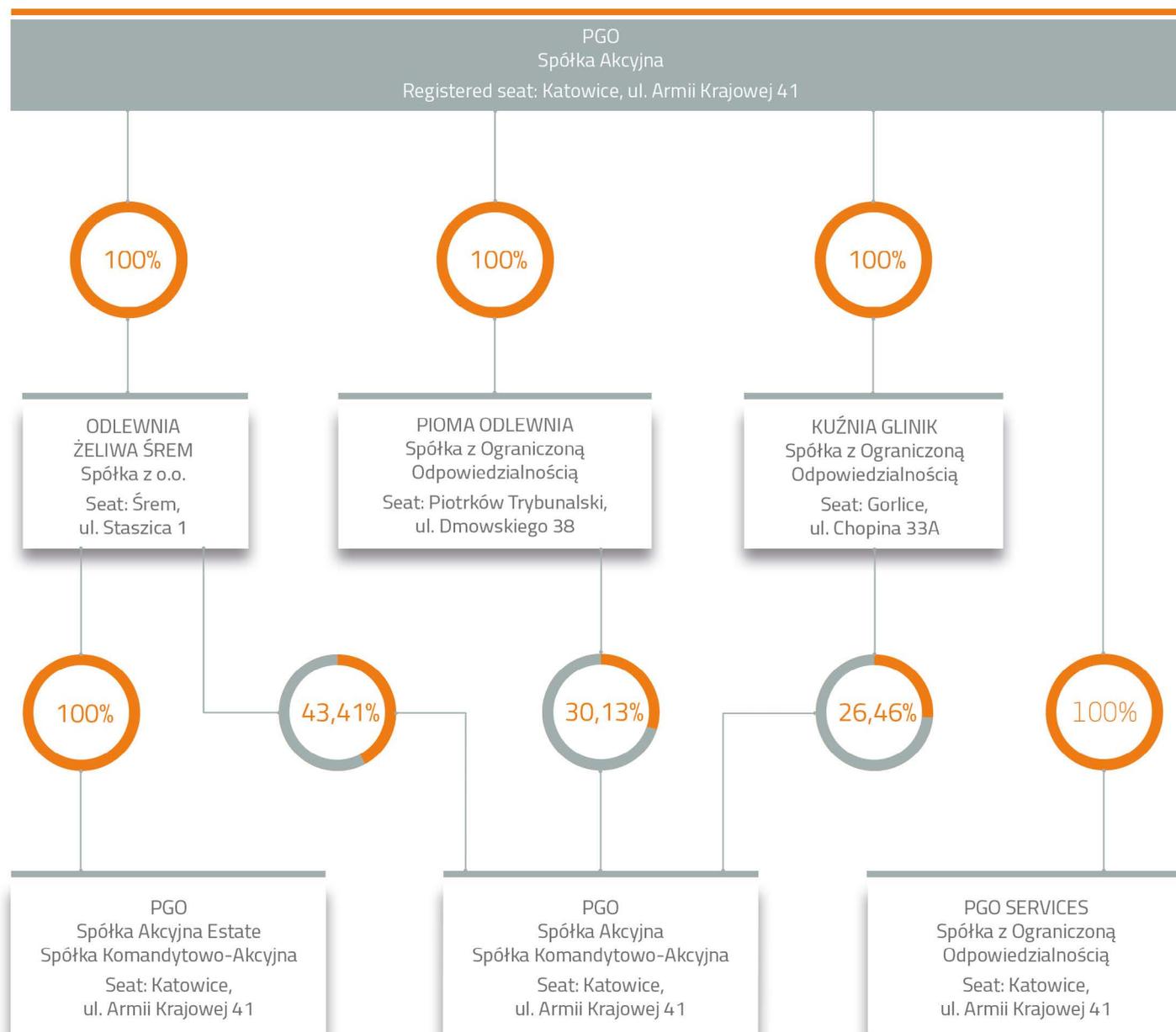
None of the PGO Group entities was omitted in the process of creating the Report.

PGO S.A. is an entity listed on the Warsaw Stock Exchange since 2011.

All PGO Group companies conduct their manufacturing activity in the territory of the Republic of Poland<sup>4</sup>.

In 2018, Iron Foundry Srem underwent a legal reorganization. From October 2, it operates as a limited liability company (Spółka z ograniczoną odpowiedzialnością- Sp. z o.o.).

This change initiated the consolidation process of the Group, which will be completed in 2019. In January 2019, the address of all PGO companies in Katowice changed and they are located at ul. Tysiąclecia 101, 40-785 Katowice.



<sup>2</sup> G4-3, 102-1

<sup>3</sup> G4-5, 102-3

<sup>4</sup> G4-6, 102-4

<sup>5</sup> G4-17, 102-45

Our experience is supported, among others by over 130 years of tradition of one of the production plants - Kuźnia Glinik. The combination of long-standing traditions, modern technologies and innovative management methods puts us among the leaders active in the production of cast iron and steel castings as well as die forgings and freely forged forgings in Poland.

We realize all stages of the technological process, from designing technology, through production, to performing qualitative tests.

Kuźnia Glinik manufactures die forgings, freely and semi-freely forged, and designs and manufactures forging equipment for their production. In addition, it provides services in the field of heat treatment, machining, shot blasting, bending and mechanical and non-destructive testing. Forgings are used as components in trucks, agricultural tractors, as elements of industrial fittings and parts of machinery and devices.

Established in 1960, Pioma-Odlewnia together with the Stalowa Wola branch specializes in unit and short-run production of high quality steel castings weighing from 5kg to 8 tons. Steel castings are used

as structural elements and components in the railway and energy industry, mining machines, gear housing, track links and other elements of machines and devices. Pioma- Odlewnia has its own laboratory facilities, which allows us to carry out a series of strength and quality tests of the elements we manufacture.

Odlewnia Żeliwa Śrem started operating in 1968. In Śrem we manufacture grey, spheroidal and alloy cast iron castings weighing up to 30 tons. Cast iron castings are used as brake drums, compressor bodies, engine blocks and casings, transmission housings, turbines, construction elements of machining machines, counterweights, liners, flanges of pump parts and valves as well as elements of industrial fittings.

We provide clients with a comprehensive range of services at every stage of the technological process, from the design and manufacturing of pattern sets, to the execution, processing and testing of the finished product.





The companies of our Group operate in the field of:

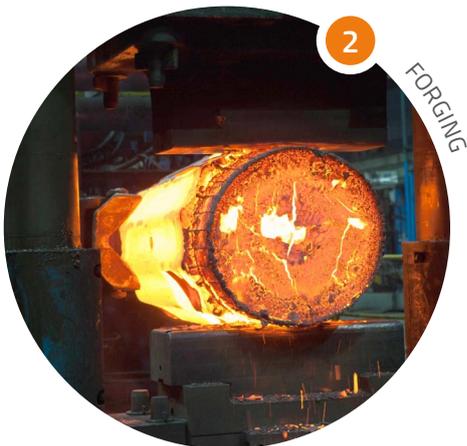
- cast iron founding,
- steel founding,
- production of forged forgings, freely and semi-freely forged

The production offer of the Group Companies with regard to cast iron castings includes:

- grey cast iron
- spheroidal graphite iron
- ductile cast iron with guaranteed impact strength,
- alloy cast iron,
- abrasion-resistant cast irons,
- high-alloy cast iron,
- low-alloy cast irons.

With regard to steel castings:

- structural carbon cast steel,
- alloy cast steel resistant to abrasion, including high-manganese and high-chromium,
- heat-resistant and heat-resistant,
- low-alloy steel.



The forgings are made of the following materials:

- carbon steel,
- alloy steels,
- high-alloy steels,
- alloys of non-ferrous metals.

We deliver forgings in the state:

- raw
- heat treated
- Mechanically machined.



The Group's offer for external clients also includes:

- the production and adaptation of wooden, resin and metal patterns services
- machining (e.g. pre-treatment of large-size castings) and heat treatment (stress relief, normalization, thermal improvement, etc.) and construction (stress relief annealing) services
- laboratory services (analysis of chemical composition,
- qualitative, strength and metallographic tests),
- comprehensive services related to the implementation of foundry, forging and metal processing provided by PGO Services.
- production of forging equipment, necessary in the production of forgings.

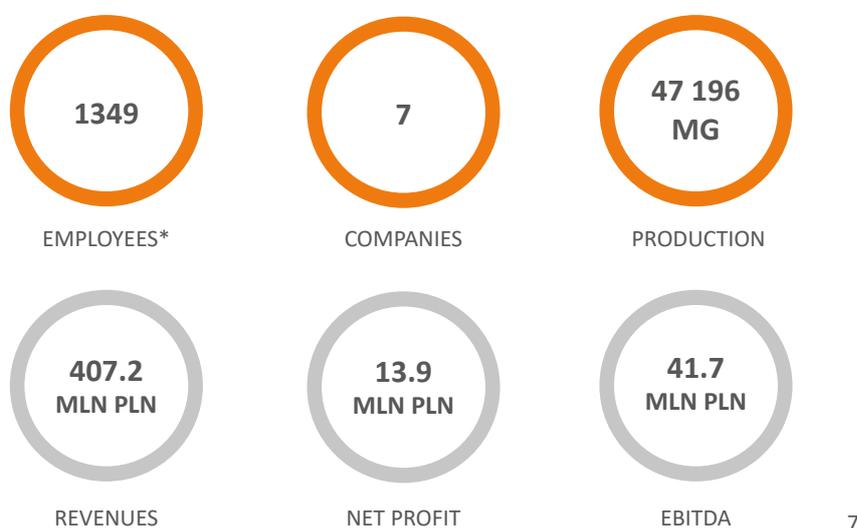
## Economic and financial information

In 2018, the value of consolidated sales revenues was higher than the consolidated sales revenues in 2017 by 12.9%. Higher revenues result from i.a. the implementation of ' PGO Strategy for 2017-2020' in the marketing and commercial area and constant adaptation of the PGO Group offer to the needs of clients. The adoption of an active marketing policy by the Group's companies made it possible to benefit from the economic situation in the metallurgical sector. Our own cost of sales increased by 8.8% y / y. The final net financial result in 2018 was at the level of PLN 13,884 thousand PLN and was higher than the result in 2017 by 102.1%.

In the perspective of the next year, we expect a slowdown in the European economy, which, given the almost 50% share of exports, is a signal to implement preventive measures. It will be important to intensify marketing activities in order to mitigate the possible negative effects of the recession of the market.

It will be equally important to build competitive advantages and diversify sales carried out by increasing the number of supplied industries and extending the portfolio with own products.

Growing energy costs will be the problem in 2019 as due to high energy consumption of production will cause an increase of its costs. The increase in energy prices also brings an increase in the prices of raw materials and production materials, which in turn may affect the level of obtained margins. In this situation, the priority issue for the PGO Group will be to maintain good sales results by i.a. constantly increasing the order portfolio. To realize this goal, it will be necessary to further develop technological competence, which will allow to develop better, faster and more efficient production processes and to obtain products of higher parameters and quality. To serve this purpose, research and development works as well as investments are to be carried out. in retrofitting the laboratory facilities.

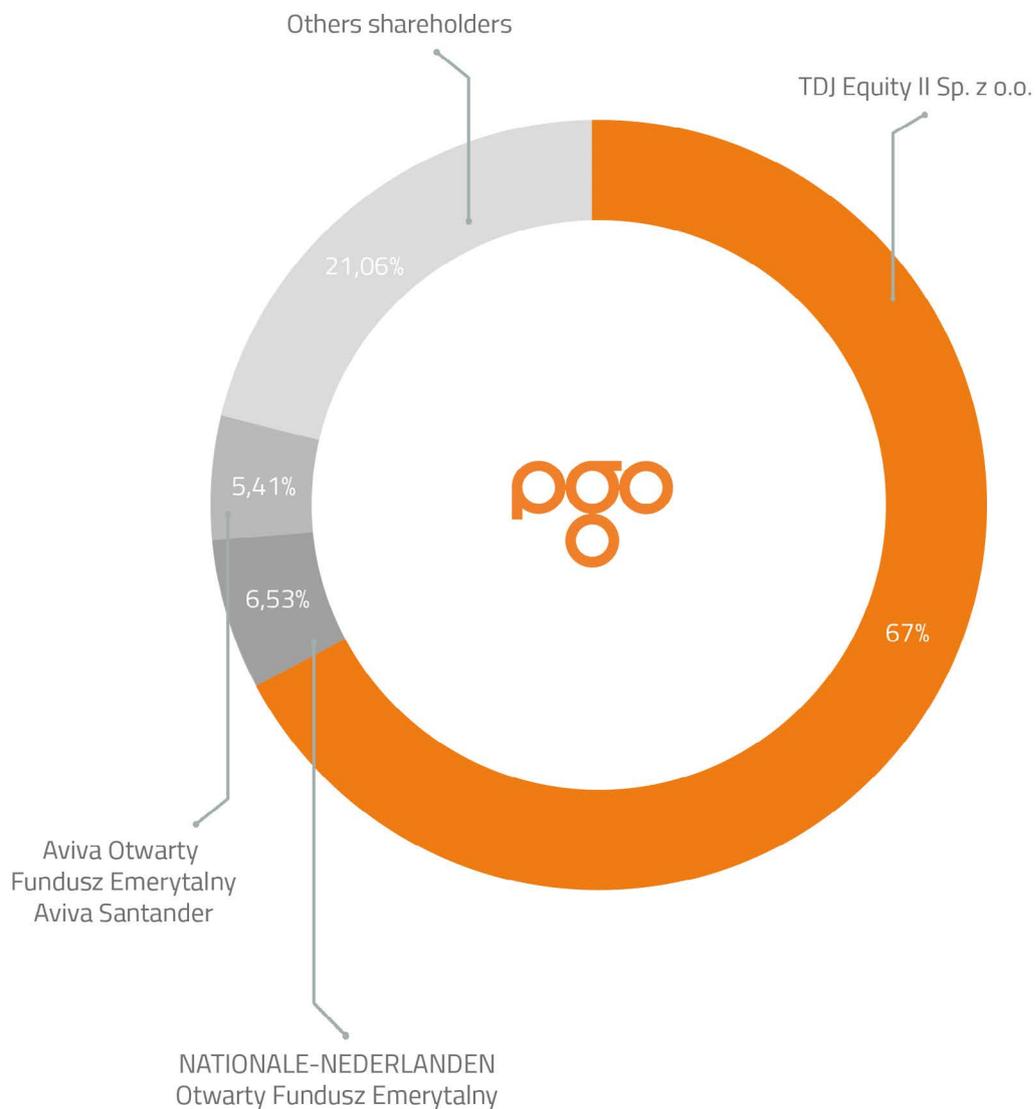


\*employed on the basis of a contract of employment and a civil law contract

Key performance indicators of the PGO GROUP				
Description of indicator	Calculation algorithm	Units	Value	
			2017	2018
% of sales realized on foreign markets	$\frac{\text{net revenues from export sales}}{\text{net revenues from total sales}} * 100$	%	52.70	46.50
EBITDA margin	$\frac{\text{EBITDA}}{\text{net revenues from total sales}} * 100$	%	8.40	10.20
Employee productivity indicator	$\frac{\text{Total net sales}}{\text{Total number of employees}}$	=KPLN	277.45	301.88

<sup>7</sup> G4-9, 102-7

STRUCTURE OF SHAREHOLDERS OF PGO S.A.  
AS OF 31 DECEMBER 2018 r.\*



\* As of 31 December, 2018 according to the notifications received by the Company under the provisions Act of 29 July, 2005 on Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading System and Public Companies.

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PGO S.A. is listed on the Warsaw Stock Exchange (WSE) since 2011. As at 31 December 2018, the share capital of the Company amounted to PLN 96,300,000 and was divided into 96,300,000 series A and B shares with a nominal value of PLN 1.00 each. All issued shares are ordinary shares without preference for participation in the distribution of profit. On December 18, 2018, there was a significant change in the shareholding structure of PGO S.A. ALTUS Towarzystwo Funduszy Inwestycyjnych S.A.

notified the Issuer, on behalf of the investment funds it manages, that they reduced their share to less than 5% in the total number of votes in PGO S.A. After the change in the share, investment funds managed by ALTUS TFI S.A. own in a total 1,163,580 shares constituting 1.21% of the share capital and entitling to exercise rights for 1,163,580 votes, which constitutes 1.21% of the total number of votes in PGO S.A.

<sup>7</sup> G4-7, 102-5

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We perform our obligations arising from the presence on the WSE. We operate in correlation with the policies designated in PGO. We meet our stakeholders, listen to their voices and conduct continuous dialogue. We believe that it brings measurable, mutual benefits.

Grzegorz Kozub, Director of Investor Relation



In 2018, the Management Board of the Company met, as part of individual meetings and conferences after the publication of periodic financial results, representatives of financial market institutions, including institutional investors of the Company. The subject of the meetings was to discuss the current situation of the Company, obtained financial results, plans and perspectives. The meetings were also an opportunity for the stakeholders to provide comments and expectations towards the Company in the area of communication with investors.

On the basis of the information obtained, the Company introduces changes and improves the way of communication with its shareholders.

In 2018, the share price of PGO S.A. reached the maximum value of PLN 5,0 the minimum value of PLN 2.19, and the average value was PLN 4.05. At the end of the year, the company recorded a capitalisation of PLN 210,887,000.00.

Stock data for 2018 PLN	
Max. share price	5.00
Min. share price	2.19
Share price at the end of the year	2.19
Average share price during the year	4.05
Number of shares issued	96,300,000.00
Capitalization at the end of the year	210,897,000.00
Average value of turnover	2,015.91
Average trading volume	576.89

## PGO strategy

The strategy of PGO S.A. for 2017-2020 is a comprehensive development document for the entire Group. It was based on the mission, vision and values professed in the PGO Group from the beginning of its operation. It sets three main areas of development - technological competence, employees as well as sales and marketing.

We base our competitive advantage over European as well as global competitors on innovative technologies, highly processed products, customer support at the product design stage and process automation.

”

The PGO strategy assumes the development of the Group as innovative and competitive on the international market. Innovative technologies help build our competitive advantages, which is why we conduct R & D research, thanks to which we will extend our product range with castings of higher strength parameters. This will allow us, i.a. to increase sales in industries such as oil & gas, modern power generation or petrochemical industry.

Ireneusz Kazimierski, Vice President for Operations



In 2018, the consolidation of the Group was initiated. In January 2019, the companies Pioma-Odlewnia Sp. z o.o. together with the Stalowa Wola branch and Kuźnia Glinik Sp. z o.o. were integrated with PGO S.A. becoming its branches. After the property reorganization, also the Odlewnia Żeliwa „Śrem” Sp. z o.o. will become a part of an integrating capital group.

Thanks to the consolidation, we become a larger entity that will be a reliable partner for larger customers. Scale economies in production, cost synergies and investment optimizations are also important. These activities significantly increase operational and financial security. After the merger of PGO S.A. will be the largest producer of steel and cast iron castings in Poland, as well as die forgings and freely forged forgings, realizing all phases of the technological process of making castings and forgings, starting with designing technology, selecting the right kind of material, designing and making the tooling, casting or forging, their thermal and mechanical machining, as well as a qualitative testing..

Another key strategic goal is to increase the production capacity utilization to 70% by 2020. The strategy assumes organic development through the use of already available production capacities. We do not exclude the acquisition of entities, thanks to which we could introduce new products to the offer or attract customers from new industries.

Specialization in the field of production segments, a new business model based on matrix structure is a response to the challenges posed by global concerns, requiring the widest range of products and services within a single brand. Activities within the strategy include a high competitiveness of the market on which the PGO Group operates.

Taking the above in account we carry out research and development projects aimed at obtaining products with increased quality and strength parameters that will be able to work in difficult operating conditions. Thanks to the technologies obtained, we will be able to introduce new products for such industries as oil & gas or modern power generation. Investing in the automation of machining processes in the forge and foundries as well as increasing the efficiency of production processes, we were able to expand the share in sales of products requiring a higher degree of processing. This allowed us to obtain higher margins and increase the share in sales in industries such as the railways. Trade sector diversification is one of the premises of the implemented strategy.

We care about maintaining the highest standards. In the interest of strengthening our position as a first choice manufacturer, we submit our products to the assessment within the organization and notification bodies that have awarded us with a number of quality certificates. Only in 2018, the PGO Group companies went through:

- 137 audits and received:
- 55 certificates

In 2017, the policies concerning the following areas were introduced: HR, anti-corruption, respect for human rights, concerning social aspect and sponsorship, diversity and environment. In 2018, their contents were presented to the employees of the PGO Group. Throughout 2018, works were continued on the development of the PGO Group's Code of Ethics. The code was not introduced in the period covered by this report.

## PGO MISSION

Shaping modern industry. Through continuous improvement and development as well as building of a community based on values, we support our business partners and employees in achieving common success.

## PGO VISION

Achieving the position of a preferred business partner, an innovative organization and a first choice employer.



### FAITH

We believe in the implementation of the vision, focusing on the future. We follow our value system at the same time believing that the investment in education and development is the highest value for society.



### RESPONSIBILITY

We make bold and well thought-out decisions, demanding initiative from ourselves. We always act in the best interest of the company, we take responsibility for our decisions and our teams.



### COOPERATION

We trust each other and create a good team, we listen to and learn from others. After making the decision, we work together to achieve the goal.



### OPENNESS

We respect the diversity of views, we are open to changes, loyal, communicating openly and honestly.



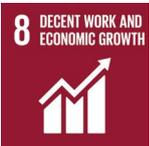
### RELIABILITY

We keep our word, we are reliable and honest. We always operate fair play and we fulfil our obligations.

The PGO Group supports initiatives that shape desired behaviours and business activities related to sustainable development. Thus, the Group implements activities that are part of the implementation of the UN goals., by maintaining a balance between the economic and financial goals it achieves,

In total, 17 sustainable development objectives adopted at the United Nations summit in 2015 have been defined, setting the direction of changes for 2015-2030. In 2018, the PGO Group implemented the following goals of sustainable development:

<sup>8</sup> G4-56, 102-16

Aspect	Goal of sustainable development	Activities of the PGO Group
Social		<ul style="list-style-type: none"> <li>• Organization of social actions - Christmas presents and painting walls of local orphanages</li> <li>• Participation in the charity run of Poland Business Run,</li> <li>• Financial support for firemen unit OSP Śrem,</li> <li>• Participation of PGO Group employees in the „Get even with diabetes” action,</li> <li>• Participation of representatives of the PGO Group in the Wings for Life run in Poznań,</li> <li>• Co-financing of the District Celebrations of Firefighter’s Days connected with the blood donation action „Firefighter – Hot Blood “ (Ognisty Ratownik - Goraca Krew)</li> <li>• Organization of first aid training for employees,</li> <li>• Participation in the social action „My friend in the mask” and competition for MukoFriend ( Mukoprzyjaciel),</li> </ul>
Social, employee		<ul style="list-style-type: none"> <li>• Cooperation with technical schools for the education of young people in the field of founding and forging,,</li> <li>• Cooperation with higher education institutions - co-creating a faculty „Engineering of foundry and plastic forming processes” at the Silesian University of Technology,</li> <li>• Support for the project of the Martian rover, built by the Students’ Circle of Artificial Intelligence SKN AI-METH,</li> <li>• Organization of the annual competition „We shape, we paint”, addressed to the youngest children of PGO Group employees,</li> <li>• Organization of the internship program „We shape your future” addressed to students of final years and graduates of technical faculties,</li> <li>• Co-financing language courses, higher and postgraduate studies for employees,</li> </ul>
Social		<ul style="list-style-type: none"> <li>• Providing employees with access to a package of social benefits,,</li> <li>• Introduction of the Employee Pension Program „Serene Future” ( Pogodna Przyszlosc),</li> <li>• Additional life insurance,</li> <li>• Functioning of the „Welcome to the PGO Family” initiative addressed to the new born child of the employee,</li> <li>• Introduction of a prevention program for accidents at work,</li> <li>• Application of TOL Analysis and 5 Why.</li> </ul>
Business activities		<ul style="list-style-type: none"> <li>• Implementation. of the project „Innovative technology using ATD thermal analysis for the manufacturing of self-supplying, high-quality cast iron for the production of castings of the new generation with increased quality parameters “ by Odlewnia Żeliwa Sp. z o. o</li> <li>• Execution of the project: „Demonstration of the technology for the production of innovative cast steel castings for use in extreme operating conditions” by Pioma - Odlewnia Sp. z o. o.</li> </ul>
Environment		<ul style="list-style-type: none"> <li>• Holding the PN-EN ISO 9001 certificates (Quality Management System) and PN-EN ISO 14001 (Environmental Management System),</li> <li>• Acting in accordance with the precautionary principle - „for the benefit of the environment”,</li> <li>• Minimizing technological waste,</li> <li>• Conducting environmentally friendly waste management by optimizing the production process,</li> <li>• Segregation, storage and transfer of waste for reprocessing or utilization in specialized facilities.</li> </ul>

## PGO in the macroeconomic environment

PGO is one of the largest companies in the metallurgical industry in Poland. We realize orders to 24 countries around the world and we maintain business relationships with over 700 clients. We care about maintaining the highest production standards, which is why we submit our products to the examination inside and outside of the organization. Last year we went through 137 audits, as a result of which we received 55 certificates. Everything for existing as well as future expectations of our trading partners.

The contemporary business environment and changes taking place in industry require a quick reaction and flexible adaptation to the changing economic conditions. In 2018, the Polish economy was marked by a very high nearly 5%, GDP growth dynamics compared to other

Thanks to this, we have systematically verified knowledge about the market situation in the most important industries and groups of recipients.

Aware of challenges resulting from the nature of the foundry and forging industry, we mindfully and carefully plan projects whose main goal is to modernize the production potential of companies in order to be able to supply more technologically advanced, higher processed and final products - allowing to achieve a higher position in the supply chain.

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We observe scrupulously changes happening in our business environment. We are conscious of challenges which we will have to face. We want to be one step ahead of our competitors, thus we prepare for it in advance i.a. by investments in machines, research laboratories or R&D projects.

Lucjan Augustyn, Vice-president for Finances



European economies, record low unemployment, systematic wage growth and a positive migration balance. The level of both infrastructure and housing investments was still supported by the inflow of EU funds as well as low interest rates

Export benefited from the persistent undervaluation of the Polish zloty, although at the end of 2018 a progressive slowdown could be observed related to the clear inhibition of the German economy and growing concerns about the final shape of agreements related to the exit of the United Kingdom from the European Union.

The PGO Group analysed in detail the projects implemented by the competition on all major global markets.

The implementation of the „PGO Strategy for 2017-2020” and the financial results achieved were influenced, among others, by macroeconomic factors, independent of the activities of companies included in the capital group. The most important among them include the inflation rate, the overall condition of the Polish economy, legislative changes and systematic stricter regulations regarding a broadly understood ecology. In the following years, the regulations concerning the environmental protection law will have an increasing impact on the business activity and will increase the costs of running it.

Production divided into segments [Mg]		
	2017	2018
forgings	8,505.00	8,803.00
steel castings	8,543.90	9,693.10
Iron castings	3,2107.40	28,700.40
Total	49,156.30	47,196.50

# Corporate governance



## Governing bodies

Through the corporate governance, we understand the organization's management and supervision over its entire functioning, which is based on the highest corporate standards and the applicable law. As PGO, we conduct an information policy based on an open and transparent communication. While implementing it, we comply with the requirements regarding the confidentiality and security of information that rest with an entity whose shares are listed on the Stock Exchange. We have implemented corporate governance principles based on the best market practices. The creation and implementation of internal policies that regulate the conduct in key areas of the company's operations were a part of this process and they also support the corporate risk management process.

So far, we have not recorded any violations in this area, both in the capital area and in any other process related field of operation

The premise of our corporate policy is to build lasting, trust-based relationships with stakeholders, including: employees, suppliers, partners and investors. PGO S.A. authorities

### Management board

As at December 31, 2017, the composition of the Management Board was as follows<sup>9</sup>: Łukasz Petrus - President of the Management Board Lucjan Augustyn - Vice President of the Management Board Andrzej Bulanowski - Vice President of the Management Board Ireneusz Kazimierski - Vice President of the Management Board

The President of the Management Board does not hold the post of the managing director<sup>10</sup>.

### Supervisory Board

As at December 31, 2017, the composition of the Issuer's Supervisory Board was as follows: Tomasz Domogała - Chairman of the Supervisory Board

Czesław Kisiel - Vice Chairman of the Supervisory Board Jacek Krysiński - Member of the Supervisory Board

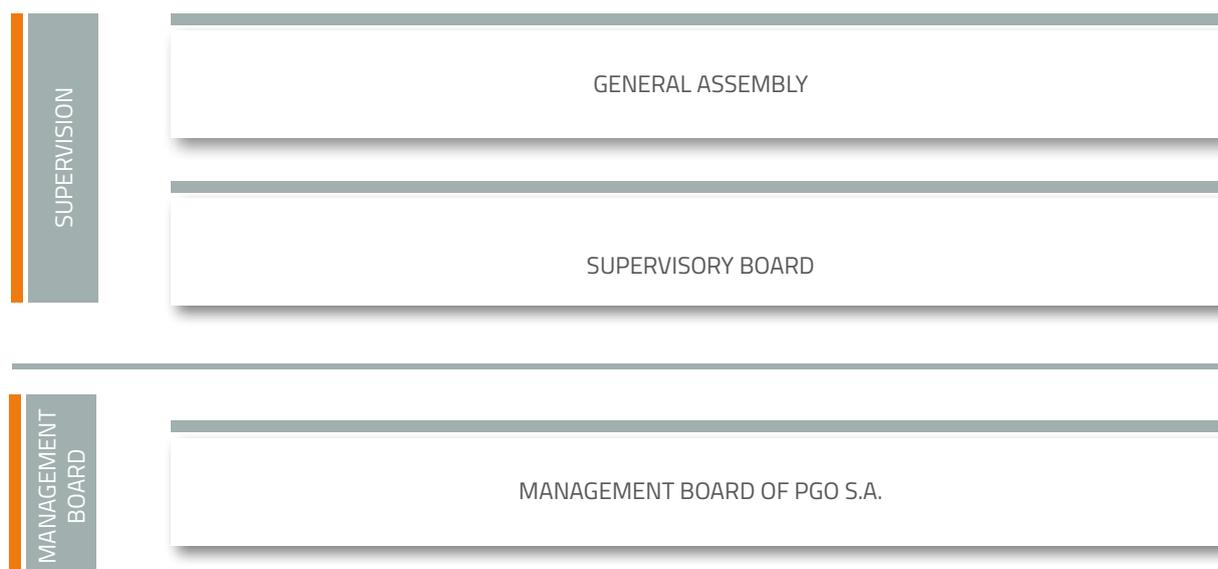
Magdalena Zajączkowska-Ejsymont - Member of the Supervisory Board Jacek Leonkiewicz - Member of the Supervisory Board

Michał Nowak - Member of the Supervisory Board Dorota Wyjadowska - Member of the Supervisory Board Tomasz Kruk - Member of the Supervisory Board.

On September 13, 2018, a member of the Supervisory Board, Mr. Robert Rogowski, resigned from the Supervisory Board of the Issuer with effect as of September 30, 2018 due to the planned future cooperation with TDJ SA, which entails the loss of independent status. member of the Supervisory Board.

On October 10, the Extraordinary General Meeting of the Issuer appointed Tomasz Kruk to the Supervisory Board.

With regard to the Company's authorities, the criteria that govern the bodies making their selection are primarily the high skills, professionalism, knowledge and professional competences of the candidates, ensuring the employment of people with the highest possible qualifications. While striving to ensure the versatility and diversity of these bodies in terms of sex, age and education, the Company also needs to include appropriate qualifications and professional competences for its members<sup>11</sup>.



<sup>9</sup> G4-38, 102-22

<sup>10</sup> G4-39, 102-23

<sup>11</sup> G4-40, 102-24

<sup>12</sup> G4-34, 102-18

## Risk management in the PGO Group

As a company operating on the international market, the risk of an uncertain macroeconomic situation, including growing competition, price pressure and demand dynamics, for which we have limited influence is of great importance to us.

Our economic situation is also affected by such risk factors as: change in raw material prices, currency risk, legal risk, and risks related to maintaining liquidity.

The tool used by the PGO Group in the current activity is a multi-stage risk management process in which we identify and assess risk, determine the appropriate response methods, monitor the effectiveness of actions taken and their effects. The risk management process consists of the following elements:

- identification of risk (cause, type of risk, consequences of risk),
- risk analysis (probability of occurrence, consequences and effects),
- solutions variants, including the analysis of financial outlays,
- estimation of the level of risk,
- making decisions and actions regarding risk,
- control and monitoring of undertaken actions.

In the PGO Group, we identify the possibility of risk occurring at the stage of planning new projects and during the implementation of projects. We analyse:

- strategic risks related to the development of the company, where the following is taken into account:
  - legal regulations,
  - international regulations,
  - market policy,
  - planned changes in the regulations in force,
  - forecasts regarding costs and time of completing tasks
- process (operational) risks related to current operations and likely to affect the environment or lead to possible damage also with delay.

## Risk communication

The Management Board of the Company performs duties collectively. Members of the Management Board are jointly and severally responsible for the results achieved by the Company. Therefore, the Company does not have and does not publish a diagram of the division of tasks and responsibilities among members of the Management Board on the website. The principles of operation of the Management Board are specified in the „Regulations of the PGO SA Management Board“ available on the Company’s website.

In the company, a separate organizational unit responsible for risk management, internal audit and compliance has not been separated in the structure. In accordance with the organizational regulations

Internal control means a set of methods that are systematically used to prevent the occurrence of violations of applicable laws, internal regulations, mismanagement and the ongoing elimination of irregularities. Internal controls are carried out by directors and managers as part of supervision over entrusted organizational units. In addition, internal controls may also be carried out by a team of auditors who are employees of the Company appointed by the Management Board.<sup>13</sup> Apart from the general provisions of the Company’s governing bodies’ regulations and the application of generally applicable legal regulations, the Company does not have detailed internal regulations regarding the conduct of conflicts of interest.<sup>14</sup>

In the case of a conflict of interest situation, it is considered individually, taking into account the circumstances of its occurrence and using generally recognized good practices to prevent conflicts of interest.

<sup>13</sup> G4-46, 102-30

<sup>14</sup> G4-41, 102-25

## Key risk factors and counteracting methods

Due to the nature of the business operations conducted by the PGO Group companies, the most important risk and threat factors include:<sup>15</sup>

No	Identified phenomenon	Ways of counteracting its materialization
1	The risk of lack of employees with appropriate qualifications	We invest in potential employees by organizing internships and funding scholarships. Those interested, after finishing the internship, may be offered a job in the Group's structures. This type of solution allows us to shape future employees with appropriate qualifications.
2	The risk of negative impact on the environment	The Group's operations are conducted in accordance with applicable law. The Group has implemented an Integrated Quality and Environment Management System compliant with the requirements of ISO 14001 and ISO 9001. The ways of proceeding and the indicated goals within the ISO procedures minimize the likelihood of a risk occurring.
3	Providing customers with products of lower quality	The quality of the Group's products is largely influenced by the input materials in which we acquire from the new suppliers. Thus, we require suppliers to provide relevant approvals and data sheets confirming that the material met the criteria we set. In addition, after the delivery, the quality, of material is verified by the Quality Department in terms of meeting the requirements indicated each time in the order. The above solutions allow us to reduce the subject risk.
4	Risk of employee accidents	Throughout the PGO Group, we realize postulates of an implemented procedure aimed at preventing accidents. The procedure allows for an early identification of potential accident situations. Within its framework, employees' trainings are conducted in the field of threat detection and, once a week, a „quarter-hour security" is organized, allowing the principles of safe work in the Group to be consolidated.
5	Reputation risk related to suspicion of corruption and bribery	The PGO Group is aware that any suspicion of corruption can have a negative impact on the Group's image and reputation. Therefore, in 2017 the Group implemented a policy of counteracting corruption, which clearly defines potential corrupt behaviours and is a signpost for employees on how to deal with this type of situation. In the reporting period, we did not notice any corruption in companies within the PGO Group, which confirms the effectiveness of our actions in this area.
6	Competition on the market causing significant pressure to lower prices	The complexity of services from design to laboratory tests and finishing allows us to provide our customers with final products, i.e. ready for assembly. R & D research will enable us to extend our offer with innovative castings of unprecedented strength properties that will be used in industries with a low share of sales so far.
7	The shaping of the economic situation and the pace of economic growth in the country and on foreign markets	Continuous analysis of trends in the macroeconomic and microeconomic environment. Adaptation of a trading strategy to dynamically changing conditions. Expansion to new foreign markets. These activities allow us to effectively operate in the international economic system.
8	Rising energy and raw materials prices	Our actions on the face of the growth dynamics of energy and raw materials prices include: price negotiations and concluding favourable, long-term contracts with the possibility of renegotiation. Using subsidies and surcharges. Investments in the machine park allowing for the reduction of material consumption and energy consumption of production, e.g. the secondary metallurgy line or the moulding sand regeneration station. Thanks to this, we can adjust production costs of products in a certain scope.
9	Possibility of failure	Daily technical inspections of machines and devices carried out by employees who operate them. Regular service and renovation of machines and devices. Current repairs carried out by the Maintenance Department. Investments in the modernization of the machine park. This is our response to the risk of downtime due to failure.
10	No employees	Robotization and automation of processes.

<sup>15</sup> G4-2, 102-15

## Innovativeness

In PGO we define the concept of innovation based on the classical supply theory of Joseph Schumpeter.

J. Schumpeter defined an innovation as fundamental or radical changes in the production and distribution of goods.

Innovation can therefore be:

- introduction of a new product,
- improvement of product quality,
- development and implementation of modern technologies,
- introduction of a new production method,
- use of new raw materials,
- finding and developing new sales markets.

Since 2017, we have been conducting two R & D projects aimed at developing new technologies for the production of steel castings and iron castings. Thanks to the solutions we will be able to produce cast iron and steel castings of increased quality and strength parameters, which in turn will allow us to find and develop new markets.

All companies in our Group have R & D units. This allows planning and coordination of all activities of an innovative aspect. In addition to the realization of the independent research, R & D units are responsible for planning and proper implementation of co-financed projects. Thanks to the specialists employed in these departments, our projects are „in good hands“ from the stage of preparation of applications for co-financing, selection procedures, to efficient implementation, both in technical and procedural aspects. These departments also provide an incentive to establish and expand a cooperation with scientific units.

Numerous projects improving and extending our activity are the result of work started in 2017 and continued in 2018. Most of them are directed to meet the expectations of our current and potential trade partners and the desire to build a leadership position in our industries.

Achieving the assumed strategic goals is possible thanks to the continuous building and strengthening of the Group's position in the highly competitive market on which it operates. It would not be feasible if it were not for a complementary approach to all key aspects of the business, and to identify and eliminate restrictions and threats by achieving further operational objectives.<sup>16</sup>

We care about maintaining the highest standards. In the interest of strengthening our position as a desired manufacturer, we submit our products to the assessment within the organization and notification bodies that have awarded us with a number of quality certificates. Only in 2018, the PGO Group companies went through:

- 137 audits and received:
- 55 certificates.

Using certified laboratories, we perform a number of tests within the

organization, such as:

- analysis of chemical composition,
- mechanical properties test
- metallographic check
- macrostructure and microstructure check
- PT, MT, UT, RT,
- environmental, conducted in terms of noise and air condition.

Our companies have the following certificates and approvals. Certificates i.a.:

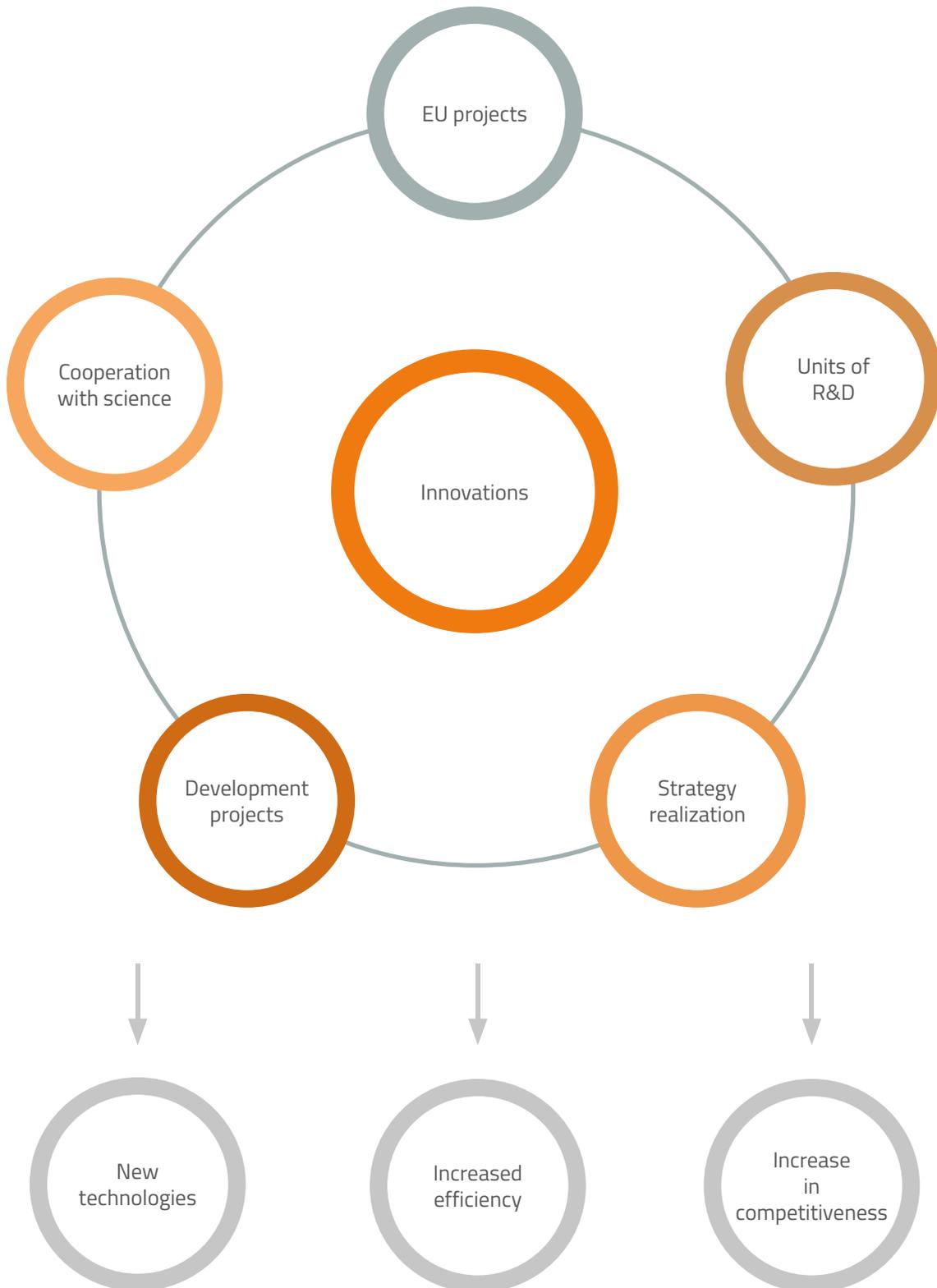
- ISO 9001:2015,
- ISO 14001:2015,
- IATF 16949:2016.

Admissions, i.a.:

- ABS,
- Bureau Veritas,
- Dekra,
- Det Norske Veritas,
- Deutsche Bahn,
- DNV-GL,
- DVS Zert,
- Korean Register,
- Lloyd's Register,
- Nippon Kaiji Kyokai,
- PESA Bydgoszcz,
- Polish Centre for Accreditation
- PKP Cargo,
- PKP Intercity,
- RINA,
- SLV-GSI,
- Polish Office of Technical Inspection
- TÜV Rheinland.

Pioma-Odlewnia together with the Stalowa Wola branch and Odlewnia Zeliwa Śrem belong to the Technical Association of Polish Founders. Kuźnia Glinik Sp. z o.o. is a real member of the Polish Forge Association. Pioma-Odlewnia Sp. z o.o. is a real member of the Pollab8 Club of Polish Research Laboratories.

<sup>16</sup> G4-16, 102-13



## Co-financed projects

In the PGO Group, we carry out research and development projects co-financed by the European Union from the European Regional Development Fund within the Smart Growth Operational Programme 2014-2020.



At the Iron Foundry „Śrem” Sp. o.o. in Śrem in 2018, the following project was realized:

„Innovative, technology using ATD thermal analysis for the manufacturing of self-supplying, high-quality cast iron for the production of new generation castings with improved quality parameters.”

The goal of this project is to obtain technology that makes possible:

- production of low and high alloy steel with increased strength and impact parameters,
- production of nickel-based super alloys, as well as new grades of high-alloy cast steel with duplex and superduplex nitrogen,
- obtaining high metallurgic purity thanks to the use of secondary metallurgy (AOD converter).

Features of new products:

- high strength properties,
- possible application in extreme conditions of use,
- high metallurgical purity and minimized number of non-metallic inclusions,
- reduced size of machining allowances
- reduced spatial discontinuity in castings.

It will be possible to use the products manufactured using this technology, among others in modern power engineering, rail transport, industrial fittings, mining works in the Oil & Gas segment, offshore wind energy.

Time limit for completion: 01.09.2017 – 31.08.2020

Value of the project PLN 37,049,906.2

Co-financing amount PLN 37,049 906.12

In 2018, we received a refund of costs incurred in the project in the amount of PLN 706,245.9017

The support provided through the National Centre for Research and Development is devoted to the development of innovative technologies., In consequence we can introduce unique solutions to commercial activity and respond even better to the growing needs of our business partners



In Pioma-Odlewnia Sp. z o.o. in Piotrków Trybunalski in 2018 the following project was realized:

„Demonstration of technology for the production of innovative steel castings for use in extreme operating conditions” with the use of the AOD converter.

The goal of this project is to obtain technology that makes possible:

- automating cast iron melting,
- eliminating the disadvantages of currently used technologies,
- elimination of degraded Chunky graphite as well as risers and feeders.

Features of new products:

- minimizing the content of the degraded Chunky graphite,
- reduction of porosity,
- increasing strength,
- increase of yield strength,
- increase in elongation.

It will be possible to use the products manufactured using this technology among others in the field of agricultural machinery, automotive industry, shipbuilding, energy industry, in the machine construction industry.

Time limit for completion: 01.03.2017 – 31.08.2020

Value of the project PLN 47,154,5 602.36

Co-financing amount PLN 19,261,140.94

In 2018, we received advances and a refund of costs incurred in the project in the amount of PLN 2,850,029.7217

<sup>17</sup> G4-EC4, 201-4

# OUR STAKEHOLDERS



## Our stakeholders

In the PGO Group, we pay utmost attention to the cooperation and dialogue with our stakeholders. We are connected by ties of mutual influence and relations.

We identify them based on:

- the impact they have on our organization,
- the impact our organization has on them,
- regions that our organization influences.

Stakeholders were identified in reference to the production and trading processes of the PGO Group basing on legal regulations and policies implemented in the Group<sup>18</sup>.

Stakeholders have been assigned to the fields of the stakeholder map according to the impact and significance for the functioning of the PGO Group.

### INFLUENCE AND IMPORTANCE OF STAKEHOLDERS FOR PGO GROUP



<sup>18</sup> G4-25, 102-42

<sup>19</sup> G4-24, 102-40

Group of stakeholders	Typ zaangażowania	Obszary poruszane przez interesariuszy
Shareholders, investors, analysts, banks and financial institutions	<ul style="list-style-type: none"> <li>• Current reports, periodic reports,</li> <li>• Annual reports,</li> <li>• Sustainability development report,</li> <li>• Corporate website,</li> <li>• AGM</li> <li>• Research on the expectations of stakeholders,</li> <li>• Individual meetings,</li> <li>• Conferences.</li> </ul>	<ul style="list-style-type: none"> <li>• Financial situation of the Group,</li> <li>• Clarity and transparency of action,</li> <li>• Strategy and goals of the Group,</li> <li>• Development activities,</li> <li>• Group value</li> </ul>
Employees of companies	<ul style="list-style-type: none"> <li>• Direct meetings with employees and their families,</li> <li>• Direct talks with supervisors</li> <li>• Periodic assessment,</li> <li>• Training and workshops,</li> <li>• Integration meetings,</li> <li>• Social engagement programs (volunteering),</li> <li>• Internal e-mail messages,</li> <li>• Sustainability development report.</li> </ul>	<ul style="list-style-type: none"> <li>• The conditions of employment,</li> <li>• Opportunity to develop,</li> <li>• Support and benefits,</li> <li>• Pro-family policy,</li> <li>• Stability and job security</li> </ul>
Workers' Council, trade unions, organizations operating at the Companies	<ul style="list-style-type: none"> <li>• Direct meetings,</li> <li>• Meetings with Trade Unions,</li> <li>• Sustainability development report.</li> </ul>	<ul style="list-style-type: none"> <li>• Development plans,</li> <li>• Operational strategy,</li> <li>• Conditions of employment and remuneration,</li> <li>• Wage policy</li> </ul>
Clients, Business partners	<ul style="list-style-type: none"> <li>• Website,</li> <li>• Customer satisfaction survey,</li> <li>• Direct meetings,</li> <li>• Telephone calls,</li> <li>• E-mail contact,</li> <li>• Industry meetings, fairs</li> <li>• Sustainability development report.</li> </ul>	<ul style="list-style-type: none"> <li>• Terms of cooperation,</li> <li>• The quality of the products offered</li> <li>• Planned development, of products</li> <li>• Satisfaction from the cooperation</li> </ul>
Local, regional and national non-governmental organizations, universities, social organizations, secondary	<ul style="list-style-type: none"> <li>• Organization of open internship programs, e.g. We shape your future,</li> <li>• Joint ventures with technical schools at the higher education level</li> </ul>	<ul style="list-style-type: none"> <li>• Impact on the development of local communities,</li> <li>• Support in the educational development of the community,</li> <li>• Joint initiatives and projects</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Annual Report,</li> <li>• Contracts,</li> <li>• Direct relations with employees assigned to contacts,</li> <li>• Sustainability development report.</li> </ul>	<ul style="list-style-type: none"> <li>• Terms of cooperation,</li> <li>• Transparent principles of cooperation and selection of suppliers,</li> <li>• Terms of acceptance and delivery complaint,</li> <li>• Joint industry initiatives</li> </ul>
Social partners	<ul style="list-style-type: none"> <li>• Participation in social events,</li> <li>• Volunteer programs,</li> <li>• Conferences,</li> <li>• Direct meetings,</li> <li>• Patrons and sponsorship,</li> <li>• Sustainability development report.</li> </ul>	<ul style="list-style-type: none"> <li>• Wsparcie finansowe,</li> <li>• Wspólne inicjatywy społeczne,</li> <li>• Wpływ na społeczność</li> </ul>

Group of stakeholders	Type of involvement	Areas covered by stakeholders
Control and management institutions, tax offices, government agencies	<ul style="list-style-type: none"> <li>• Documentation confirming fulfilment of information obligations,</li> <li>• Direct meetings</li> <li>• Annual Report,</li> <li>• Sustainability development report.</li> </ul>	<ul style="list-style-type: none"> <li>• Activity in accordance with the standards and laws,</li> <li>• Impact on the national economy,</li> <li>• Impact on the market development</li> </ul>
Local, regional and global media	<ul style="list-style-type: none"> <li>• Press office,</li> <li>• Current communication,</li> <li>• The website www.pgosa.pl,</li> <li>• Press conferences,</li> <li>• Sustainability development report.</li> </ul>	<ul style="list-style-type: none"> <li>• Financial results,</li> <li>• Strategy and goals of the Group,</li> <li>• Development activities,</li> <li>• Group value</li> </ul>

Despite the impact of politics on the activities of the PGO Group, in 2018 we did not provide any support to political parties, politicians or institutions of a similar nature. The PGO Group is apolitical and in no way attempts to influence political circles.<sup>20</sup>

## The importance of dialogue

We engage in dialogue with stakeholders based on an open communication. We believe that this form brings mutual benefits. We build lasting, trust-based relationships with the environment by taking the following actions<sup>21</sup>:

- systematic customer satisfaction surveys,
- building a culture of direct meetings with business partners,
- constant dialogue with employees,
- involvement in social activities,
- meetings with employees and their families,
- cooperation with technical schools at the secondary and higher education level,
- organization of open internship programs for students.

Since 2011 PGO S.A. has been listed on the Warsaw Stock Exchange. The exchange of information with investors takes place as part of organized meetings, on the occasion of the General Shareholders' Meetings and through the www.pgosa.pl website.

We place strong emphasis on the internal communication. One of the tools that helps in the integration and getting to know employees as private persons is the PGO Group Information Bulletin „The Other Side of Metal”, which is published on a semi-annual basis. After the release of three issues, the marketing & PR department has evaluated its activities in the field of i.a. graphic design of the Bulletin and the addressed content. Employee suggestions, obtained through surveys, will be introduced in the fourth issue.

In 2018, the employees of the PGO Group responsible for soft areas of Corporate Social Responsibility carried out a number of surveys on the subject of social activities undertaken by the company in order to better select the areas of social activities

to employees of companies. On the basis of the conducted research, a tool was developed to inform employees about the possibility of taking part in social actions organized on behalf of PGO.

## PGO Group policies

In 2017, the PGO Group adopted a number of policies that regulate our presence in the business environment, local communities and the impact on the natural environment.

Policies have been introduced at the Group level and apply to all employees employed in companies.

### Anti-corruption policy

The PGO Group undertakes to conduct business based on honesty, integrity, trust and responsibility.

The employees of the Group are required to comply with all applicable anti-corruption laws in the countries in which we are currently. The PGO Group strives to prevent, counteract and detect bribery, both active and passive. Group's reputation, credibility and ethics of business conduct are of great importance to us. Our reputation and good name are the result of many years of efforts of all employees. The PGO Group adopted the principle of „zero tolerance” against violations of this policy.

The management of PGO S.A. directly supervises this policy.

### Human rights policy

The PGO Group's policy on human rights defines the principles of actions and behaviours aimed at creating an environment in which human rights are respected and preventing situations in which our actions could violate them directly or indirectly. Its assumptions and principles are also propagated among subcontractors and suppliers within the supply chain and other stakeholders of the Group. In 2018, the PGO Group did not include provisions regarding human rights in signed investment agreements, nor did it review them in terms of respect for human rights.

<sup>20</sup> G4-SO6, 415-1

<sup>21</sup> G4-26, 102-43

### **Environmental policy**

We are aware of the impact of our operations on the natural environment. We strive to minimize our negative impact. Through processes focused on improving the methods of preventing negative effects of the impact. The implementation of the environmental management system, compliant with the following standards, is part of the strategy of our companies' operations:

We base our operations on the following principles.

- compliance with applicable regulations and standards regarding environmental protection,
- minimization of technological waste and conducting environmentally friendly waste management through: optimization of the production process, as well as segregation, storage and transfer of waste for processing or utilization,
- rational management of raw materials, including: water, electricity and heat,
- minimization of the amount of pollutants emitted to the air,
- inclusion of modern devices and technologies, including energy-saving and environmentally friendly, for investment processes and modernizations,
- education of employees and their involvement in activities conducive to environmental protection,
- striving to cooperate with suppliers applying high standards in the field of environmental protection,
- striving to minimize the risk of major accidents that could adversely affect the natural environment.
- The issue of respect for the environment is one of the priorities of the PGO Group.

### **Diversity policy**

The PGO group follows in its diversity policy the principles of equal treatment and anti-discrimination. Diversity and openness are values that are the foundation of the Group's business activities as well as its employment policy. Its aim is to promote equal treatment, diversity, to create an atmosphere and organizational culture in the workplace that provide respect and a sense of security. The policy also leads to building positive relationships and, consequently, allows to achieve business goals.

The diversity policy is part of the strategy of sustainable development and business responsibility, which is part of the Group's development strategy.

### **Personnel policy**

The personnel policy of the PGO Group has been developed based on the mission, vision and values of the organization. It is based on the following sources: Universal Declaration of Human Rights, UN Guidelines on Business and Human Rights, International Labour Organization Declaration on Fundamental Principles and Rights at Work, Polish Law, with particular emphasis on the Labour Code and internal documents regulating the employment of employees of companies forming the PGO Group.

### **Social and sponsorship policy.**

Social and sponsorship policy was based on the values adhered to in the PGO Group, vision and mission of the Group. Its key goals are building and strengthening relationships and inspiring positive changes within the PGO and its environment. Other goals include:

- emphasizing the importance of social responsibility that builds value for the company, its employees and the environment,
- emphasizing the interdependence of PGO with local communities and the environment,
- opening to needs, social dialogue and seeking opportunities for mutual development,
- strengthening the relations of employees of the PGO Group,
- building a positive employee - employer relationship,
- building the image of PGO as a socially responsible organization.

At the end of 2018, PGO activities were structured and divided into areas in which the PGO Group supports employees, local communities as well as stakeholders. At the beginning of 2019, PGO will engage in social and sponsorship actions, which can be assigned to the following categories:

1. Education, sport and health.
2. Culture.
3. Local communities and the environment.

The policies were implemented in December 2017. The results of their application were visible in 2018. Individual companies within the Group implemented the principles included in the policies through the Integrated Management System.

All policies are posted on the website [www.pgosa.pl](http://www.pgosa.pl), and from 2019 we plan to introduce them to the list of attachments to contracts with contractors and suppliers and parts of the General Terms of Sale and Delivery.

## Identified aspects

We reviewed the process of reporting, identifying, prioritizing and validating.<sup>22</sup> We have analysed the internal, business and social environment. Preparing for the elaboration of the CSR report for 2018, we carried out a survey among the stakeholders. Respondents rated significant aspects on a five-point scale.

The on-line survey was completed by 116 respondents. The report includes aspects that have achieved an average score equal to or greater than 4.0. Key subjects from the perspective of Sustainable Development and Responsible Business defined as relevant by the PGO Group and stakeholders are as follows:

### ASPECTS IDENTIFIED IN THE PROCEDURE OF DEFINING REPORT CONTENTS

Aspect	Description of the aspect	Score
Economic and strategic	<ul style="list-style-type: none"> <li>• Creating new areas of application of offered products or development of new product areas.</li> </ul>	4.12
	<ul style="list-style-type: none"> <li>• Organizational adaptation in the face of challenges related to the technological revolution, e.g. automation and robotization</li> </ul>	4.18
Employee and educative	<ul style="list-style-type: none"> <li>• Taking actions affecting safety and comfort in the workplace.</li> </ul>	4.47
	<ul style="list-style-type: none"> <li>• Development of competence and provision of highly-specialized training for employees, courses and post-graduate studies.</li> </ul>	4.43
	<ul style="list-style-type: none"> <li>• Undertaking activities that strengthen the sense of belonging of employees to the organization.</li> </ul>	4.15
	<ul style="list-style-type: none"> <li>• Activities that affect the quality of communication and tightening relationships between co-workers</li> </ul>	4.18
Environment	<ul style="list-style-type: none"> <li>• Investments in research and development that contribute to reducing the negative impact on the environment.</li> </ul>	4.18
	<ul style="list-style-type: none"> <li>• Practices and activities for environmental protection.</li> </ul>	4.09
	<ul style="list-style-type: none"> <li>• Showing public good practices for responsible use of the natural environment in everyday life, e.g. in accordance with the principles of closed-circuit management, use of renewable sources (e.g. photovoltaics).</li> </ul>	4.02
Human rights and counteracting corruption	<ul style="list-style-type: none"> <li>• Actions to ensure that all employees have equal access to training and competence development.</li> </ul>	4.28
	<ul style="list-style-type: none"> <li>• Activities that influence building an ethical work culture and counteracting discrimination.</li> </ul>	4.26
	<ul style="list-style-type: none"> <li>• Improving the procurement practices applied to suppliers providing transparent cooperation principles.</li> </ul>	4.10
	<ul style="list-style-type: none"> <li>• Actions contributing to building an organizational culture based on respect and mutual trust between employees, colleagues and superiors.</li> </ul>	4,47

23, 24

The aspects described in the Sustainable Development Report of the PGO Group for 2017 are also included in this document.<sup>25</sup> In 2018, none of the Group's stakeholders filed complaints regarding breaches of privacy.<sup>26</sup> There was also no loss of customer data.

<sup>22</sup> G4-18, 102-46

<sup>23</sup> G4-27, 102-44

<sup>24</sup> G4-19, 102-47; G4-20, 103-1; G4-21, 103-2

<sup>25</sup> G4-23, 102-49

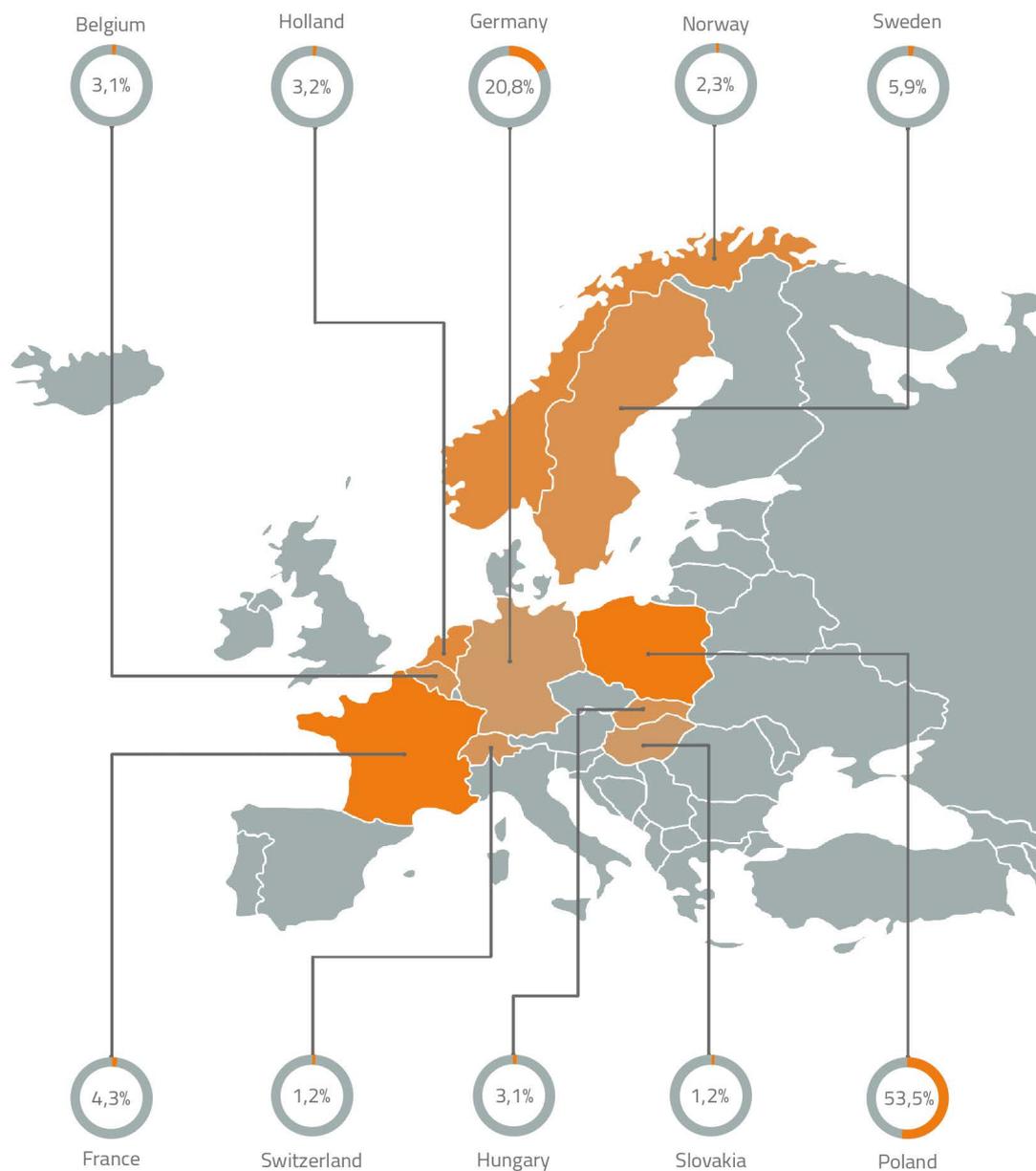
<sup>26</sup> G4-PR8, 418-1

## Our customers

The PGO Group is one of the largest companies in the metallurgical industry in Poland. We are a manufacturer of cast iron and steel castings as well as die forgings and freely forged forgings. Production companies have many years of tradition, reaching 130 years in the case of Kuźnia Glinik. Combining knowledge, many years of experience, foundry and forging traditions, production facilities and

modern management methods, we offer products that meet high standards and European standards. Our products are appreciated by trade partners in the country as well as abroad. In 2018, 46.5% of products were sold to foreign markets. Less than 1% of products is sent out of Europe, mainly to the USA.

### GEOGRAPHICAL STRUCTURE OF SALES OF PGO



”

We look for industries that are in a growth phase to grow with them. In 2018, we optimized sales services and invested many millions of Polish zlotys in modern technologies. We are convinced that these actions will bring tangible business results and, consequently, further development of PGO.

Andrzej Bulanowski, Vice President for Sales



## INDUSTRIAL SECTOR STRUCTURE



Mining industry **33.6%**



Agriculture **19.9%**



Automotive **9.4%**



Railway **7.4%**



Drive technology **4.8%**



Shipbuilding **4%**



Construction industry **3.8%**



Industrial fittings **2.9%**



Machines and devices **2.5%**



Energy industry **2.3%**



Metallurgy **2.3%**



Oil&Gas **1.8%**

28

Our castings and forgings are sold to customers operating in many industries. Our products are elements of i.a. passenger and freight trains, lorries, agricultural machines, wind farms, ships, mining machines. We are

a supplier of castings and forgings for twelve key industries and thirteen more, whose total share in sales amounted to 5.3%.

<sup>28</sup> G4-8, 102-6

## Our suppliers

In the PGO Group in 2018, we cooperated with 2,716 suppliers, 18.34% of them were local suppliers.



In 2018, suppliers were not audited in terms of respect of human rights, employment practices, social impacts and environmental protection.<sup>29</sup>

## Supply chain

The supply chain<sup>30</sup> covers aspects related to the process of obtaining raw materials for the production, their transport and processing as well as delivery of finished products to clients.

The main goal in the purchasing process is to obtain high-quality raw materials, materials, components and services that meet the standards of the adopted technology and legal provisions. Due to the quality of raw materials and in order to minimize the risk of production downtime, we diversify the sources of purchases. At the same time, we focus on regular cooperation with reliable suppliers, which is why internal lists of qualified suppliers, subject to continuous evaluation, have been elaborated.

The basis for forging production in our Group are metallurgical materials. We send inquiries to producers of rolled materials or ingots that are on the list of qualified suppliers. Data for inquiries and orders are created by the Engineering Department / Team or Purchasing Department / Team and recorded in technology data.

Charge materials and moulding materials for foundry production, approved for use, are included in the list of charge and moulding materials created by the Technology Department, containing precise physical, chemical and other requirements necessary in the used technology. Based on these requirements, the inquiries are prepared for suppliers that are on the list of qualified suppliers.

Potential supplier is obliged to send an offer with terms of realization and a document (certificate, safety data sheet), confirming that the material meets the criteria. The orders are then addressed to the manufacturer who meets defined technical requirements and at the same time offers the best conditions. After delivery, the quality of the material is verified by the Quality Department in terms of meeting the requirements specified each time on the order.

Other materials (health and safety, IT, paints, fuels, power tools, auxiliary tools, packaging, machine parts, etc.) are purchased based on data necessary to prepare inquiries and orders specified by the department placing the demand. The employee responsible for placing orders is required to analysis offers coming from the market in terms of delivery terms and place an order with the supplier offering the best conditions for its realization.

In the process of sending inquires, a minimum of 3 offers that meet the requirements are obtained.

We conduct periodic evaluation of suppliers, including: number of complaints, timeliness and completeness of deliveries.

”

In 2018, we devoted a lot of attention to our business relationships. We conduct a continuous dialogue in order to obtain mutual benefits from cooperation, which effects are already noticeable in the PGO Group. The focus on the quality of obtained raw materials positively affects the environment in which we operate.

Marta Waluga, Director of strategic purchases



<sup>29</sup> G4-LA14, 414-1; G4-HR10, 414-1

<sup>30</sup> G4-12, 102-9

Cooperative services (mechanical processing) are ordered to contractors who have successfully passed the verification process.

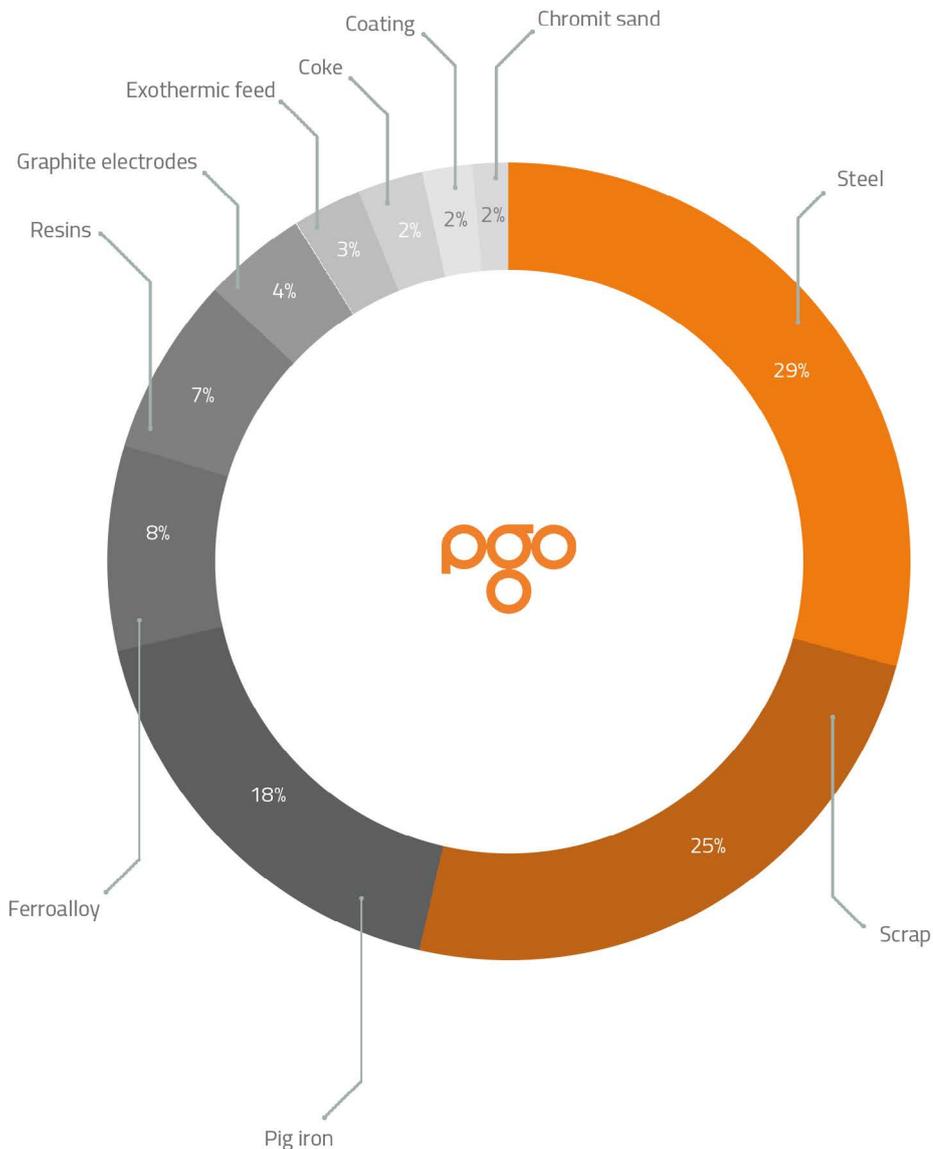
In the verification process, they are required to provide model products that meet specific technological requirements. The choice of the contractor is based on its capabilities in the scope of the service performed, i.e. having the appropriate technology, instrumentation, machines and devices, quality control and precision of execution in accordance with the provided documentation. After evaluating the quality of the sample batches delivered, we select the contractor who proposes the most favourable terms of cooperation.

On the basis of the documentation provided by the Technology Department, the co-operators registered in the database also submit offers for manufacturing pattern sets. Then, the contractor who proposes the most favourable terms of cooperation is selected.

Requests for transport are addressed to transport service providers who are on the list of qualified suppliers or through the transport exchange. The employee responsible for logistics is obliged to place an order in a transport company that meets certain premises and offers the best conditions.

Operating in accordance with internal regulations and instructions allows achieving the set goals and eliminating the risk in the purchase process.<sup>31</sup>

### % SHARE OF PARTICULAR RAW MATERIALS IN PURCHASE COSTS



<sup>31</sup> G4-EC9, 204-1

# ENVIRONMENT



## Precautionary principle

Our Group operates in accordance with the precautionary principle<sup>32</sup>.

The precautionary principle, in accordance with EU law (the Treaty on European Union), obliges everyone who plans, agrees or undertakes activities whose negative environmental impact is not fully recognized, taking precautionary measures, takes all possible preventive measures. This principle is important in the realization of projects that may significantly affect the environment. The precautionary principle is the principle of approach to environmental protection commonly accepted in Europe. In the case of conducting environmental impact assessments, in particular for Natura 2000 areas, the point is that rational doubts are always interpreted „in favour of the environment”.

Art. 6. of the Polish Environmental Protection Law states:

1. Whoever undertakes activities that may have a negative impact on the environment is obliged to prevent this impact.
2. Whoever undertakes activities whose negative impact on the environment is not yet fully recognized is obliged, taking precautionary measures, to take all possible preventive measures.

Precautionary principles in the PGO Group are based on the provisions adopted in the Integrated Quality and Environment Management System. These principles are reflected in the annually developed and systematically implemented goals, tasks and programs of environmental management. The implementation of these provisions is assessed as part of the annual management review reports. The above inspections are carried out in accordance with the requirements of PN-EN ISO 9001 (quality) and elements of the PN-EN ISO 14001 system (environment).

Verification of the implementation of the precautionary principle takes place as part of audits of the plant certification body and internal audits carried out in the organization. An important element of compliance with the precautionary principle is systematic verification of legal changes in the discussed area.

Supervision over the above activities is held by the Plenipotentiary of the Management Board for the Integrated Management System, who is supported by the Specialist for Environmental Protection.

The PGO Group companies benefit from the environment under the granted allowances in the water law permit, the permit to emit gases or dusts into the air and the permit for the generation of waste.

The PGO Group's plants are located outside protected areas and outside areas of high value in terms of biodiversity.<sup>33</sup>

The type and scale of operations and the location of the PGO Group's plants in the industrial area does not adversely affect habitats and protected species within the framework of the European Ecological Network Natura 2000 and other remaining forms of nature protec-

tion designated pursuant to the Act of 16 April 2004. about nature protection.

The nature of the activities carried out in the PGO group plants does not directly or indirectly affect biodiversity in naturally protected areas. Substances introduced into the air do not have a significant impact on biodiversity in protected areas located further away to the plants. Substances that are particularly harmful to the aquatic environment are not released with wastewater to surface waters, which is confirmed by the regular tests of sewage and water above and below the discharge of wastewater. Rainwater before being discharged into the river is pre-treated in a separator, and a small amount of industrial sewage coming from other entities is neutralized and does not contain particularly harmful substances<sup>34</sup>

The activity of the PGO Group plants did not cause environmental degradation in 2018. Factories do not affect protected areas, either in terms of air emissions or in the release of substances into waters or soil.

The operations of the Group's plants are not carried out on or near the occurrence of species included in the Red Book of the International Union for Conservation of Nature and its Resources and on national lists of protected species with habitats occurring in areas affected by the organization of protected and revitalized habitats<sup>35</sup>.

## Environmental Protection

PGO SA, as the largest industrial group in Poland specializing in the production of castings and forgings, cannot and does not want to shirk responsibility for the state of the environment in which we live. The ideas of sustainable development, and in particular respect for the natural environment, are one of the most important values of the Company.

The economic activity conducted by the PGO Group is based on and in accordance with legal regulations in the field of environmental protection. In 2018, the PGO Group did not incur any penalties for non-compliance with laws and regulations regarding environmental protection.<sup>36</sup>

The PGO Group companies do not exceed the acceptable standards for the emission of gases and dust into the air in the production process in the plants in Gorlice, Śrem, Stalowa Wola and Piotrków Trybunalski. In the current activity, various activities are undertaken to minimize technological waste and to conduct environmentally friendly waste management by optimizing the production process, and segregation, storage and transfer of waste for processing or utilization in specialized facilities. The PGO Group in 2018 did not import, export or also did not process hazardous waste.

<sup>32</sup> G4-14, 102-11

<sup>33</sup> G4-EN11, 304-1

<sup>34</sup> G4-EN12, 304-2

<sup>35</sup> G4-EN13, 304-3; G4-EN14, 304-4

<sup>36</sup> G4-EN29, 307-1

Compliance with stringent environmental standards resulting from the law is possible thanks to the systematic modernization of the production facilities. In individual companies also the realized R& D and implementation projects related to new technologies, and automa-

tion and robotization processes of production contribute into further reduction of dust and gas emissions into the air, further contributing to the gradual reduction of the use of natural resources in the production process.

Waste in Mg] <sup>37</sup>		
	2017	2018
dangerous	135.38	162.28
other than dangerous	35,739.63	42,040.53
total of all waste	35,875.01	42,202.82

The amount of waste increased by 17.6% compared to the previous year. In 2018, none of the PGO companies processed, deposited or transported hazardous waste. In addition to waste generated directly in the production process, we also include wood, paper, plastic, foil, etc. into the mass of waste, etc.<sup>38</sup>

Materials and raw materials necessary in the production of steel and cast iron castings and forgings <sup>39</sup>					
	2018-Annual purchases / raw materials [Mg]				
	ŠREM	PIOMA	SW	GORLICE	suma
steel	0.00	0.00	0.00	11,958.00	11,958.00
Graphite electrodes	0.00	111.00	46.00	0.00	157.00
coke	2,100.00	0.00	0.00	0.00	2,100.00
Scrap including:	13,844.00	7,501.00	4,001.00	0.00	25,346.00
*steel	9,415.00	7,501.00	4,001.00	0.00	20,917.00
* iron	4,429.00	0.00	0.00	0.00	4,429.00
pig iron	13,460.00	285.00	0.00	0.00	13,745.00
iron ore	0.00	19.00	161.00	0.00	180.00
ferroalloys	1,163.00	378.00	155.00	0.00	1,696.00
quartz sand	6,543.00	10,315.00	5,015.00	0.00	21,873.00
Chromite sand	95.00	383.00	193.00	0.00	671.00
Resins	347.00	366.00	195.00	0.00	908.00
hardeners	118.00	124.00	91.00	0.00	333.00
coatings	105.00	141.00	87.00	0,00.00	333.00
<b>total</b>					<b>79 300</b>

In 2018, the consumption of raw materials increased by 3 359 Mg in relation to the previous year (76,941 Mg), i.e. by 3%. 29% of materials used for production are scrap or metallurgical materials originating from scrap metal. 40 The foundry and forging industry is an energy-intensive industry. In production, we mainly use electricity and natural gas.

We have not used our own renewable energy sources so far. The PGO Group does not have a fleet of trucks, but it has a fleet of passenger cars whose fuel consumption has been included in energy consumption indicators, and a CO<sub>2</sub> has been included in the emission

Energy consumption [in MJ] <sup>41</sup>		
	2017	2018
Within the company	391,499,571.76	405,084,766.36
Outside the company	0.00	0.00
<b>Total</b>	<b>391,499 571.76</b>	<b>405,084,766.36</b>

In 2018 we noticed increase in energy use in the level of 3.47%

<sup>37</sup> G4-EN23, 306-2

<sup>38</sup> G4-EN25, 306-4

<sup>39</sup> G4-EN1, 301-1

<sup>40</sup> G4-EN2, 301-2

<sup>41</sup> G4-EN3, 302-1; G4-EN4, 302-2

Emissions ( in kg/year) <sup>42</sup>		
	2017	2018
CO	67,650.74	66,180.50
CO <sub>2</sub>	10,371,419.29	13,338,301.52
NO <sub>x</sub>	18,112.69	19,288.14
SO <sub>x</sub>	8,514.31	8,030.49
PM	29,442.52	31,371.16
LZO	15,653.44	18,681.69
Inne	0.26	404.97
<b>total</b>	<b>10,510,793.29</b>	<b>13,482 198.47</b>

\* The iron foundry Śrem and Pioma-Odlewnia together with the Stalowa Wola branch did not presented data concerning CO2 emissions in 2017 due to the lack of measurements. Data for these companies were estimated, therefore the increase data in CO2 emissions is not reliable.

Water is an indispensable resource in a foundry and forging production. In 2018, we maintained the level of water abstraction at the same level as in 2017. Only Odlewnia Źeliwa „Śrem” Sp. z o. o. draws water from natural resources for industrial purposes from the Grzymisławskie Lake. In total, in 2018, 36 389 m3 were taken from the lake,

but 6 491 m<sup>3</sup> were sold for PEC energy purposes. The uptake of water from the lake does not affect its ecosystem or biodiversity.

The Glinik Forge does not collect water from surface waters from its own intake. However, MP GK Sp. z o.o., supplying the Forge with water, draws water from the River Ropa, i.e. from the surface water intake.

Water abstraction according to consumption [m3] <sup>43</sup>		
	2017	2018
surface water	21,660.00	36,389.00
urban water	81,511.00	66,839.00
<b>Total</b>	<b>103,171.00</b>	<b>103,228.00</b>

Wastewater by quality and final destination [m3] <sup>44</sup>		
	2017	2018
discharged to the sewage system	69,189.00	57,761.00
discharged to surface waters (including lakes and rivers)	79,923.00	65,757.00
<b>sum of all sewage</b>	<b>149,112.00</b>	<b>123,518.00</b>

Wastewater management is conducted in accordance with the terms of the granted water law permit and does not pose a threat to environmental objectives. Type of wastewater in the Group's operations: used liquids, solutions, colloids, suspended solids and rainwater. Wastewater discharged by the PGO Group companies does not disturb the ecosystem or biodiversity of water reservoirs and habitats concerned.<sup>45</sup> The amount of discharged sewage decreased by 25 594 m3, or 17.16%, as compared to the previous year. Wastewater discharged by PGO plants is largely rainwater, which is why their quantity depends on the amount of rainfall in a given year.

The activities of the Group's companies are regulated in the field of environmental protection with integrated permits consistent with the European Union Directive No. 96/61 / EC on the prevention and reduction of pollution.

PGO Group S.A. applies the following ISO standards in its operations:<sup>46</sup>

- PN-EN ISO 9001:2015
- PN-EN ISO 14001:2015
- ISO/TS 16949:2016
- IATF 16949:2016

The PGO Group in 2017 did not incur any penalties and sanctions for non-compliance with laws and regulations regarding environmental protection.<sup>47</sup>

<sup>42</sup> G4-EN15, 305-1; G4-EN16, 305-2; G4-EN17, 305-3; G4-EN21, 305-7

<sup>43</sup> G4-EN8, 303-1

<sup>44</sup> G4-EN22, 306-1

<sup>45</sup> G4-EN26, 306-5

<sup>46</sup> G4-15, 102-12

# EMPLOYEES



## PGO as an employer

The success of the PGO Group depends on the competence of its employees. The Group has experienced specialists and people starting their careers. The cooperation is based on clear principles, ethical standards and respect for other people.

In the area of human resources management, we have implemented modern tools: a rating system, a replacement program, and development projects. Managers care about integration, motivation, de-

velopment of qualifications and professional ambitions of employees. Each employee can develop their skills i.a. on post-graduate studies, trainings and specialist courses.

In the report for 2018, people employed on the basis of civil law contracts in PGO Services Sp. z o.o. were included in the calculation of the indicators.<sup>47</sup> In the CSR report for 2017, only people employed in the PGO Group based on a contract of employment were included.

Employment status as at 31/12/2018 - employment contract <sup>48</sup>						
type of contract	2017			2018		
	F	M	together	F	M	together
Unspecified period of time	116	818	934	149	854	1003
Specified period of time	54	192	246	34	182	216
according to the localization	F	M	together	F	M	together
Katowice, PGO S.A., PGO Services	22	13	35	44	34	78
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	36	238	274	28	215	243
Gorlice, Kuźnia Glinik sp. z o.o.	28	268	296	24	265	289
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	20	111	131	22	133	155
Śrem, Odlewnia Żeliwa „Śrem” sp. z o.o.	64	380	444	65	389	454
according to the type of a working post	F	M	together	F	M	together
white-collar	123	247	370	137	263	400
blue-collar	47	763	810	45	774	819

Persons employed on the basis of a contract of employment in PGO SA, PGO Services, PGO Estate, Odlewnia Żeliwa „Śrem” Sp. z o.o., Pioma-Odlewnia sp. z o.o. together with a branch in Stalowa Wola, Kuźnia Glinik sp. z o.o.

Newcomers in the PGO Group by gender, age groups and location <sup>48</sup>						
age groups	2017			2018		
	F	M	together	F	M	together
Up to 29 years old	17	43	59	10	71	81
30-50 years old	26	93	119	30	122	152
Over 51 years old	1	30	31	2	25	27
overall	44	165	209	42	218	260
Katowice, PGO S.A., PGO Services	15	10	25	9	13	22
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	12	39	51	8	29	37
Gorlice, Kuźnia Glinik sp. z o.o.	3	43	46	4	42	46
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	2	27	29	6	52	58
Śrem, Odlewnia Żeliwa "Śrem" sp. z o.o.	12	46	58	15	82	97
Indicator for overall*	3.73%	13.98%	17.15%	3.45%	17.88%	21.33%

\* Labour turnover indicator is calculated as follows: (number of employees made redundant / number of all employees employed as at 31/12/2018 employed on the basis of a contract of employment) \* 100%.

Persons employed on the basis of a contract of employment in PGO SA, PGO Services, PGO Estate, Odlewnia Żeliwa „Śrem” Sp. z o.o., Pioma-Odlewnia Sp. z o.o. together with a branch in Stalowa Wola, Kuźnia Glinik Sp. z o.o.

<sup>47</sup> G4-10, 102-8

<sup>48</sup> G4-10, 102-8; G4-LA1, 401-1

Labour turnover in the PGO Group by sex, age groups and localization <sup>49</sup>						
age groups	2017			2018		
	F	M	together	F	M	together
Up to 29 years old	3	17	20	7	38	45
30-50 years old	18	72	90	16	98	114
Over 51 years old	6	53	59	6	54	60
overall	27	142	169	29	190	219
Katowice, PGO S.A.	3	3	6	2	3	5
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	6	40	46	11	48	59
Gorlice, Kuźnia Glinik sp. z o.o.	1	25	26	2	39	41
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	11	34	45	2	31	33
Śrem, Odlewnia Żeliwa "Śrem" sp. z o.o.	6	40	46	12	69	81
Indicator for overall*	2.29%	12.03%	14.32%	2.38%	15.59%	17.97%

\* Labour turnover indicator is calculated as follows: (number of employees made redundant / number of all employees employed as at 31/12/2018 employed on the basis of a contract of employment) \* 100%.

In 2018, there were 1,219 persons employed in the PGO Group based on a contract of employment (as at 31/12/2018). The labour turnover rate of those employed based on a contract of employment in the PGO Group in 2018 amounted to 17.97%.

Odlewnia Żeliwa „Śrem” Sp. z o.o., Pioma-Odlewnia Sp. z o.o. together with the Stalowa Wola branch, Kuźnia Glinik Sp. z o.o. and in plants that do not belong to the PGO Group: Famur S.A., Zamet Industry, Zamet Budowa Maszyn.

On the basis of a civil law contract, in 2018, there were 130 employees employed by PGO Services. Employees worked for the plants of PGO Group:

Employment level on the basis of civil law contracts in PGO Services <sup>49</sup>			
type of contract	2018		
	F	M	together
civil legal	10	120	130
according to the localization	F	M	together
Katowice, PGO Services	1	0	1
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	5	30	35
Gorlice, Kuźnia Glinik sp. z o.o.	0	8	8
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	0	21	21
Śrem, Odlewnia Żeliwa "Śrem" sp. z o.o.	3	44	47
Bytom, Zamet Budowa Maszyn	1	4	5
Tarnowskie Góry, Zamet Budowa Maszyn	0	7	7
Piotrków Trybunalski, Zamet Industry	0	2	2
Piotrków Trybunalski, Famur S.A.	0	4	4
according to the localization	F	M	together
white-collar	1	0	1
blue-collar	9	120	129

<sup>49</sup> G4-10, 102-8; G4-LA1, 401-1

Newly employed on a civil law contract in PGO Services by sex, age groups and location <sup>50</sup>			
	F	M	visa
Up to 29 years old	2	23	25
30-50 years old	7	63	70
Over 51 years old	0	4	4
overall	9	90	99
Katowice, PGO Services	1	0	1
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	4	17	21
Gorlice, Kuźnia Glinik sp. z o.o.	0	6	6
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	0	15	15
Śrem, Odlewnia Żeliwa "Śrem" sp. z o.o.	3	35	38
Bytom, Zamet Budowa Maszyn	1	4	5
Tarnowskie Góry, Zamet Budowa Maszyn	0	7	7
Piotrków Trybunalski, Zamet Industry	0	2	2
Piotrków Trybunalski, Famur S.A.	0	4	4
Indicator for overall*	6,90%	69,00%	76,00%

\* The labour rate of new employees is calculated as follows: (number of newly hired employees / number of all employees working in the Company as at December 31, 2018 employed on the basis of a contract of employment) \* 100%.

2018 is the base year for the company PGO Services Sp. z o.o. , therefore, in order to preserve the transparency of the statement, data about employees employed on a contract basis at PGO Services Sp. z o.o.. are included separately.

Rotation of employees employed on the basis of a civil law contract in PGO Services by sex, age groups and localization			
	F	M	visa
Up to 29 years old	0	2	1
30-50 years old	0	14	10
Over 51 years old	0	0	0
overall	0	16	11
Katowice, PGO Services	0	0	0
Piotrków Trybunalski, Pioma-Odlewnia Sp. z o.o.	0	0	2
Gorlice, Kuźnia Glinik Sp. z o.o.	0	1	1
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	0	3	1
Śrem, Odlewnia Żeliwa "Śrem" Sp. z o.o.	0	11	4
Bytom, Zamet Budowa Maszyn	0	1	1
Tarnowskie Góry, Zamet Budowa Maszyn	0	0	1
Piotrków Trybunalski, Zamet Industry	0	0	0
Piotrków Trybunalski, Famur S.A.	0	0	1
Indicator for overall*	0	12.30%	8.50%

\* Labour turnover indicator is calculated as follows: (number of employees made redundant / number of all employees employed as at 31/12/2018 employed on the basis of a contract of employment) \* 100%. When analysing employment indicators concerning the rotation of PGO Services employees the additional factor should be taken into account - visa turnover.

The visa turnover is caused by the rules for granting work visas to foreigners who are not citizens of EU Member States. Citizens i.a. from Ukraine can come to Poland and provide work based on: visa-free travel - a foreigner can stay in the Republic of Poland for 90 days, an employee visa is granted for 6 months. In both cases, after the deadline, employees are required to return

to their homeland. These issues are regulated by the Act of 20 April 2004 on the promotion of employment and labour market institutions. At PGO Services, we understand that separation from loved ones is bothersome, which is why employees have the option of returning to their homeland for a long time (1-2 months). For this period, the contract with the employee is terminated - this factor also increases the turnover ratio.

<sup>50</sup> G4-LA1, 401-1

In 2018 in the PGO Group, there were 984 employees in Pioma-Odlewnia Sp. z o.o., Kuźnia Glinik Sp. z o.o., Odlewnia Żeliwa Śrem Sp. z o.o., covered by a collective agreement which gives 80.7% of all employees employed on the basis of a contract of employment.<sup>51</sup> In 2018, no cases of discrimination were reported in the PGO Group.

In 2018, the PGO SA Group did not identify cases of child labour in its companies.

## Additional benefits and reliefs <sup>52</sup>

In production companies of the PGO Group (Odlewnia Żeliwa Śrem, Pioma-Odlewnia and Kuźnia Glinik), regulations regarding the remuneration system and legal protection are listed in the Collective Labour Agreements (ZUZP) and other internal regulations. 100% of employees of the above-mentioned companies are covered by the Collective Bargaining Agreement. In the PGO headquarters in Katowice and the Pioma Odlewnia branch in Stalowa Wola, separate Work Regulations and Remuneration Regulations apply. In the case of Management Boards of Companies, the Supervisory Board defines the rules for their remuneration, which are set out in separate Regulations.

The PGO Group pursues an adequate remuneration policy by conducting market benchmarks at the level of voivodeships. At least once a year, we are negotiating with trade unions the increase of remuneration.<sup>53</sup> The PGO Group remuneration policy does not differentiate employees by gender, age or origin. The basic salary of all our employees must be stay in the defined pay limits, the ranges are specified in the Collective Bargaining Agreement and the Remuneration Regulations.<sup>54</sup> When determining the individual remuneration level, we take into account criteria such as qualifications and professional experience of the employee.<sup>55</sup>

The PGO Group provides its employees with the access to the social benefits package, including:

- co-financing for the employee's holiday
- co-financing for the holidays of the employee's children (summer camps),
- non-returnable random benefit - financial assistance in case of emergency, natural disasters, illness of an employee or a family member,
- Christmas benefits (gift packages for children, vouchers),
- co-financing for corrective glasses. Employees of companies can also benefit from i.a.:
- Employee Pension Scheme "Serene Future" ["Pogodna Przyszłość"] (PPE) \*,
- additional life insurance \*.

\* Programs launched in selected localizations

In the Iron Foundry in Śrem in July 2006, the Employee Pension Program „Serene Future” was launched. 217 persons benefit from it

on the terms specified in the Company's Pension Agreement. The basic contribution is paid by the employer. Joining the Pension Program is voluntary. PPE is targeted at employees who want to increase their retirement benefits. The employer pays an additional premium to each beneficiary, which is invested by the company managing PPE assets according to selected variants.

Welcome to the PGO Family program operates in PGO S.A. Each newly born child of our employee receives a welcome gift from the company, which includes an interactive swing and a plush set with the company logo.

Each employee has the opportunity to take advantage of parental leave at their own convenience.

employees on maternity and paternity leave in the PGO Group		
	2017	2018
number of employees entitled to the leave		
F	3	7
M	22	27
number of employees who went on the leave		
F	3	7
M	8	26
number of employees who returned from the		
F	0	2
M	8	0
number of employees who returned from maternity or paternal leaves and worked over 12 months		
F	0	0
M	0	0

<sup>51</sup> G4-11, 102-41

<sup>52</sup> G4-LA2, 401-2

<sup>53</sup> G4-53, 102-37

<sup>54</sup> G4-51, 102-35

<sup>55</sup> G4-52, 102-36

## Competence development

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Employees are our most valuable assets. It is important in PGO ensure them with safe and stable employment. There is no doubt that the success of the company depends in a large extent on competencies of its employees. Due to this fact we stress the importance of manager, communication and technical trainings. In PGO Group we believe that the development of competences translate to the motivation and involvement of employees.

Monika Sudół-Żukowska, HR Director



Knowledge, skills, competences and experience of employees determine the success of the company. Each employee should know and understand their duties and the role they play in the organization. Competences and accepting responsibility for performed tasks are the most important.

As part of the implementation of the strategy for 2017-2020, the Group allocated funds for the development of employee competencies on many levels. We implement the program for the development of management skills at all levels of management. Its aim is to improve the effectiveness of implementing changes, build conscious employee motivation and support dialogue between management and employees.

We carry out 'soft' trainings in the PGO Group concerning:

- building and strengthening relationships,
- communication skills,
- sales skills

and 'hard' within the scope of:

- HR and payroll,
- OSH
- GDPR
- technical entitlements, e.g. qualifications for forklifts, overhead cranes, additional energy licenses.

In each localization, language courses co-financed by the employer are run. In addition, PGO co-finances, at the request of the employee, for higher and postgraduate studies.

In implementing the assumptions of the PGO Group's strategy, we place special emphasis on the technical training of our staff.

Each employee, irrespective of their position and seniority, may express their will to participate in free or partially co-financed training.

The sum of training hours in 2018 in the PGO Group				
sex	Quantity of hours in total		Average quantity of hours per employee	
	2017	2018	2017	2018
F	3297	4963	19.40	27.10
M	13,231	19,430	13.10	18.80

\* The indicator applies to OSH, managerial, sales, technical and language training. The number of hours averagely per employee employed on the basis of an employment contract within the PGO Group in 2018. Number of training hours divided by the number of employees.

Due to the employment of people from outside of Poland, PGO Services puts great emphasis on the development of language and communication skills. 2018 is the base year for PGO Services,

Suma godzin szkoleniowych w 2018 roku w PGO Services sp. z o.o.		
sex	Quantity of hours in total	Average quantity of hours per employee
F	70	10.90
M	18,308	20.40

## Scholarships and internships

The first job can be a step that will start a promising career. In PGO, we care about employing young, educated and committed employees. The internship program „We shape your future” is addressed to students of final years and to graduates of mainly technical faculties. Each trainee has a personal supervisor/ mentor assigned to familiarize him / her with the secrets of work at PGO. The internship lasts three

months, it cannot be extended and is fully paid. After awarding an internship, PGO can submit a job offer. In 2018, 11 trainees took part in the program, 10 of them received a job offer, which they benefited from.

”

Directly after completing studies I started my traineeship in PGO. After three months of an intensive professional learning I was sure that I want to stay in PGO for longer. The first of my work has just ended and I still learn secrets of my occupation thanks to the support of my employer.

Bartosz Łyczba, Marketing Specialist



Number of trainees broken down by gender and localization						
Localization	2017			2018		
	F	M	together	F	M	together
Katowice, PGO S.A.	0	0	0	1	1	2
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	2	2	4	2	0	2
Gorlice, Kuźnia Glinik sp. z o.o.	1	4	5	1	2	3
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	0	0	0	0	0	0
Śrem, Odlewnia Żeliwa "Śrem" sp. z o.o.	2	0	2	1	3	4

Number of employed trainees broken down by gender and localization						
Localization	2017			2018		
	F	M	together	F	M	together
Katowice, PGO S.A.	1	0	1	0	1	1
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	0	1	1	2	0	2
Gorlice, Kuźnia Glinik sp. z o.o.	1	1	1	1	2	3
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	0	0	0	0	0	0
Śrem, Odlewnia Żeliwa "Śrem" sp. z o.o.	1	0	1	1	3	4



Safety and health of our employees are the most value of our Company. We strive to ensure employees of PGO Group the safest and healthiest conditions of work making the best possible use of our resources, technologies and work organization.

Andrzej Pietruszkiewicz, OSH Main Officer



Providing our employees with safety and health is our primary goal. The PGO Group respects all legal obligations regarding safe working conditions. All employees are subject to compulsory initial and periodic OSH training and are informed about occupational risks. We constantly assess occupational risk and examine the work environment.

Throughout the PGO Group, we are introducing a prevention program against accidents at work

The program is based on early detection of accident hazards and their elimination before they occur.

- We train production workers and management staff in ways to identify hazards, we teach principles of their elimination and good practices. All detected hazards in the plants are subject of discussion of managers, foremen and production workers during daily shift briefings.
- We organize „security quarters” Once a week, the managers of particular units participate in shift briefings during which the principles of safe work organization are consolidated and the critical work processes that may pose a particular threat to employee safety are discussed.
- We place emphasis on reporting potentially accidental events. Proper determination of the causes and application of preventive measures is of key importance. We set up teams to investigate potentially accidental situations, which include managers, foremen, OSH service and employees. We use TOL Analysis and 5 Why.
- We analyse all accidents and, on their basis, introduce corrective and preventive measures.

Thanks to inter-company communication, as part of the detected threats and good practices, we use the synergy effect. Preventive actions implemented in one of the plants are automatically implemented by the others.

Health and safety issues are one of the main topics discussed during the meetings with the directors or management of the plants. During the meetings, we plan long-term activities and build an OHS strategy for the entire PGO Group.

Issues related to health and safety protection in the Group's companies are included in the work regulations and company collective agreements.

In the production plants belonging to the PGO Group, Health and Safety Committees operate. The committee is composed of equal number of representatives of the employer, including health and safety service employees and a physician exercising prophylactic health care over employees as well as employees' representatives, including a Social Labour Inspector. The chairman of the health and safety committee is the employer or a person authorized by him, and the vice-chairman is a Social Labour Inspector or employee representative.

The task of the Health and Safety Commission includes:

- reviewing working conditions,
- periodic assessment of the health and safety at work,
- giving opinions on measures taken by the employer to prevent accidents at work and occupational diseases,
- formulating proposals for improving working conditions and cooperation with the employer in the performance of his duties in the field of occupational health and safety.

In Kuźnia Glinik Sp. z o.o and Pioma-Odlewnia Sp. o.o. together with the branch in Stalowa Wola, committee meetings are held once a quarter, and in the Odlewnia Żeliwa „Śrem” Sp. z o.o. once a month.

Employees of PGO Group companies may be exposed to occupational diseases such as:

- pneumoconiosis,
- cochlear hearing loss,
- hand-arm vibration syndrome - mixed form vaso-nerve and osteoarticular

In 2018, at our production plants, 36 cases were identified as accidents at work, in relation to which 1600 days of absence of employees employed on the basis of a contract of employment were recorded.<sup>56</sup> In 2018, in the companies of the PGO Group, one accident occurred with a fatal outcome.

Accident frequency rate		
Localization	2017	2018
Katowice, PGO S.A., PGO Services	0.00	0.00
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	7.30	12.30
Gorlice, Kuźnia Glinik sp. z o.o.	38.70	30.90
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	32.10	32.50
Śrem, Odlewnia Żeliwa „Śrem” sp. z o.o.	25.00	41.00
<b>overall</b>	<b>25.40</b>	<b>31.50</b>

The method of calculating the indicator: (number of accidents / number of employees) \* 1000

In 2018, employees of PGO Services employed on the basis of a civil law contract participated in 11 events classified as accidents at work, in relation to which 350 days of employee absences were recorded.

Accident frequency rate of employees employed on the basis of a civil law contract	
Localization	2018
Katowice, PGO Services	0.00
Piotrków Trybunalski, Pioma-Odlewnia sp. z o.o.	28.60
Stalowa Wola, Pioma-Odlewnia dept. in Stalowa Wola	95.20
Śrem, Odlewnia Żeliwa "Śrem" sp. z o.o.	106.40
Gorlice, Kuźnia Glinik sp. z o.o.	250.00
Piotrków Trybunalski, Famur S.A.	0.00
Piotrków Trybunalski, Zamet Industry	0.00
Bytom, Zamet Budowa Maszyn	200.00
Tarnowskie Góry, Zamet Budowa Maszyn	0.00
<b>overall</b>	<b>84.60</b>

The method of calculating the indicator: (number of accidents / number of employees) \* 1000

\* In 2017, no data were reported on the accident frequency rate of employees employed on the basis of a contract of mandate. The year 2018 is the base year.

<sup>56</sup> G4-LA6, 403-2

# SOCIAL ACTIONS



## Social responsibility of PGO

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Social activities of the PGO Group are not a part of marketing or a PR tool. The willingness to help and take responsibility for the communities in which we operate is in line with our values. Most of the events are grassroots initiatives of employees, which confirms our belief that socially responsible activities are inscribed in our DNA.

Marzena Bortnicka-Oczko, Marketing and PR manager



The employees of the PGO Group are aware of the impact that the company in which they work has on society and the natural environment. By making any decisions we try to optimize the positive and maximally minimize the negative impact. Such a method of operation is not a new phenomenon, it has been accompanying us since the beginning of our activity. Our mission is to shape modern industry through continuous improvement and development as well as building a community based on values. We believe that the mutual transfer of our attitudes and values, allows to develop us and the communities around the PGO

At the end of 2017, the PGO Group introduced a social and sponsorship policy that was developed in correlation with the mission and vision of the PGO Group. Throughout 2018, the employees of the Group were familiarized with its content through the Internal Bulletin of the PGO Group, information posters in the factories and headquarters in Katowice and on the occasion of organized internal actions.

At the end of 2018 Guidelines for the Social and Sponsorship Policy from 2017 were revised and they direct even more social activities, creating the structure and giving the opportunity to conduct ongoing analysis as well as to control the impact of the PGO Group on local communities and the natural environment.

The socially responsible activities of the PGO Group are organized in two ways. The first one, targeted at employees, is related to their development, health, promotion of young talents and creation of programs for employees and their families. The second one is addressed to local communities in which we conduct our business through sponsorship and support of charitable or educational and cultural activities, material help of organizations, groups in need or socially excluded, and the natural environment.

### PGO for science and culture

We are a learning organization. Cooperating with education at every level, we gain mutual benefits. Technical schools within our facilities run classes that have been sponsored by PGO. The purpose of the class is to educate the youth in the field of founding and forging and ensuring a good start through the offered practices and learning in the dual system.

PGO also cooperates with higher education institutions. For several years, there have been the postgraduate studies

„Engineering of foundry and plastic forming processes” at the Silesian University of Technology co-created with the PGO Group. The curri-

culum includes weekend activities, also in production plants of PGO so that students experience in practical way the realization of plastic, casting and thermal processing.

In 2018, PGO supported for the second time the project of the Martian rover, built by the Students' Circle of Artificial Intelligence SKN AI-METH, thanks to which it was possible to continue the project and participate in the European and national competitions.

For many years, we have been stimulating creative thinking of our employees' children. The annual competition „We shape, we paint” which aims at deepening the knowledge in the field of founding through art dedicated to the youngest members of the PGO family in 2018 took a spatial form.

### PGO for health and sport

Activities affecting local communities are often related to the physical activity of our employees. Through sport, participation in paid, charitable runs help the most needy in the collection of funds for rehabilitation, equipment and devices necessary for the treatment of the needy.

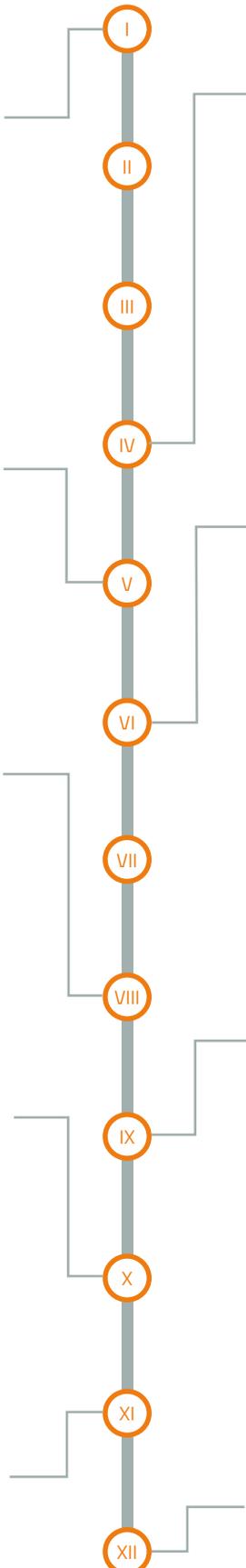
One of the tools for the implementation of our socially responsible activities is, i. a., an internal action PGO Run [PGO Biega], which aims at promoting physical activity among employees, integration, strengthening group membership and team spirit values, and on the other hand help those in need.

PGO also supports water sports. A second frigate joined the PGO Good Speed Sailing Team in 2017 - Good Shape Yacht Club Glinik, with a captain employed by PGO S.A. Forge Glinik branch in Gorlice.

### PGO for the environment

In 2018, the PGO Group did not undertake social activities related to the natural environment and broad understood ecology. The guidelines for social and sponsorship policies adopted at the end of 2018 were taken into account. The final effect of the clarified policy will be presented in the PGO Report on Sustainable Development for 2019.

## Odpowiedzialny rok 2018 Grupy PGO

- 
- Employees of PIOMA- Odlewnia and ŚREM Iron Foundry took part in the „Get even with your diabetes” action as part of the Great Orchestra of Christmas Charity final. Athletes from the PGO Group during an organized competition rode bicycles, ran and did Nordic walking.
  - Representatives of the ŚREM Iron Foundry took part in the Wings for Life run in Poznań. It is the only global race in which the finish line is chasing participants, and the start all over the world is organized at the same time. All funds from start-up fees have gone into the research on the spinal cord.
  - The GLINIK Forge co-financed the District Day Celebrations of the Firefighter’s Day, which held place together with the 13th edition of the nationwide „Firefighter - Hot Blood” ( Ognisty Ratownik-Goraca Krew) national blood donation action.
  - In the ŚREM Iron Foundry, trainings in first aid were organized. Over 70 production and administrative employees took part in them.
  - Employees of the Iron Foundry “ŚREM” took part in the Company Runner Race “Muusisz”, whose aim was to popularize and promote running as a healthy form of spending free time, team and the entire local community integration. Participation in the event was a grassroots initiative of the employees of the plant.
  - The PGO Group took part in the social campaign „My friend in the mask” and the competition for MukoFriend, organized by the Life Breath Foundation. Its aim was to build acceptance of the image of children and young people wearing disposable facials suffering from Cystic Fibrosis. Our employees have been awarded for their great contribution in spreading awareness among the employees’ children and for sending unusual works.
  - The employees of Iron Foundry “ŚREM” ran in the 6th Relay in Śrem, during which a collection was held to help Michał and Krzys, suffering from childhood cerebral palsy.
  - The employees of the Group took part in 19th PKO Marathon.
  - In November, PGO had the pleasure to extend its cooperation with the Student Scientific Circle Application of AI-METH Artificial Intelligence Methods to build a Mars rover.
  - On the occasion of the upcoming Santa Clause, employees of Forge Glinik repainted the walls of the Gorlice Children’s Home. Seven employees of the Gorlice facility took part in the social action.
  - Iron Foundry “ŚREM” supported financially the local shelter for homeless animals
  - A 6-person team of Śrem runners took part in the 11th PKO Half Marathon. The action was organized thanks to the internal program of PGO RUN [PGO Biega]. Participation in the half-marathon was an opportunity to start the running season.
  - PGO became the Silver Sponsor of the 3rd Tarnogorski Half-Marathon, in which Monika, a Payroll and Personnel Specialist at PGO Services, took part.
  - At the initiative of the employees, the Forge GLINIK donated books, school supplies, games, cosmetics, sweets and bedding sets to the children of the Care Centre for Children ‘Together’ ( ‘ Razem’).
  - The PGO Group organized internal football games for the PGO President’s Cup. Their goal was to promote a healthy lifestyle and team-spirit values. The representatives of the Iron Foundry “ŚREM” won the first games in the history of the Group.
  - Iron Foundry “ŚREM” representation took part in a charity picnic combined with a football tournament, during which the participants supported an ill student of the first class at the local High School.
  - Employees of the PGO Group supported Marysia, the ward of the Foundation. “There is no time” ( “ Nie ma czasu”), through their participation in the charitable IV Night Half Marathon of Many Cultures. The sponsor of the charity event was PIOMA- Odlewnia.
  - PGO awarded the prize for the best paper in the session „Young Researchers Seminar”, which took place at the World Foundry Congress in Krakow. It came to a representative of Kurume College from Japan.
  - The employees of the Iron Foundry “ŚREM” organized an art contest for local communities titled: „Foundry in 30 years”. It was an excellent opportunity for children to deepen knowledge in the field of founding, and for employees to admire the talents of students from the schools in Śrem.
  - Children of the employees of the PGO Group prepared works for the model contest „Art of Industry, Industry in Art”, which this year adopted a spatial form. The jury assessed 64 works in thirteen categories, and children had a chance to get attractive awards.
  - Iron Foundry “ŚREM” supported financially Śrem firemen by adding the missing amount needed to purchase emergency equipment.
  - The PGO Group once again fielded its competitors in Poland Business Run, a charity relay run, from which the income was transferred to help people who underwent limb amputation.
  - The PGO Group organized a social action for children of local Orphanages. Thanks to the commitment of employees and the generosity of the board of PGO S.A. we bought Christmas presents and articles needed for five Children’s Homes in Poland.

57

Wszystkie opisywane programy wewnętrzne dla pracowników PGO i ich rodzin oraz programy i akcje skierowane do społeczności lokalnych skierowane są do obu płci, biorą w nich udział zarówno kobiety, jak i mężczyźni. Każda ze spółek Grupy PGO ma wdrożony program zaangażowania lokalnej społeczności.<sup>58</sup>

<sup>57</sup> G4-S02, 413-2

<sup>58</sup> G4-S01, 413-1

## Sanctions

The PGO Group conducts its operations in accordance with the laws, regulations and principles of ethical business. In 2018, we did not report any corruption or discrimination in companies within the PGO Group.<sup>59</sup> In 2018, no legal action was taken against the PGO Group regarding violations of the rules of free competition and monopolistic practices.<sup>60</sup> In 2018, the PGO Group did not pay any fines and did not incur any non-financial sanctions for non-compliance with laws and regulations, including the provision, labelling and use of products and services.<sup>61</sup> In 2018, there were no incidents of non-compliance with regulations and voluntary codes on the health and safety impact of products and services.<sup>62</sup> In 2018 there were no cases of non-compliance with regulations and voluntary codes on information and labelling of products and services.<sup>63</sup> In 2018 there were no incidents of non-compliance with regulations and voluntary codes of marketing communication.<sup>64</sup>

The PGO CG will, however, meet the criteria set out in art. 55 sec. 2b of the Accounting Act and therefore, pursuant to art. 55 sec. 2c of the same act, this report has been prepared.

## About the report

We prepared the Sustainable Development Report of the PGO Group, being a non-financial report for the second time. The report covered the period from 01/01/2018-31/12/2018<sup>65</sup>. In the PGO Group, we adopted the annual reporting cycle. The report has been prepared in compliance with the obligation set out in art. 49b and art. 55 of the Accounting Act of September 28, 1994 (unified text Journal of Laws of 2019, item 351, as amended)

PGO S.A. does not meet the criteria set out in Article 49b par. 1 of the Accounting Act of 29 September 1994 and is therefore not subject to the obligation to prepare a separate report on non-financial information. The PGO CG will, however, meet the criteria set out in art. 55 sec. 2b of the Accounting Act and therefore, pursuant to art. 55 sec. 2c of the same act, this report has been prepared. The document will be published on the website [www.pgosa.pl/csr](http://www.pgosa.pl/csr)

While preparing the non-financial data report the PGO Capital Group applied the provision of art. No. 49b par. 8 of the Accounting Act

of September 28, 1994, pursuant to which an entity may use any rules when elaborating the declaration about non-financial data. The report was developed based on its own methodology modelled on GRI Sustainability Reporting Standards.

In the CSR report for 2017, only people employed in the PGO Group on basis of a contract of employment were included. The CSR report for 2018 also includes persons employed by PGO Services on the basis of a civil law contract. Data on environmental protection indicators (waste, emissions, energy consumption, water abstraction and sewage) for 2017 have been completed and revised. Otherwise we did not notice any other changes in reporting.<sup>66</sup>

In the reporting period, there were no significant changes in the size of the organization and its structure, ownership or supply chain in the PGO Group.<sup>67</sup> The report was not subject to external verification.<sup>68</sup> Contact person:<sup>69</sup> Marzena Bortnicka-Oczko, head of marketing and PR department, [marzena.bortnicka-oczko@pgosa.pl](mailto:marzena.bortnicka-oczko@pgosa.pl)

<sup>59</sup> G4-HR3, 412-2

<sup>60</sup> G4-SO7, 206-1

<sup>61</sup> G4-SO8, 418-1

<sup>62</sup> G4-PR2, 416-2

<sup>63</sup> G4-PR4, 417-2

<sup>64</sup> G4-PR7, 417-3

<sup>65</sup> G4-28, 102-50; G4-29, 102-51; G4-30, 102-52

<sup>66</sup> G4-22, 102-48; G4-23, 102-49

<sup>67</sup> G4-13, 102-10

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<sup>70</sup> G4-32, 102-55

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President of PGO S.A. Management Board

**Łukasz Petrus**

Vice-president of PGO S.A. Management Board responsible for Sales

**Andrzej Bulanowski**

Vice-president of PGO S.A. Management Board responsible for Finances

**Lucjan Augustyn**

Vice-president of PGO S.A. Management Board responsible for Operations

**Ireneusz Kazimierski**



PGO S.A.

ul. Tysiąclecia 101, 40-875 Katowice

[www.pgosa.pl](http://www.pgosa.pl)

