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Management Board Report

on the activity of the PKP CARGO GROUP

for H1

2023

PKPCARGO

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP IN THE FIRST HALF OF 2023

1. Organization of the PKP CARGO Group

1.1. Highlights on the Company and the PKP CARGO Group along with changes in H1 2023

The PKP CARGO Group ("PKP CARGO Group") is a rail freight operator in Poland and the European Union ("EU") that has provided comprehensive logistics services for years. The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. Apart from transport activity, the PKP CARGO Group provides complementary services supporting the Group in the area of rail freight, including siding and traction services, terminal or forwarding services.

The PKP CARGO Group holds licenses for the provision of rail freight services in the following 9 EU countries: Lithuania, Slovakia, Hungary, Slovenia, Austria, the Czech Republic, Germany, the Netherlands and Poland.

As at 30 June 2023, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A. ("PKP CARGO"):

a) 20 subsidiaries of PKP CARGO, controlled directly or indirectly (by entities controlled by PKP CARGO), including:
– 10 subsidiaries controlled directly by PKP CARGO,
– 10 subsidiaries controlled directly by companies directly controlled by PKP CARGO (and indirectly controlled by PKP CARGO), including 3 companies directly controlled by PKP CARGO CONNECT sp. z o.o. and 7 companies directly controlled by PKP CARGO INTERNATIONAL a.s.;
b) 1 jointly controlled subsidiary (in which a member of the PKP CARGO Group holds a 50% stake in the share capital), specifically:
– 1 company under a joint control of PKP CARGO CONNECT sp. z o.o., holding a 50% stake in its share capital (under an indirect joint control of PKP CARGO): TERMINALE PRZEŁADUNKOWE SŁAWKÓW MEDYKA sp. z o.o.,

Moreover, as at 30 June 2023, PKP CARGO or PKP CARGO's (direct or indirect) subsidiaries held shares in 8 companies that were not controlled or jointly controlled by PKP CARGO or PKP CARGO's subsidiaries, including:

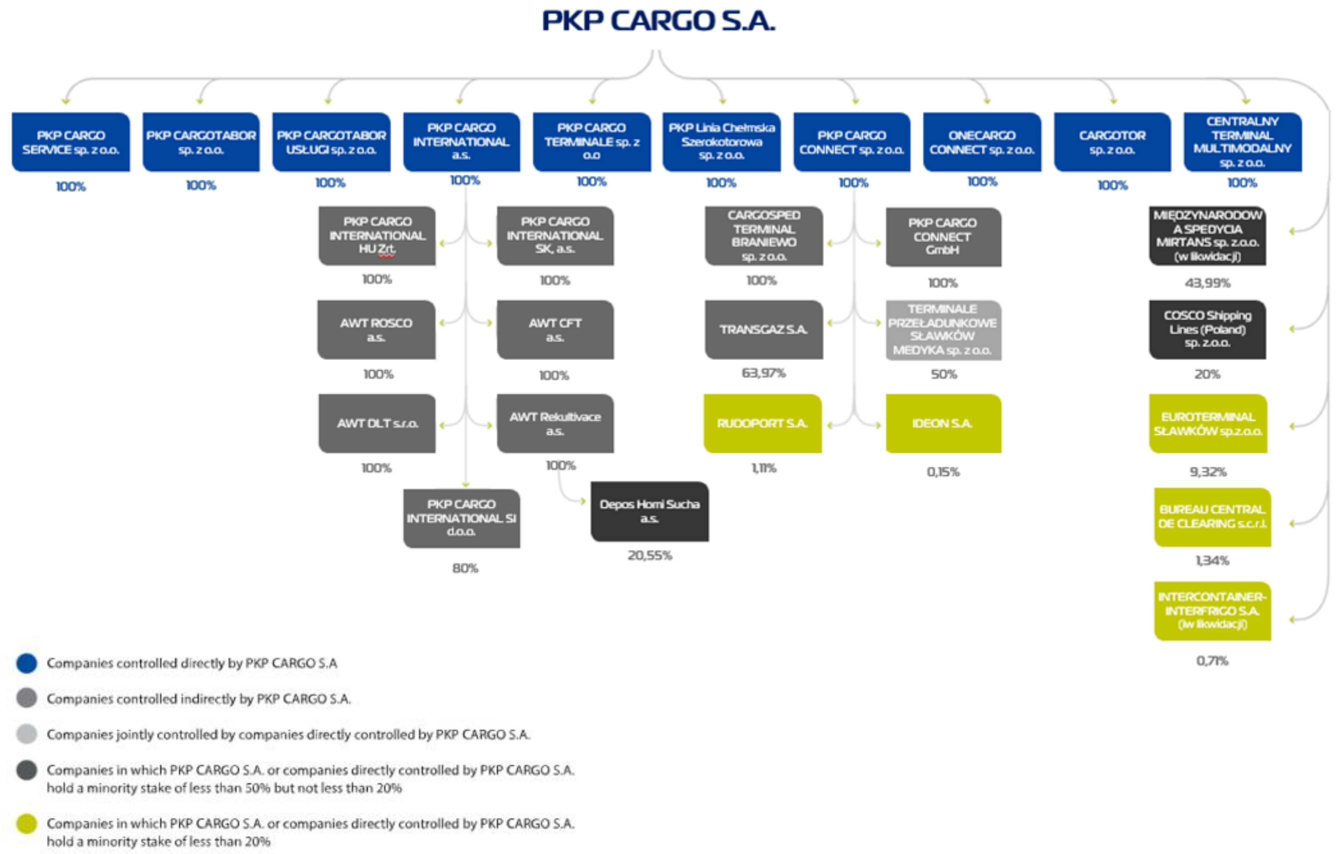
– 5 companies in which PKP CARGO directly holds a minority stake,

– 2 companies in which PKP CARGO CONNECT sp. z o.o., a company directly controlled by PKP CARGO, holds a minority stake in the share capital in a manner that does not make it possible to exercise control or joint control,

– 1 company related to the PKP CARGO INTERNATIONAL Group in which a company indirectly controlled by PKP CARGO holds a minority stake in the share capital in a manner that does not make it possible to exercise control or joint control.

The chart below presents the structure of capital links with companies in which PKP CARGO or its subsidiaries hold an equity stake – as at 30 June 2023:

Figure 1. Structure of capital links with companies in which PKP CARGO or its subsidiaries hold shares – as at 30 June 2023



Source: Proprietary material

During the first half of 2023, the following changes were made to the organization of PKP CARGO Group:

- increase in the share capital of PKP CARGO TERMINALE sp. z o.o. with its registered office in Żurawica, a wholly owned subsidiary of PKP CARGO

On 23 December 2022, an Extraordinary Shareholder Meeting of PKP CARGO TERMINALE sp. z o.o. with its registered office in Żurawica was held and adopted a resolution to increase the share capital of PKP CARGO TERMINALE sp. z o.o. from PLN 75,015,000.00 to PLN 93,015,000.00, that is by PLN 18,000,000.00, by creating 18,000 new shares with a par value of PLN 1,000.00 each and a total par value of PLN 18,000,000.00, covered by PKP CARGO S.A. with a cash contribution of PLN 18,000,000.00.

The said increase in the share capital of PKP CARGO TERMINALE sp. z o.o. formally occurred on the date of its registration by the registry court (the entry in the National Court Register is of a constitutive nature in this case), which took place on 20 April 2023;

- increase in the share capital of PKP CARGOTABOR sp. z o.o. with its registered office in Warsaw, a wholly owned subsidiary of PKP CARGO

On 30 January 2023, an Extraordinary Shareholder Meeting of PKP CARGOTABOR sp. z o.o. with its registered office in Warsaw was held and adopted a resolution to increase the share capital of PKP CARGOTABOR sp. z o.o. from PLN 92,264,000.00 to PLN 105,764,000.00, that is by PLN 13,500,000.00, by creating 13,500 new shares with a par value of PLN 1,000.00 each and a total par value of PLN 13,500,000.00, covered by PKP CARGO with a cash contribution of PLN 13,500,000.00.

The said increase in the share capital of PKP CARGOTABOR sp. z o.o. formally occurred on the date of its registration by the registry court (the entry in the National Court Register is of a constitutive nature in this case), which took place on 16 February 2023.

- increase in the share capital of PKP CARGOTABOR USŁUGI Sp. z o.o. with its registered office in Warsaw, a wholly owned subsidiary of PKP CARGO

On 2 March 2023, the Extraordinary Shareholder Meeting of PKP CARGOTABOR USŁUGI sp. z o.o. with its registered office in Warsaw was held, at which the following resolutions of the Extraordinary Shareholder Meeting of PKP CARGOTABOR USŁUGI Sp. z o.o. were adopted:

1. to increase the share capital of PKP CARGOTABOR USŁUGI Sp. z o.o. from PLN 18,138,000.00 to PLN 46,474,000.00, that is by PLN 28,336,000.00, by establishing 28,336 new shares with a par value of PLN 1,000.00 each, with a total par value of PLN 28,336,000.00, which were covered by PKP CARGO with an in-kind contribution of a market value of PLN 29,764,375.00 in the form of the ownership title to real estate, the perpetual usufruct right to real estate and the ownership title to the buildings and structures considered a separate property from the land on which they are erected, and the ownership title to movables owned by the former Fabryka Wagonów Gniewczyna S.A. with the excess of the value of the in-kind contribution over the total par value of the newly established shares, equal to PLN 1,428,375.00, was transferred to the supplementary capital of PKP CARGOTABOR USŁUGI sp. z o.o. in the form of a share premium,
2. to consent to the acquisition by PKP CARGOTABOR USŁUGI Sp. z o.o., by way of a rights transfer agreement, in performance of the obligation arising from the obligation to make an in-kind contribution, of assets consisting of the ownership title to real estate, the perpetual usufruct right to real estate, the ownership title to buildings and structures located on the land which are considered separate from the land, and the ownership title to movables owned by the former Fabryka Wagonów Gniewczyna S.A.

The said increase in the share capital of PKP CARGOTABOR USŁUGI Sp. z o.o. formally occurred on the date of its registration by the registry court (the entry in the National Court Register is of a constitutive nature in this case), which took place on 5 April 2023.

- change of the company name from AWT Čechofracht a.s. to AWT CFT a.s. with its registered office in Ostrava, Czech Republic – in this company, PKP CARGO INTERNATIONAL a.s. holds a 100% stake in the share capital

With effect from 6 March 2023, AWT Čechofracht a.s. with its registered office in Ostrava, Czech Republic, a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s., changed its name to AWT CFT a.s. with its registered office in Ostrava, Czech Republic. The amount of AWT CFT a.s.'s share capital and the stake in its share capital held by PKP CARGO INTERNATIONAL a.s. have not changed.

In H1 2023 and until the date of publication of this report, apart from the events enumerated above, no other changes were made to the Group's organization resulting from a merger, obtaining or losing control over subsidiaries or long-term investments, or a demerger, restructuring or discontinuation of business.

1.2. Consolidated entities

The Interim Consolidated Financial Statements of the PKP CARGO Group as at 30 June 2023 encompass PKP CARGO and 12 subsidiaries consolidated by the full method:

Table 1. Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o. (“PKP CARGO SERVICE”)	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o. (“PKP CARGOTABOR”)	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o. (“PKP CARGOTABOR USŁUGI”)	Collection, treatment and disposal of waste and recovery of raw materials. Lease of real properties.
PKP CARGO TERMINALE Sp. z o.o. (former CL Medyka-Żurawica and former CL Małaszewicze) (“PKP CARGO TERMINALE”)	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company also has the ability to offer rail gauge switching services and as the only company on the country’s eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o. (“CARGOSPED TERMINAL BRANIEWO”)	Transshipment of goods and buying and selling of coal. The company is active in wholesale and retail sales in this area.
CARGOTOR Sp. z o.o. (“CARGOTOR”)	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o. (“PKP CARGO CONNECT”)	Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the PKP CARGO Group.
PKP CARGO INTERNATIONAL a.s. (formerly Advanced World Transport a.s.) (“PKP CARGO INTERNATIONAL”)	Comprehensive handling of rail freight transport (the Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport (“last mile”). Rolling stock management in the PKP CARGO INTERNATIONAL Group.
AWT ROSCO a.s. (“AWT Rosco”)	Cleaning of rail and automobile cisterns.
AWT CFT a.s. **(**formerly AWT Ćechofracht a.s.) (“AWT CFT”)	International freight forwarding services.
AWT Rekultivace a.s. (“AWT Rekultivace”)	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
PKP CARGO INTERNATIONAL HU Zrt. (formerly: AWT Rail HU Zrt) (“PKP CARGO INTERNATIONAL HU”)	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator’s license.

Moreover, the following 7 companies are measured using the equity method as at 30 June 2023 in the PKP CARGO Group’s Interim Condensed Consolidated Financial Statements:

Table 2. Entities accounted for under the equity method

Company name	Core business
Centralny Terminal Multimodalny Sp. z o.o.	As at the delivery date of this report, the company does not conduct any operating activity.
COSCO Shipping Lines (POLAND) Sp. z o.o.	Shipments carried out using the company's own fleet (container ships, bulk carriers, tankers, multi-purpose and specialized ships, including semi-submersible ships) and leased fleet, maintenance and sale of ships and spare parts, provision of warehouse and terminal services (also at Cosco's own terminals).
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	Core lines of business: transshipment operations, storage in storage yards, railway transport, freight forwarding by road, freight forwarding services.
Transgaz S.A.	Transshipment of a broad range of liquefied gases, including: propane, butane, propane-butane, propylene, isobutane, etc., and petrochemicals that require heating, including: paraffins, waxes, slack paraffins, certain oils.
PKP CARGO CONNECT GmbH	An international logistics company providing comprehensive transport, transshipment, warehousing and customs services. Specialization: transport and handling of containers, especially in the port of Hamburg and at railway terminals in Germany.
PKP CARGO INTERNATIONAL SK a.s.	Comprehensive rail transport services in Slovakia.
PKP CARGO INTERNATIONAL Sl d.o.o.	Comprehensive rail transport services in Slovenia.

2. Information about the Parent Company

2.1. Composition of the Management Board and Supervisory Board of PKP CARGO

MANAGEMENT BOARD

Composition of the Management Board of PKP CARGO as at 30 June 2023

As at the date of this report, the composition of the Company's Management Board has not changed.

SUPERVISORY BOARD

Table 3. Composition of the PKP CARGO Supervisory Board as at 30 June 2023

Name	Position	Period in office	
		from	to
Władysław Szczepkowski	Supervisory Board Chairman	12 July 2022	to date
Andrzej Leszczyński	Supervisory Board Vice-Chairman	12 July 2022	to date
Grzegorz Dostatni	Supervisory Board Member	28 July 2022	to date
Henryk Grymel	Supervisory Board Member	29 June 2022	to date
Tomasz Pietrek	Supervisory Board Member	29 June 2022	to date
Marek Ryszka	Supervisory Board Member	29 June 2022	to date
Paweł Sosnowski	Supervisory Board Member	26 June 2019	to date
Jarosław Stawiarski	Supervisory Board Member	7 July 2022	to date
Jarosław Ślepaczuk	Supervisory Board Member	29 June 2022	to date
Michał Wnorowski	Supervisory Board Member	29 June 2022	to date
Izabela Wojtyczka	Supervisory Board Member	16 July 2020	to date

Source: Proprietary material.

As at the date of this report, the composition of the Company's Supervisory Board has not changed.

SUPERVISORY BOARD AUDIT COMMITTEE

Table 4. Composition of the Audit Committee of the PKP CARGO Supervisory Board as at 30 June 2023

Name	Position	Period in office	
		from	to
Michał Wnorowski	Committee Chairman	23 August 2022	to date
Jarosław Ślepaczuk	Committee Member	12 July 2022	to date
Izabela Wojtyczka	Committee Member	12 July 2022	to date

Source: Proprietary material

As at the date of this report, the composition of the Audit Committee has not changed.

NOMINATION COMMITTEE

Table 5. Composition of the Nomination Committee of the PKP CARGO Supervisory Board as at 30 June 2023

Name	Position	Period in office	
		from	to
Izabela Wojtyczka	Committee Chairwoman	12 July 2022	to date
Paweł Sosnowski	Committee Member	12 July 2022	to date
Władysław Szczepkowski	Committee Member	12 July 2022	to date

Source: Proprietary material

As at the date of this report, the composition of the Nomination Committee has not changed.

STRATEGY COMMITTEE

Table 6. Composition of the Strategy Committee of the PKP CARGO Supervisory Board as at 30 June 2023

Name	Position	Period in office	
		from	to
Władysław Szczepkowski	Committee Chairman	12 July 2022	to date
Henryk Grymel	Committee Member	12 July 2022	to date
Andrzej Leszczyński	Committee Member	12 July 2022	to date
Tomasz Pietrek	Committee Member	12 July 2022	to date
Michał Wnorowski	Committee Member	12 July 2022	to date

Source: Proprietary material

As at the date of this report, the composition of the Strategy Committee has not changed.

2.2. Structure of PKP CARGO S.A.'s share capital

The structure of PKP CARGO's share capital as at 30 June 2023 is presented in the table below:

Table 7. Structure of PKP CARGO S.A.'s share capital

Shares	Issue date	Issue registration date	Number of shares
Series A	8 July 2013	2 October 2013	43,338,000
Series B	8 July 2013	2 October 2013	15
Series C	2 October 2013	25 April 2014	1,448,902
Total			**44,786,917**

Source: Proprietary material

In H1 2023 and until the date of this report, no changes have been made to the amount or structure of the Company's share capital.

2.3. Shareholders holding at least 5% of the total votes

The Company's shareholding structure as at the date of this report is presented in the table below.

Table 8. Shareholding structure of PKP CARGO S.A. as at 30 June 2023

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A.	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE	4,418,443	9.87%	4,418,443	9.87%
Allianz PTE*, including:	3,691,689	8.24%	3,691,689	8.24%
Allianz Polska OFE	*3,105,654*	*6.93%*	*3,105,654*	*6.93%*
Generali PTE	2,696,440	6.02%	2,696,440	6.02%
Other shareholders	19,196,151	42.86%	19,196,151	42.86%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

** Allianz Polska OFE, Allianz Polska DFE*
Source: Proprietary material

On 25 July 2023, the Company received a notice from Generali Powszechne Towarzystwo Emerytalne S.A. with its registered office in Warsaw that on 21 July 2023, as a result of the liquidation of NNLife Otwarty Fundusz Emerytalny (hereinafter: "NNLife OFE"), its assets were transferred to Generali Otwarty Fundusz Emerytalny (hereinafter: "Generali OFE"), as a result of which the stake held by Generali OFE in the share capital and the total number of votes of PKP CARGO S.A. exceeded the 5% threshold.

Table 9. Shareholding structure of PKP CARGO S.A. as at the date of the report

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A.	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE	4,418,443	9.87%	4,418,443	9.87%
Allianz PTE*, including:	3,691,689	8.24%	3,691,689	8.24%
Allianz Polska OFE	*3,105,654*	*6.93%*	*3,105,654*	*6.93%*
Generali PTE	2,624,886	5.86%	2,624,886	5.86%
Other shareholders	19,267,705	43.02%	19,267,705	43.02%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

** Allianz Polska OFE, Allianz Polska DFE*
Source: Proprietary material

2.4. Listing of shares held by management and supervisory board members

According to information available to the Company, the holdings of PKP CARGO shares or rights thereto by the Company's management and supervisory personnel as at the date of this report was as follows:

Table 10. PKP CARGO shares held by Management Board members as at the date of this report

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the date of this report	
Dariusz Seliga	0
Marek Olkiewicz	0
Jacek Rutkowski	0
Maciej Jankiewicz	0
Zenon Kozendra	46

Source: Proprietary material

This status has not changed since the date of submission of the consolidated report for Q1 2023.

Table 11. PKP CARGO shares held by Supervisory Board members as at the date of this report

Name	Number of PKP CARGO S.A. shares held by the Supervisory Board member
as at the date of this report	
Władysław Szczepkowski	0
Paweł Sosnowski	0
Marek Ryszka	0
Andrzej Leszczyński	0
Izabela Wojtyczka	0
Michał Wnorowski	0
Henryk Grymel	70
Tomasz Pietrek	46
Jarosław Ślepaczuk	0
Jarosław Stawiarski	0
Grzegorz Dostatni	0

Source: Proprietary material

This status has not changed since the date of submission of the consolidated report for Q1 2023.

3. Key areas of operation of the PKP CARGO Group

3.1. Macroeconomic environment

Polish industry and economy

The decrease in sold industrial output in H1 2023 by -1.7% yoy (vs. +13.6% yoy in H1 2022), confirming a consolidation of the strong decline in activity in Polish industry.[1] The second quarter of this year was characterized by a stronger year-on-year reduction in output than the result generated in the first quarter of this year (-2.8% yoy vs. -0.6% yoy, respectively). The industrial sector recorded a noticeable downturn, including both domestic consumer demand and foreign demand. The key section, namely manufacturing, posted negative performance in H1 of this year (-0.4% yoy), after a positive result as recently as Q1 current year (+0.8% yoy) and a noticeably negative result in Q2 of this year (-1.6% yoy), confirming the challenging situation experienced by customers in Western countries, but also the decline in new orders and current output in Poland.[2]

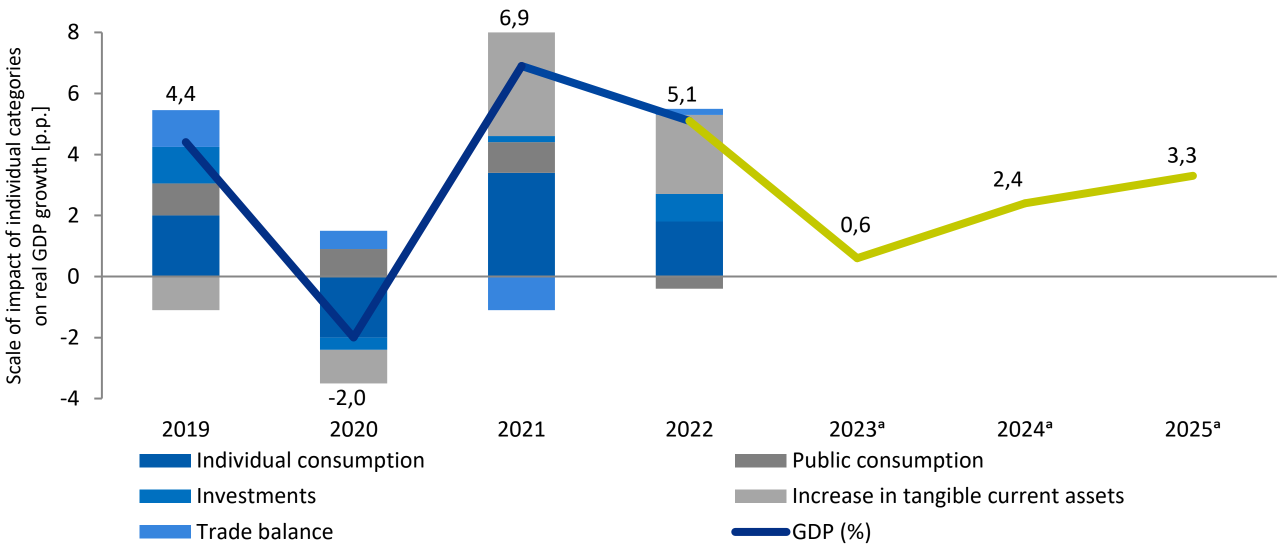
A decrease in yoy output (January-June) was recorded in 22 (out of 34) industrial branches which account for a 75% share in the sector's sold output, including those of key significance for transports of the PKP CARGO Group, such as: coal and lignite mining (-21.2%), chemicals and chemical products (-19.0%), wood products (-17.9%), metals (-15.7%, including pig iron, ferroalloys, cast iron, steel and steel products by -25.5%), other non-metallic raw materials (-11.7%), paper and paper products (-10.9%), furniture (-10.3%), rubber and plastic products (-3.1%), and metal products (-2.7%). On the other hand, increases were recorded in certain sectors, including production of machinery and equipment (+10.4%) and motor vehicles (+21.3%).[3]

In 2022, according to preliminary data published by Statistics Poland, GDP growth was +5.1% yoy (compared to +6.9% yoy in 2021 and -2.0% yoy in 2020).[4] This year, most analysts expect the positive growth rate to be maintained, with its year-on-year level not expected to surpass +1.0% (meaning that a significant cooling of the economy is anticipated in the wake of the accelerated growth in the previous two years).

Low GDP growth in H1 of this year – according to Statistics Poland's quick estimate, in Q2 of this year Poland's gross domestic product (non-seasonally adjusted data) declined by -0.5% yoy (following a -0.3% yoy decrease in Q1). At the same time, the ratio reflecting quarter-on-quarter changes, after a good result in Q1 of this year (+3.8% qoq) dwindled into negative territory in Q2 (-3.7% qoq).[5]

[1] Statistics Poland (in enterprises employing more than 9 staff)
[2] Statistics Poland
[3] Statistics Poland
[4] Statistics Poland
5 Statistics Poland

Figure 2. Real GDP growth rate in Poland in 2019-2022, its decomposition and forecasts for 2023-2025 – data not adjusted for seasonality



a – Inflation and economic growth projection of the National Bank of Poland for 2023-2025 (July 2023)
Source: Proprietary material based on data published by Statistics Poland and the National Bank of Poland

Maintenance of the high rate of price increases in H1 2023: despite the disinflationary processes progressing in Q2 current year due to the high reference base of the previous year, the Polish economy continued to struggle with a high rate of growth in consumer prices, which increased by +15.0% yoy (compared to +11.8% yoy in H1 2022).[6] At the same time, a strong increase was recorded in the prices of sold industrial output (+9.3% yoy, compared to a very strong increase in H1 2022 of +21.5% yoy) and the prices of construction and assembly production (+11.9% yoy, following an increase of +10.8% yoy in H1 of the previous year). The key issue for industry, given the strong cooling of the economy and the effect of the emerging high base of reference (from Q2 of this year), is the strong decrease in price growth in subsequent quarters in year-on-year terms (while in Q1 of this year growth was still in double digits, at +16.1% yoy, in Q2 of this year prices increased by only +3.1% yoy).[7]

A leading indicator for industrial processing (PMI) remains below the 50.0-point threshold – in June 2023, for the 14th consecutive month, the PMI was below the 50.0-point threshold marking the technical border between recovery and recession in the industrial processing sector (reaching 45.1 points). In Q2 2023, the index recorded the average value of 46.2 points (and at the same time 47.2 points in the first half of the year), which is lower than the result in Q2 2022 and Q1 this year (although clearly above the results of last year's Q3 and Q4, when the index reached 42.0 points and 43.7 points, respectively). The reason for the persistence of the PMI below the threshold is a drop in the acquisition of new orders, a lower volume of output and weaker demand for products (both in Poland and in European Union countries), exacerbated by unfavorable predictions regarding industry growth in the near future by the business community.[8]

Improvement in the business tendency indicator for industrial processing (Statistics Poland) – this indicator, after the deterioration of Q4 of last year to -20.4, the improvement of Q1 2023 to -15.0, reached -11.6 in Q2. This represents a gradual but marked decline in the number of businesses expecting a further deterioration of the economic standing in the coming months decreased in relation to the number of businesses expecting the opposite to occur (although negative opinions continue to prevail very strongly).[9]

Forecasts: the current projection of the National Bank of Poland concerning inflation and GDP growth maintains the forecast of a significant slowdown in economic activity in Poland in 2023-2024. According to the forecast, the economic growth will be as follows: +0.6% yoy in 2023, followed by +2.4% yoy in 2024 and +3.3% yoy in 2025 (meaning that higher rates of growth are expected in subsequent years, with a reduction in the rate of growth in the current year). At the same time, a strong double-digit rate of price growth is expected in the current year (+11.9% yoy) with a tendency to approach the inflation target set by the National Bank of Poland of +2.5% with a deviation of one percentage point in subsequent years. The inflation rate in 2024

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[6] Statistics Poland
[7] Statistics Poland
[8] IHS Markit
[9] Statistics Poland

should reach +5.2% yoy, followed by +3.6% yoy in 2025, with economists pointing to the possibility of reaching the target only in 2026.[10]

In H1 2023, the largest share in the cargo transport by rail continues to consist of bulk cargo, including hard coal, aggregates, coke, ores and metals, chemicals and chemical products, and liquid fuels. The deteriorating economic conditions and the strong slowdown in industry performance resulted in weaker demand for the said raw materials and commodities, which translated into lower demand for rail transport services, which consequently affected the freight and financial performance of PKP CARGO Group companies.

Significant factors affecting the situation in Polish industry in H1 2023 included:

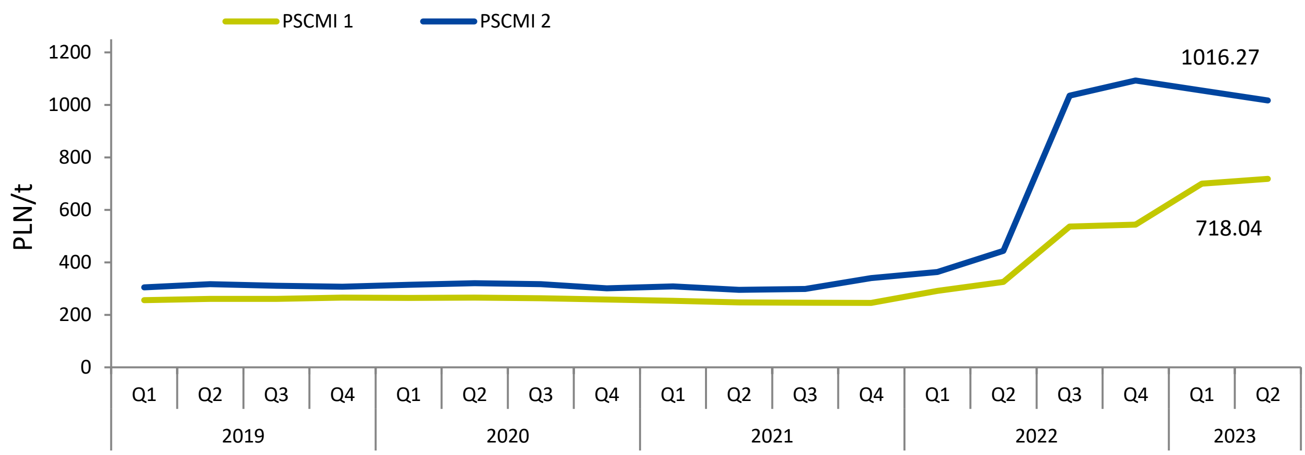
- decline in the hard coal output: to 23.2 million tons (-4.6 million tons yoy, or -16.7% yoy), with a simultaneous sharp drop of the domestic hard coal sales to 22.0 million tons (by -6.4 million tons yoy, or-22.5% yoy).[11]
- increase in the volume of coal inventories in mine storage yards: 3.3 million tons as at the end of June 2023 (up by +1.8 million tons, or +122.8% compared to the end of June of last year).[12]
- very substantial increase in hard coal imports (according to data published by Eurostat, during the first 6 months of 2023, imports of this commodity increased by +82.3% yoy (to 11.5 million tons). Colombia was the main supply source of this commodity in H1 of this year (+486.1% yoy, from just under 0.6 million tons to 3.2 million tons, which translated into a market share of 28.1%). The second largest exporter of coal to Poland was Kazakhstan (2.5 million tons, +230.7% yoy and a 22.1% share), followed by coal purchased from Australia (1.3 million tons, +19.2% yoy and an 11.3% share), Indonesia (1.2 million tons, +1,844.9% yoy and a 10.0% share) and South Africa (1.1 million tons, +579.8% yoy and a 9.7% share). These commodity exporters accounted for a combined share of nearly 81.3% in Poland's total coal imports. Russia, which accounted for a 40.9% market share in the corresponding period of 2022 (2.6 million tons), due to the embargo imposed by Poland in April 2022 on raw material imports from the Russian Federation, ended up not exporting any coal to Poland in 2023.[13]
- decline in coal prices and their persisting stabilization on the international market: decrease in coal prices in the world markets and stabilization of coal rates at levels similar to those recorded at the end of 2021. In Q2 of this year, the average price of coal at ARA ports fell by -61.5% yoy to USD 121.56 per ton (vs. USD 315.45 per ton in Q2 2022). In turn, in H1 of this year, it decreased by -49.3% yoy (to USD 134.82 per ton). Interest in coal declined noticeably across Europe, due to the low prices of gas, the firing of which translates into competitive energy prices and which provides a substitute for coal in the energy mix. At the same time, surpluses of this raw material were redirected from Europe to Asia, where coal enjoys unflagging interest. Market analysts predict an increase in coal prices in the fall due to the seasonality of its purchases by European Union customers, coupled with strong interest in other geographic regions. Europe has relatively high inventory levels due to the stabilization of sentiment related to the conflict in Ukraine.[14]
- stabilization of prices in the Polish coal market at new significantly higher levels: in Q2 2023, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 718.04 per ton (+120.5% vs. the corresponding quarter of 2022, and +2.5% higher than in Q1 of this year). In the same period, PSCMI2 reached PLN 1,016.27 per ton (+129.3% more than in Q2 2022 and -3.7% less than in the previous quarter of this year). This year-on-year increase takes into account the increase in commodity prices caused by the renegotiation of previously executed coal supply contracts by Polish mining companies with contractors, which resulted from a significant increase in prices on global markets last year.[15]
- decrease in electricity consumption in Poland by -4.9% yoy to 83.1 TWh.[16]
- decrease in electricity generation by -9.4% yoy to 80.8 TWh. In parallel, the volume of electricity generated by hard coal-fired commercial power plants decreased by -13.0% yoy (to 37.6 TWh) and, at the same time, significantly declined for lignite-fired power plants by -26.6% yoy (to 17.4 TWh). At the same time, electricity generation in gas-fired power plants increased by +23.3% yoy, in wind power plants it decreased by -0.5% yoy, while generation from other renewable sources increased by +41.4% yoy.[17]
- reversal of the favorable (from the perspective of hard coal producers) trend in the national energy mix: decrease in the share of hard coal in total energy output to 46.5% (-1.9 p.p. yoy).[18]

[10] National Bank of Poland
[11] Industrial Development Agency (ARP)
[12] Industrial Development Agency (ARP)
13 Eurostat
[14] Industrial Development Agency (ARP), WNP
[15] Industrial Development Agency (ARP) - release
[16] Polskie Sieci Elektroenergetyczne
[17] Polskie Sieci Elektroenergetyczne
[18] Polskie Sieci Elektroenergetyczne

- increase in construction and assembly output: +3.8% yoy (vs. +12.0% yoy in H1 2022).[19] Increased performance was recorded in the sections of construction and assembly output in which entities build civil and water engineering facilities (+10.8% yoy) and perform specialized construction work (+6.6% yoy). A noticeable decline in output was recorded by companies involved in the construction of buildings (-5.3% yoy) as a consequence of an increase in the cost of financing (especially for residential construction), but also the freezing of certain investments (due to the market downturn).[20]
- decrease in cement production in Poland by -17.7% yoy to 7.6 million tons and cement clinker by -17.7% yoy to 5.6 million tons.[21]
- decrease in steel production in Poland by -20.0% yoy to 3.4 million tons.[22]
- stabilization in global crude steel output: according to Wordsteel 943.9 million tons were produced (-1.1% yoy). This includes a decline in steel production in the European Union (production stood at 66.3 million tons, down -10.9% yoy), with an increase in steel production in Asia and Oceania (to 708.2 million tons, or +0.7% yoy). China produced 535.6 million tons of steel (+1.3% yoy) and held a roughly 55% share of the global market.[23]
- decline in crude steel output in Poland: a decrease was recorded in the production of cold-rolled sheets by -20.0% yoy to 0.7 million tons, the production of hot-rolled bars and rods by -16.0% yoy to 0.6 million tons, hot-rolled products by -12.7% yoy to 4.0 million tons, and bars and flat bars by -11.0% yoy to 1.6 million tons, and the production of thin sheets (-3.5% yoy to 0.6 million tons).[24]
- decrease in coke output in Poland by -12.2% yoy to 4.1 million tons[25] as a consequence of the following two key factors: expensive energy and high costs of production processes (especially in Europe) coupled with withering demand for steel products (which effectively translated into lower product prices in the market and a decrease in demand for this commodity).
- decline in the output of fertilizers in Poland – including nitrogen fertilizers (-29.8% yoy to 0.7 million tons), phosphate fertilizers (-47.0% yoy to just under 0.1 million tons) and potassium fertilizers (-43.6% yoy to nearly 0.1 million tons).[26]
- decline in the output of sulfuric acid (-14.0% yoy to 0.6 million tons), plastics (-19.2% yoy to 1.5 million tons), nitric acid (-24.2% yoy to 0.9 million tons) and ammonia (-35.8% yoy to 0.8 million tons).[27]
- growth of automotive production: a total of 149.9 thousand passenger cars were manufactured in Poland (compared to 119.5 thousand in H1 2022), which permitted the filling of outstanding orders and sustained the good performance of Polish exports (as a consequence, an increase by +25.4% yoy was recorded). At the same time, the production of trucks and tractors increased by +63.0% yoy (from 92.4 thousand in H1 2022 to 150.6 thousand in H1 2022), and double-digit growth (+11.1% yoy) was also recorded by bus manufacturers (with production up 2.4 thousand to 2.7 thousand vehicles).[28]

[19] Statistics Poland, in construction companies, including enterprises with up to 9 staff
[20] Statistics Poland
[21] Statistics Poland
[22] Statistics Poland
[23] Worldsteel.org
[24] Statistics Poland
[25] Statistics Poland
[26] Statistics Poland
[27] Statistics Poland
[28] Polish Automotive Industry Association

Figure 3. Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



Source: Proprietary material based on the Industrial Development Agency's data

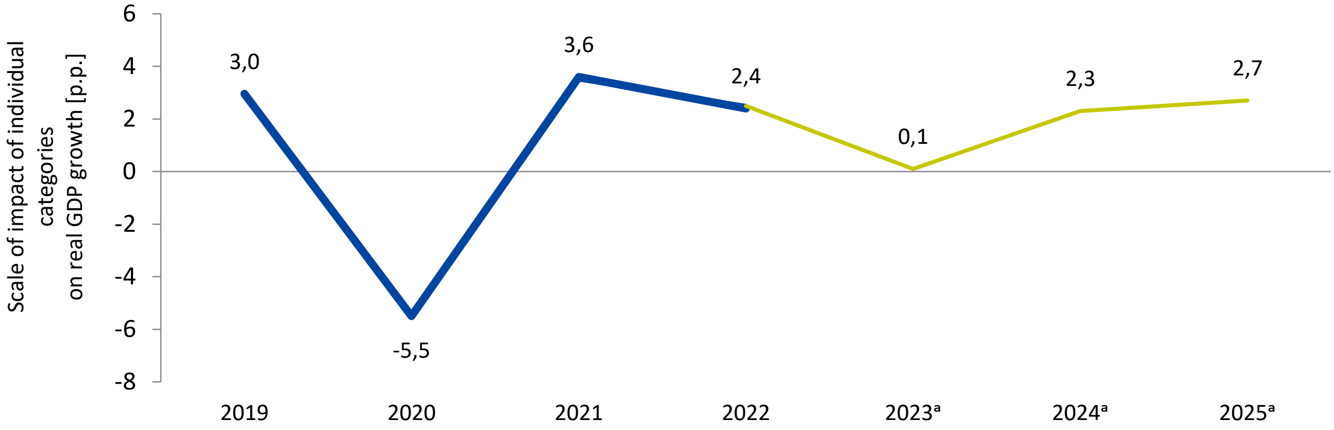
Czech industry and economy

- Industrial output in Q2 2023 (after taking into account the calendar effect) was higher by +1.1% yoy (after a +1.2% yoy increase in Q1 of this year and +0.7% yoy in Q2 of last year).[29] In the same period, the production of cars, trailers and semi-trailers increased significantly (+21.8% yoy), and so did, to a lesser extent, the production of electrical equipment (+5.8% yoy) and of machinery and equipment (+4.7% yoy). On the other hand, a decline was recorded in the production of: metals (-17.8% yoy), chemicals and chemical products (-12.8% yoy), wood and wooden products (-6.0 yoy), paper and paper products (-8.4% yoy), fabricated metal products (-1.4% yoy), as well as in the generation and distribution of electricity, gas, heat and air conditioning (-14.1% yoy), and mining and quarrying (-19.0% yoy).[30]
- The value of new orders in Q2 2023 (after taking into account the calendar effect) declined by -2.7% (following a +2.1% yoy increase in Q1 of this year and +9.8% yoy in Q2 of last year), caused to a certain extent by only a slight increase in domestic orders (by +1.5% yoy) and a noticeable decline in foreign orders (-4.8% yoy).[31]
- Continued weakness in the economy: declining new order intake and sharply reduced volume of production, looming picture of a continuing strong slowdown in Europe and a relatively good degree of resilience of the Czech economy to numerous disturbances (especially ones affecting major trading partners). Despite the receding inflationary pressures, the public continues to feel the effects of (without limitation) rapid price increases and a high cost of capital, which significantly affect household consumption and, as a consequence, constrain domestic demand. Businesses are being pinched by the pressure of high costs (including those of energy and investment financing), while demand for their products keeps decreasing (leading to declining prices and profitability of production).
- GDP decline in 2023 – according to the CZSO's preliminary estimates, GDP was down in Q2 by -0.6% yoy (following a -0.5% decline in Q1 of this year and a +0.1% yoy increase in Q4 of the previous year), with a concurrent growth by +0.1% qoq (following the continuation of the performance in Q1 2023, that is compared to Q4 of last year). The continuing reduction in yoy rate of growth was due to poor individual demand, which was once again exacerbated by declining gross accumulation. The negative performance of domestic demand was countered by the positive performance of international trade, as well as by growth in employment.[32]

[29] Czech Statistical Office
[30] Czech Statistical Office
[31] Czech Statistical Office
[32] Czech Statistical Office

- The GDP increase in 2022 – according to the estimate published by the CZSO (after adjustments to the rate of growth in the last 2 years), the GDP improved by +2.4% yoy (after an increase of +3.6% yoy in 2021, and the year of pandemic, 2020, when the Czech GDP decreased by -5.5% yoy).[33]

Figure 4. Real GDP growth rate in the Czech Republic in 2019-2022 and forecasts for 2023-2025 – data adjusted for seasonality



a – Macroeconomic forecasts of the Czech National Bank CNB)
Source: Proprietary material based on data from the Czech Statistical Office and the Czech National Bank (CNB)

- Inflation: in H1 2023, inflation reached +13.7% yoy (after decreasing from +16.4% yoy in Q1 to +11.1% yoy in Q2). There is a noticeable monthly decline in the rate of price growth (inflation declined from +17.5% in January to +9.7% in June this year), due to the stabilization and reduction of energy fuel prices and the statistical effect relating to the high base reported last year, which is strongly influenced by the significant reduction in demand.[34]
- Projections: according to the projections of the Czech National Bank of August 2023, it is anticipated that after a yoy decline in GDP in the first two quarters this year, the economy will achieve growth in the third and fourth quarters, respectively of +0.3% yoy and +1.3% yoy. At the same time, it is projected that in 2023 GDP will grow by only +0.1% yoy, and then once the economy recovers next year, the economic growth will return to the relatively moderate pattern. The economic growth in the Czech Republic will be ca. +2.5% yoy (i.e. +2.3% yoy in 2024 and +2.7% in 2025). According to the analyses, the consumer price level in 2023 will increase by +11.0% yoy (vs. +15.1% yoy in 2022) to reach +2.0 yoy in the following years, which is close to the inflation target.[35]
- A pronounced deterioration in the volume of new orders and production translated into poor PMI results: in Q2 2023, PMI averaged 42.1 points for the Czech Republic (compared to 44.4 points in Q1 2023 and 42.0 points in Q4 2022), remaining below the 50.0 threshold delineating the technical boundary between recovery and recession in the industrial sector.[36] After a progressive deceleration of last year's downward trend, the market sentiment deteriorated again at the beginning of this year. The weakening demand for products resulted in a declining volume of new orders coming in and a limited production. In June this year, the index reached 40.8 points, i.e. slightly higher than in May 2020 (i.e. the time of the most severe restrictions caused by the pandemic). The strong deceleration of the Czech economy (which is oriented toward external markets) is mainly caused by obstacles on the demand side in terms of the export of manufactured goods and a deeper than expected slowdown in the economies of Western countries, which receive most of the current output of key manufacturing industries. The receding cost pressures, including a decline in energy and energy fuel prices, are a positive development.[37]

In H1 2023, the following were significant factors affecting the situation in the selected industries:
- decrease in hard coal mined: the volume of hard coal mined was 0.67 million tons (-5.8% yoy), including 0.27 million tons of coking coal (-53.6 % yoy) and 0.40 million tons of thermal coal (+192.8% yoy). Coking coal production in Q2 2023 remained at a relatively low level similar to the output reported in H2 2022, and at the same time slightly higher

[33] Czech Statistical Office
[34] vdb.czso.cz
[35] cnb.cz
[36] Markit PMI
[37] Markit PMI

than in Q1 this year (+17.2% qoq). At the same time, the growth in thermal coal was due to a dramatically low reference base in H1 2022 (at the same time, output is nearly half that of the second half of last year). Lignite production also declined in the first half of this year, with output of 14.21 million tons (down -13.5% yoy). Of key importance is the decline in Q2 this year, when only 5.52 million tons of this material were extracted, which represents a result even lower than the production results in the hardest period of the pandemic, i.e. Q2 and Q3 2020 (when the poorest output of recent years, ca. 6.0 million tons, was reported).[38]

- drop in the coke production: coke production in the Czech Republic was 1.04 million tons (-15.9% yoy). At the same time, there was a decrease in imports (0.09 million tons, down -23.1% yoy) and raw material exports (0.26 million tons, down -11.7% yoy). A severe reduction in activity in metallurgy was the reason for the reduction in production, as well as in the turnover of raw material, which was most strongly influenced by the global reduction in the price of finished goods (resulting from poor demand) and the high level of costs associated with energy acquisition.[39]
- growth in the output of the automotive industry: a total of 386.6 thousand motor vehicles of various types (passenger cars, trucks, buses and motorcycles) were produced in the Czech Republic in Q2 2023, which represents an increase of +13.7% yoy. Q2 2023 was the fifth consecutive quarter with passenger car production above 0.3 million units (384.7 thousand vehicles). The highest increase was recorded in the production of passenger cars (+13.9% yoy), a slightly weaker growth was in the production of buses (+2.2% yoy), while the production of trucks and motorcycles declined (-17.9% yoy and -58.4% yoy respectively). At the same time, in H1 2023, it was the production of passenger cars, with output of 738.5 thousand units (of which 685.0 thousand for export), that powered the industry as a whole and achieved growth of +21.7 yoy, driven by the ability to complete outstanding orders, following a period of turmoil in supply chains, which was mainly due to the pandemic and the outbreak of war in Ukraine.[40]
- decrease in construction and assembly output (data adjusted for seasonality) – in Q2 2023, the output decreased by -2.7% yoy (following a reduction of -1.9% in Q1 2023). It is the fourth consecutive quarter with negative yoy results. It should be noted that building construction companies reported an decline by -2.0% yoy in Q2, following a +1.4% yoy increase in Q1 2023. The civil works contractors, after a strong decline (-9.5% yoy in Q1 2023), reported a -4.4% yoy decrease in Q2. [41]

3.2. Freight transportation activity

3.2.1. Rail transport market in Poland

Despite the difficult market situation, the interest in rendering rail freight transport services is still high. 120 rail operators active on the Polish rail freight market hold an active license issued by the President of the Office of Rail Transport for the conduct of rail freight operations (as at 4 August 2023).[42] Three members of the PKP CARGO Group, namely PKP CARGO, PKP CARGO SERVICE and PKP CARGO International, render rail freight transport services.[43]

In H1 2023, more than 115.2 million tons of goods were transported by rail, down -9.9 million tons (-7.9%) as compared to H1 2022. At the same time, the freight turnover of all rail operators totaled 30.8 billion tkm (+0.2 billion tkm), i.e. it grew by only +0.6% yoy, which, given the lengthening of trade relations and structural changes in freight, implies a real slowdown in growth in this area as well. The rail market succeeded to increase the volume transported in 2022 only in January 2023. Since February this year, only yoy declines have been recorded in the weight of cargo carried by operators present in the Polish market. A sharp reduction in commodity flows from the Far East was observed, as well as a significant slowdown in the coal market (translating into increasing inventories at mines). The average haul for the entire market during the first 6 months of 2023 amounted to 267 km, i.e. it was higher than in the corresponding period of 2022 (+23 km, or +9.3% yoy). In the same period, the average haul increased in the case of competitive rail operators increased (+27 km, i.e. by +11.5% yoy), and to a lesser extent in the PKP CARGO Group (+17 km, i.e. by +6.4% yoy). The factors contributing to the increase in average haul included both changes in delivery destinations and new cargo distribution channels, and large-scale repairs to the rail infrastructure. In Q1 2023 (similarly to 2022), the growth rate of the rail transport volume decreased month over month.[44]

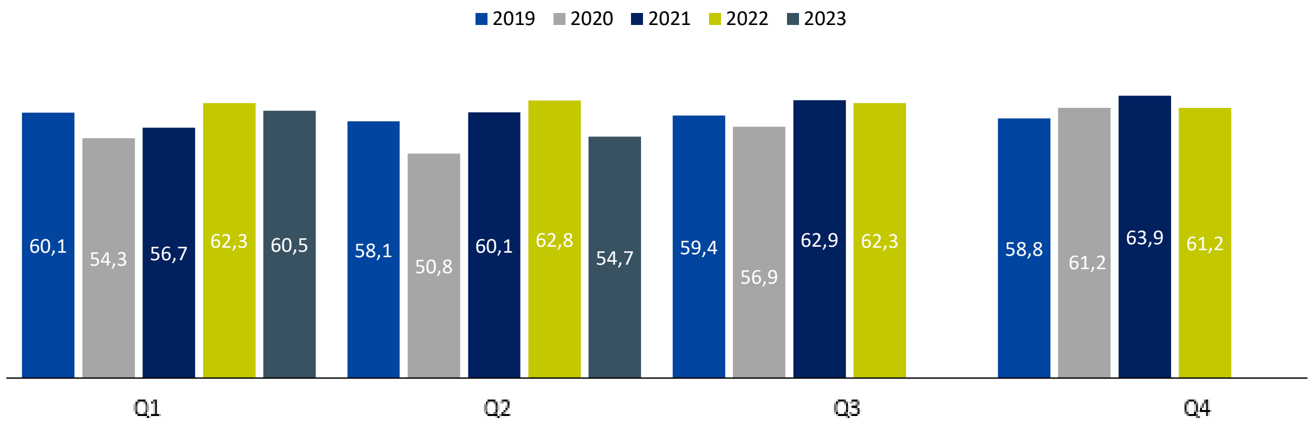
[38] Czech Ministry of Industry and Trade
[39] Czech Ministry of Industry and Trade
[40] AutoSap
[41] Czech Statistical Office
[42] Office of Rail Transport (licensed rail operators, as stated in the updated list of the Office of Rail Transport of 4 August 2023), the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating on the market under an international license;
[43] Office of Rail Transport
[44] Office of Rail Transport

During the first 5 months of 2023, the main cargo category transported by rail[45] was hard coal, which accounted for 35.6% of the total rail freight transport volume. The following changes in rail transport year-on-year performance were recorded over that period in the cargo categories defined by Statistics Poland:[46]

- hard coal (a drop in freight volume by -8.5% yoy to 34.3 million tons),
- aggregates, stone, sand and gravel (freight volume up by 4.1% yoy to 19.3 million tons),
- refined petroleum products (up 11.1% yoy to 8.8 million tons),
- coke, briquettes, gases (down -0.9% yoy to 4.7 million tons),
- metals and metal products (down -3.3% yoy to 4.6 million tons),
- chemicals, chemical products (down -14.0% yoy to 3.8 million tons),
- agricultural products (up +43.5% yoy to 3.0 million tons),
- iron ores (down -28.9% yoy to 2.4 million tons).

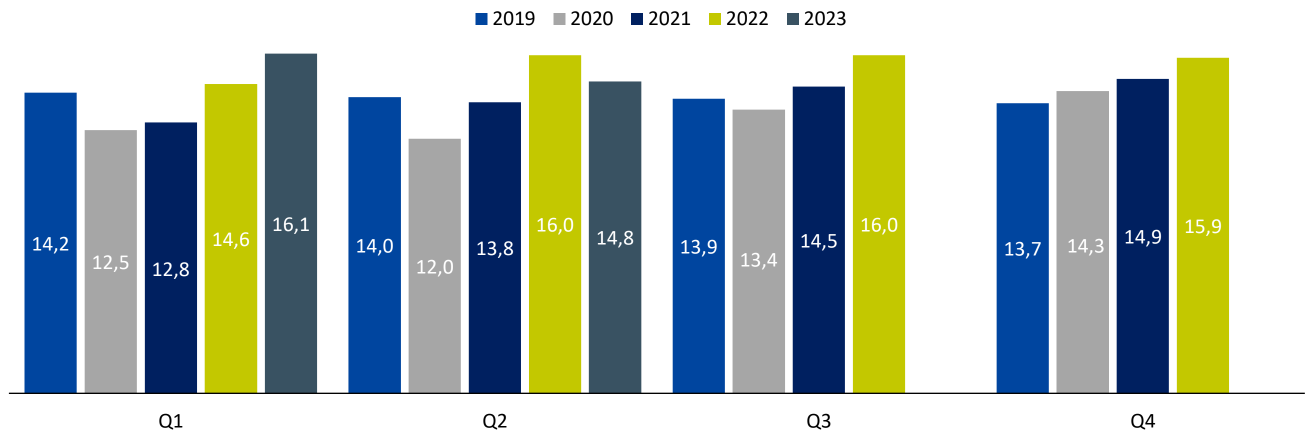
A significant decrease in freight volume transported by rail compared to the corresponding period of 2022 was recorded in hard coal transports (-3.2 million tons), iron ores (-1.0 million tons), other cargo (-0.7 million tons), chemicals and chemical products (-0.6 million tons) as well as timber and wooden products (-0.5 million tons).[47] At the same time, an increase in freight volumes was recorded with respect to agricultural products (+0.9 million tons yoy), refined petroleum products (+0.9 million tons), aggregates, stone, sand and gravel (+0.8 million tons yoy).[48]

Figure 5. Quarterly rail freight volumes in Poland (million tons) in 2019-2023



Source: Proprietary material based on the Office of Rail Transport's data

Figure 6. Rail freight turnover in Poland (billion tkm) broken down by quarter in 2019-2023



Source: Proprietary material based on the Office of Rail Transport's data

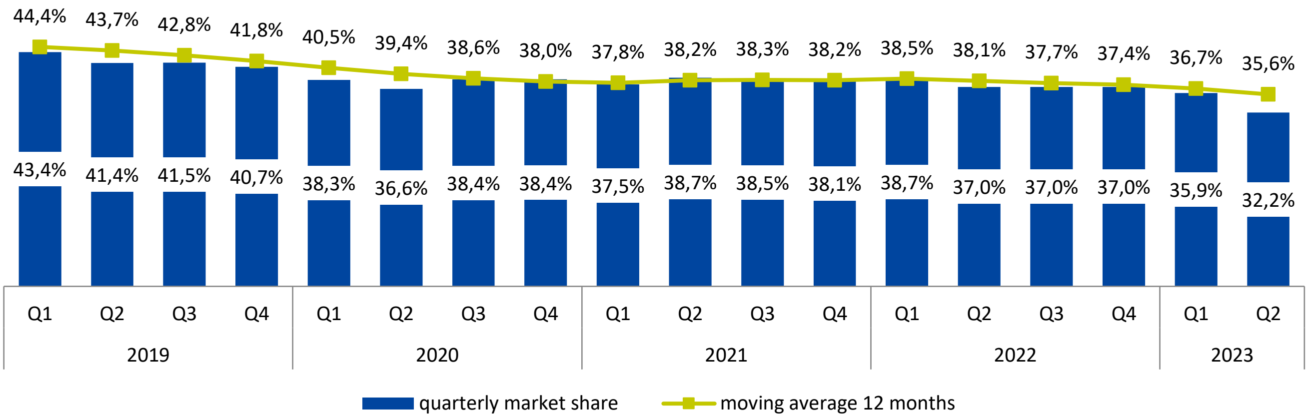
[45] Based on the NST classification
[46] Statistics Poland – data for the first 5 months of 2023
[47] Statistics Poland - data for the first 5 months of 2023
[48] Statistics Poland - data for the first 5 months of 2023

3.2.2. Position of the PKP CARGO Group in the rail freight transport market in Poland

According to the Office of Rail Transport's data, during H1 2023, 30 rail carriers conducted transport operations whose market share in terms of transported freight volume exceeded 0.5%. These included two Companies of the PKP CARGO Group: PKP CARGO and PKP CARGO SERVICE.

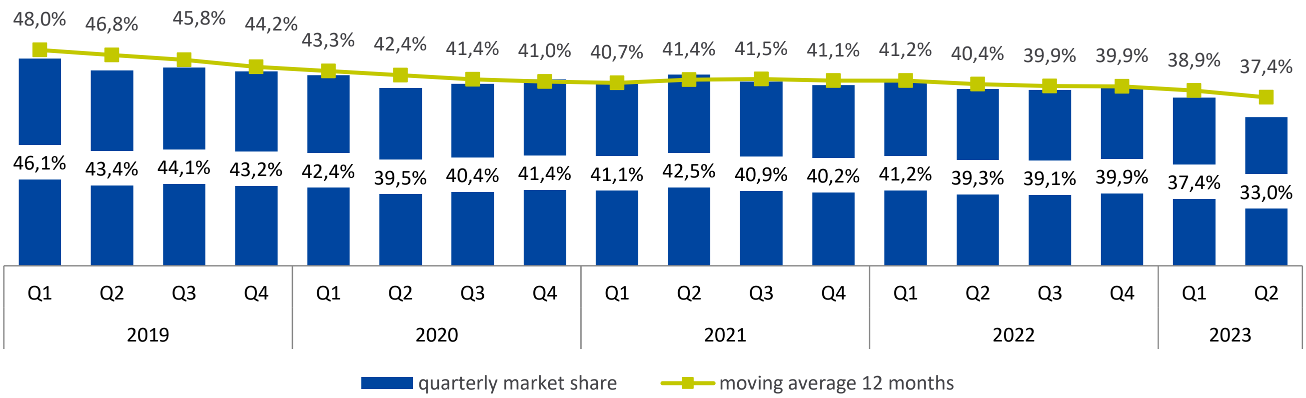
The PKP CARGO[49] Group continues to be the undisputed leader in the rail freight transport market in Poland both in terms of share in the transported freight volume and the generated freight turnover. The PKP CARGO Group's market shares were 34.1% (-3.7 p.p. yoy) in terms of freight volume and 35.3% in terms of freight turnover (-4.9 p.p. yoy).[50] The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO in H1 2023 were 32.4% (-3.8 p.p. yoy) in terms of freight volume and 34.9% (-4.7 p.p. yoy) in terms of freight turnover.[51]

Figure 7. Share of the PKP CARGO Group in total freight volume in Poland in 2019-2023



Source: Proprietary material based on the Office of Rail Transport's data

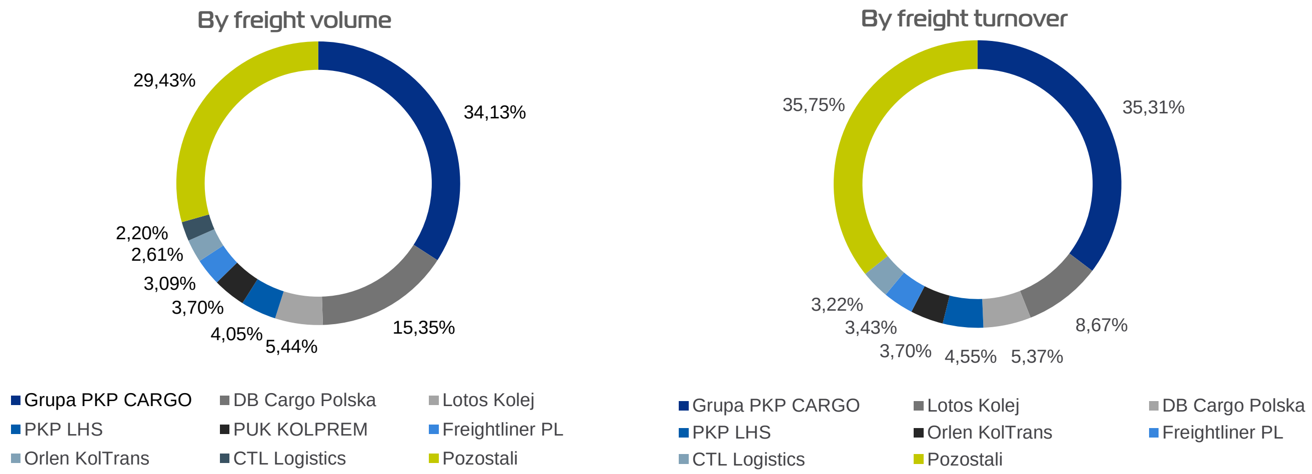
Figure 8. Share of the PKP CARGO Group in total freight turnover in Poland in 2019-2023



Source: Proprietary material based on the Office of Rail Transport's data

[49] The PKP CARGO Group's freight volume takes into account also freight transported by PKP CARGO International a.s. in Poland.
[50] PKP CARGO Group and Office of Rail Transport data
[51] Office of Rail Transport

Figure 9. Market shares of the largest rail operators in Poland in H1 2023



Source: Proprietary material based on the Office of Rail Transport's data

The following companies were the main competitors of the Group on the Polish rail freight transport market: DB Cargo Polska, Lotos Kolej, PKP LHS, PUK Kolprem, Freightliner PL, Orlen KolTrans, and CTL Logistics.

In the period in question, the competitors transported a total of 75.9 million tons of freight (-2.4% yoy). In H1 2023, Freightliner PL (+0.8 p.p. yoy) and LTG Cargo Poland (+0.6 p.p. yoy) recorded the largest yoy market share increases, in terms of freight volume, among PKP CARGO Group competitors. CD Cargo Poland, PCC Intermodal, FDM-REW and Alza Cargo improved their market shares by +0.5 p.p. yoy each. The competitors of the PKP CARGO Group that recorded the largest drops in market shares were DB Cargo Polska (-0.8 p.p. yoy) and PKP LHS (-0.5 p.p. yoy).[52]

At the same time, freight turnover generated by operators competing with the PKP CARGO Group increased by +8.9% yoy, to 19.9 billion tkm. The largest yoy increase in market shares was reported by LTG Cargo Poland (+1.0 p.p. yoy), which only began transport operations in April 2022. The shares of Rail STM (+0.8 p.p. yoy), Orion Rail Logistics and PCC Intermodal (+0.6 p.p. yoy, each) increased significantly. CD Cargo Poland and Rail Polska also gained +0.5 p.p. yoy each. A new operator, Cargoway, managed to acquire 0.5 p.p. of the market. The competitors that recorded the largest drops were PKP LHS (-0.7 p.p. yoy) and Lotos Kolej (-0.5 p.p. yoy).[53]

3.2.3. Rail freight transport market in the Czech Republic

In Q1 2023, a total of 120.1 million tons of cargo was transported in the Czech Republic (-11.5% yoy) and freight turnover stood at 19.4 billion tkm (-4.8% yoy).[54] A year-on-year decrease was recorded over that period in terms of freight volume and freight turnover in transport by road and by rail, while there was a slight increase in freight volumes transported by the other means of transport in aggregate*.

The average haul of cargo in the market increased by +7.6% yoy and reached 161.5 km, with the road transport segment recording an increase in the average haul by +9.1% yoy (to 156.8 km), whereas in rail transport the average haul grew only by +0.5% yoy (to 172.7 km).[55]

[52] own calculations based on Office of Rail Transport data
[53] own calculations based on Office of Rail Transport data
[54] Ministry of Transport of the Czech Republic, data for Q2 2023 will be available at the turn of Q4 2023 (data excluding air transport)
[55] Ministry of Transport of the Czech Republic (data without air transport).

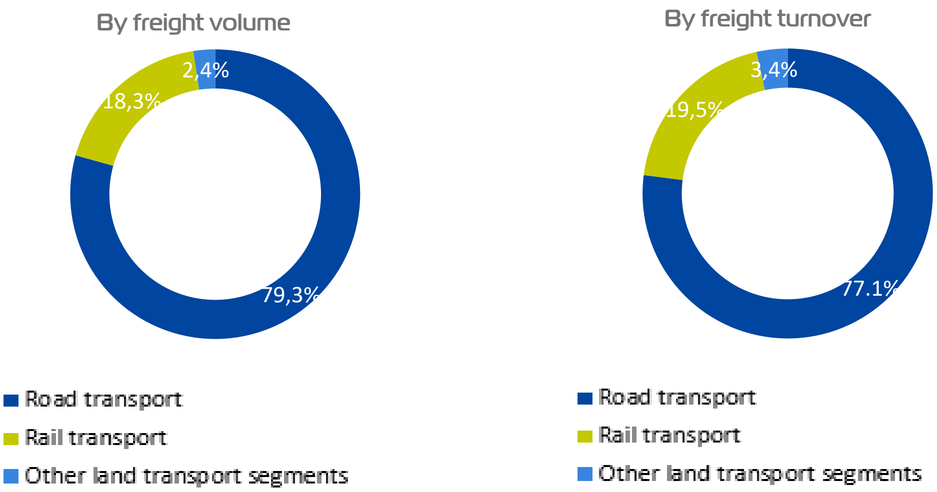
Table 12. Freight transport market in the Czech Republic in Q1 2023

Description	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (million tons)	Change yoy	Change % yoy	Volume (billion tkm)	Change yoy	Change % yoy	Distance (km)	Change yoy	Change % yoy
Total transport market	120.1	-15.7	-11.5%	19.4	-1.0	-4.8%	161.5	11.5	7.6%
Road transport	95.3	-13.9	-12.8%	14.9	-0.8	-4.8%	156.8	13.1	9.1%
Rail transport	21.9	-1.8	-7.7%	3.8	-0.3	-7.2%	172.7	0.9	0.5%
Other land transport segments	2.9	0.1	4.3%	0.7	0.1	12.9%	230.2	17.5	8.2%

**Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic (data excluding air transport)*

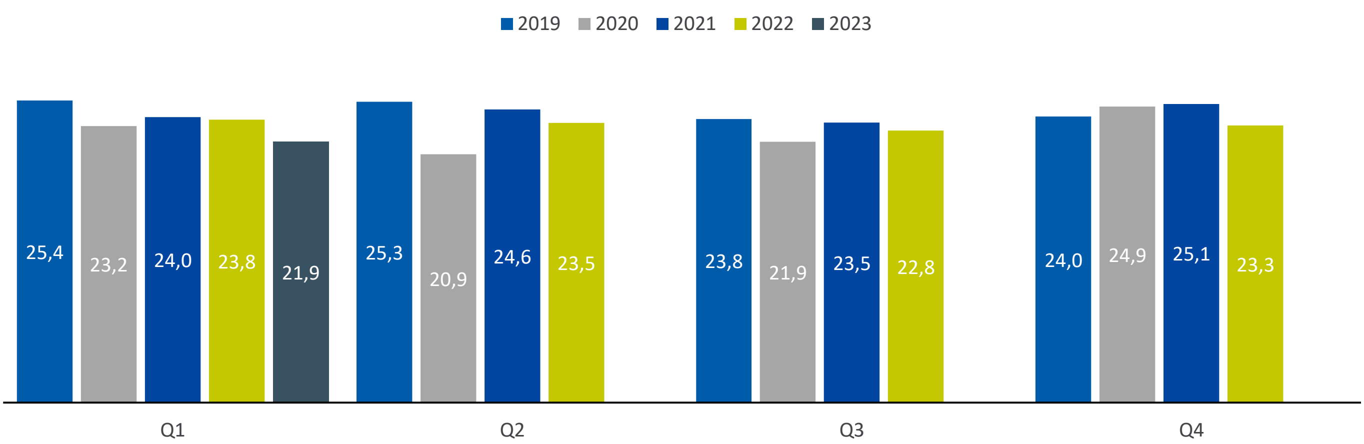
In Q1 2023, rail transport in the Czech Republic recorded a yoy decrease in freight volume to 21.9 million tons (-7.7% yoy) with a concurrent decrease in freight turnover to 3.8 billion tkm (-7.2% yoy).[56] In the same period, transports of goods by road were down -12.8% in terms of freight volume and down -4.8% in terms of freight turnover. This translated into a clear decrease in the share of road transport in terms of freight volume (-1.1 p.p. yoy) and an increase in the share of rail transport (+0.8 p.p. yoy). At the same time, rail transport recorded a slight decrease in terms of freight turnover (-0.5 p.p. yoy), with a minimum decrease in the share in road transport (-0.02 p.p. yoy). [57]

Figure 10. Shares of various modes of transport in the transport market in the Czech Republic in Q1 2023



Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

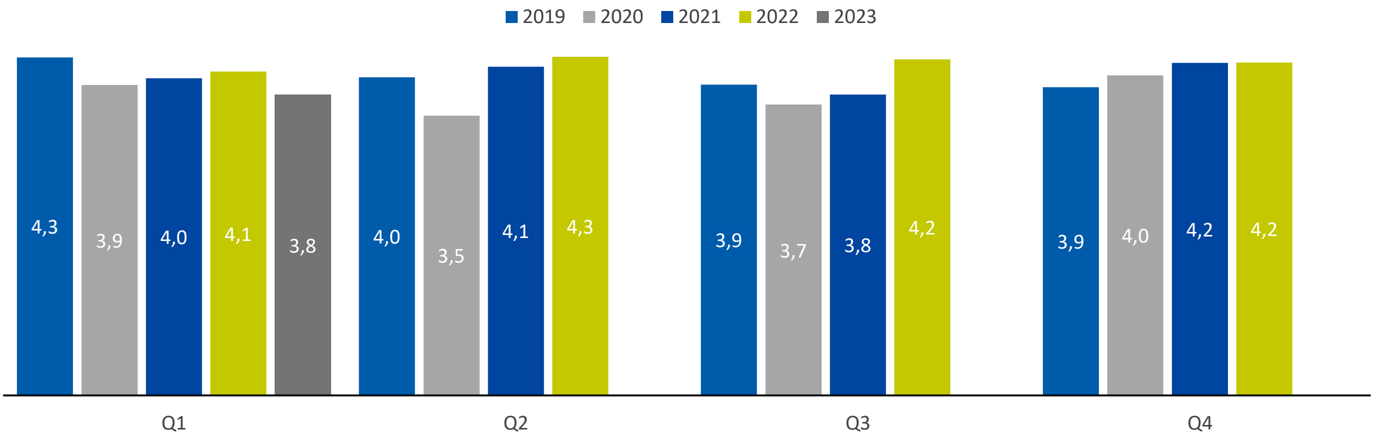
Figure 11. Quarterly rail freight transport in the Czech Republic by freight volume in 2019-2023 (million tons)



Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

[56] Ministry of Transport of the Czech Republic (data without air transport).
[57] Ministry of Transport of the Czech Republic (data without air transport).

Figure 12. Quarterly rail freight transport in the Czech Republic by freight turnover in 2019-2023 (billion tkm)



Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

3.2.4. Position of PKP CARGO Group companies in the rail transport market in the Czech Republic

According to data published by the Czech rail infrastructure manager (SŽDC), 117 operators are currently licensed to provide rail freight services in this country, including 2 members of the PKP CARGO Group: PKP CARGO and PKP CARGO International.[58]

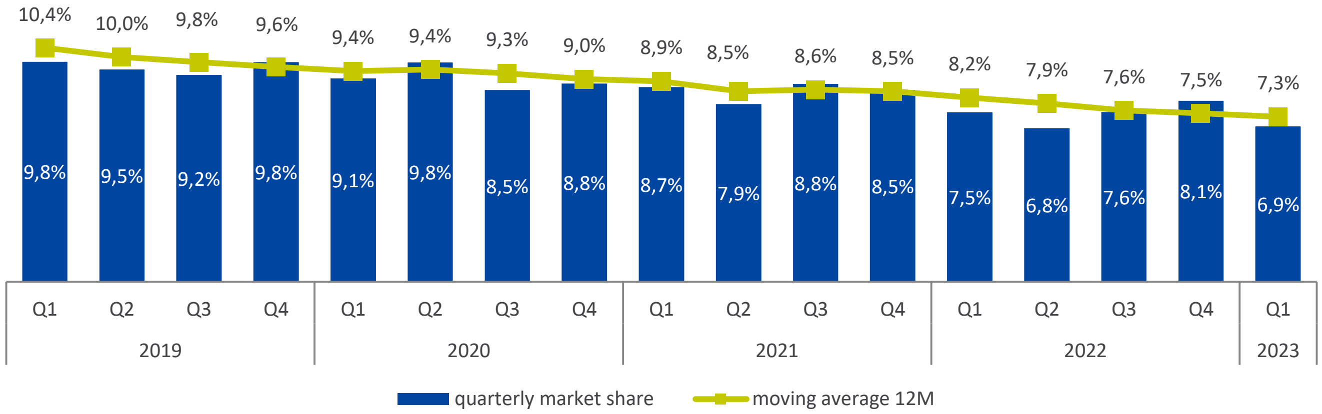
In H1 2023, PKP CARGO International transported 2.9 million tons of freight (-13.4% yoy) and achieved freight turnover of 0.3 billion tkm (-32.9% yoy).[59] In the same period, the average haul of PKP CARGO International decreased to 100.6 km (-22.5% yoy), as a result of, inter alia, a rearrangement in the mix of transported freight.[60] Intermodal transport decreased significantly (-55.8% yoy to 0.4 million tons), and accounted for only 12.7% of the Company's transport business. The decrease in transport volume was also recorded in such cargo categories as metals and ore (-73.5% yoy), liquid fuels (-32.0% yoy) and chemicals (-27.0% yoy). In the period under analysis, 68.0% share in the volume of transport operations completed by PKP CARGO International were solid fuels, the volume of which increased by +13.6% yoy (of which, the volume of hard coal transport operations, which account for 38.1% of the Company's transport business, increased by +13.5% yoy). There was also a significant increase in shipments of aggregates and construction materials (+97.6% yoy, to 0.1 million tons).[61]

The decrease in transport operations in selected areas of activity resulted from actions taken by the Group with a view to increasing the profitability and optimizing the use of resources used by the Comp It should be emphasized, however, that some changes were a consequence of the war in Ukraine, but primarily a decline in demand for Czech industry products due to the deteriorating economic situation of Western European customers (for example, numerous modernization and overhaul works at metallurgical plants, where the decline in demand was strongly correlated in time with the high level of energy costs, which at the same time strongly affected the low profitability of production and the need to introduce shutdowns).

According to SŽDC data on the shares in the rail transport market in terms of gross freight turnover, PKP CARGO International's market share in the Czech market decreased by -1.1 p.p. yoy to 4.1% in the first half of 2023.[62] As a consequence of the gradual loss of market share (as well as the growing importance of competing rail operators), the Company has lost its position as the third largest carrier in the Czech rail freight market and is now ranked sixth (with a slight loss to operators LOKORAIL a.s. and Rail Cargo Carrier - Czech Republic s.r.o.).[63]

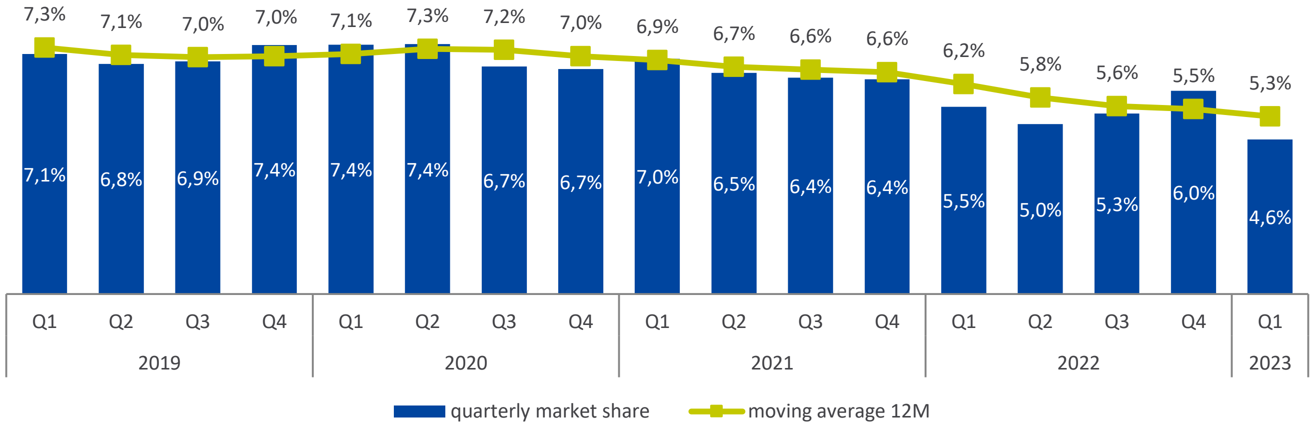
[58] SŽDC
[59] PKP CARGO International's own statistics
[60] PKP CARGO International's own statistics
[61] PKP CARGO International's own statistics
[62] SŽDC
[63] SŽDC

Figure 13. PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2019-2023*



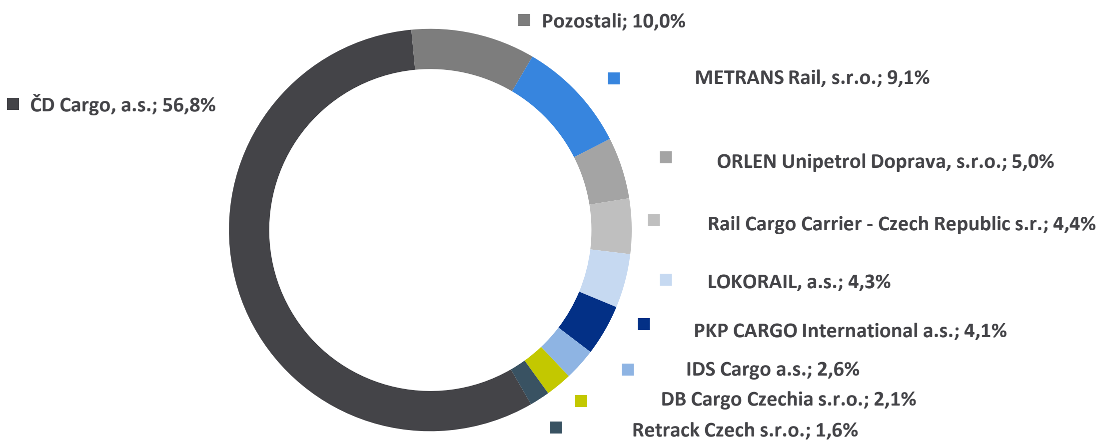
** Data for Q2 2023 will be available at the turn of Q4 2023.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

Figure 14. PKP CARGO International's quarterly market shares in terms of freight turnover in the Czech Republic in 2019-2023*



** Data for Q2 2023 will be available at the turn of Q4 2023.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

Figure 15. Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in H1 2023 (tkm)



Source: SŽDC (Czech rail infrastructure manager)

ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market in terms of gross operational turnover, although its market share decreased noticeably to 56.8% yoy (-1.2 p.p. yoy).[64] A significant increase in yoy market share was recorded by LOKORAIL a.s. (+1.5 p.p. yoy to 4.3%) and ORLEN Unipetrol Doprava (+1.3 p.p. yoy to nearly 5.0%), i.e. the operator being member of the Orlen Group which focuses its business on the fuels and chemicals transport segment (the third position on the market, with a rise by one). Retrack Czech s.r.o. (formerly Carbo Rail CZ s.r.o.) appeared in the list of noteworthy operators (for the second quarter in a row), with a 1.6% market share. Rail Cargo Carrier – Czech Republic also improved its market position (+0.2 p.p. yoy to 4.4%). PKP CARGO International lost its rank as the third operator in the Czech Republic, moving to sixth place in the list, due partly to a clear decline of its market share (-1.1 p.p. yoy to 4.1%). In parallel, Metrans Rail lost a major chunk of its share (-0.6 p.p. yoy to 9.1%), but was able to defend its position as the runner-up on the rail freight market in the Czech Republic. The market shares of IDS Cargo a.s., i.e. an independent logistics carrier operating in the Czech Republic and Slovakia and PKP CARGO International were slightly lower than in H1 2022 (-0.3 p.p. yoy to 2.6% and -0.1 p.p. yoy to 2.1%, respectively). CER Slovakia a.s. which in Q2 2022 had a 1.3% share, failed to make it into the list, signifying a decrease in its share in excess of over -0.3 p.p. yoy.[65]

The list of the largest rail operators on the Czech market published by SŽDC does not include PKP CARGO. In H1 2023, the Company's import operations of iron ore from Ukraine decreased year-on-year and no import operations of iron ore via the port of Gdańsk were carried out. The transport volumes of calcium flux, metals, containers, cement and chemicals also withered. At the same time, an increase in the volume of automotive transport in transit between Poland and Italy was recorded.[66]

3.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group for H1 2023 and H1 2022 contain consolidated data of PKP CARGO, PKP CARGO SERVICE and companies from the PKP CARGO International Group. Transport services are rendered by 6 members of the Group, namely PKP CARGO, PKP CARGO SERVICE, PKP CARGO International, PKP CARGO International HU, PKP CARGO International SK and PKP CARGO INTERNATIONAL SI.

Table 13. Freight turnover of the PKP CARGO Group in H1 and Q2 2023 and 2022

Description	H1 2023	H1 2022	Change H1 2023/ H1 2022		H1 2023	H1 2022	Q2 2023	Q2 2022	Change Q2 2023/ Q2 2022	
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*			*%*
Solid fuels[1]	5,485	5,240	245	4.7%	47%	39%	2,065	2,419	-353	-14.6%
of which hard coal	4,561	4,404	158	3.6%	39%	33%	1,601	2,028	-427	-21.1%
Aggregates and construction materials[2]	2,563	2,603	-40	-1.5%	22%	20%	1,368	1,437	-69	-4.8%
Metals and ores[3]	828	1,262	-433	-34.3%	7%	9%	400	737	-337	-45.7%
Chemicals[4]	773	1,097	-325	-29.6%	7%	8%	393	552	-159	-28.8%
Liquid fuels[5]	240	417	-176	-42.3%	2%	3%	103	238	-135	-56.8%
Timber and agricultural produce[6]	490	435	55	12.7%	4%	3%	209	230	-21	-9.1%
Intermodal transport	1,002	2,033	-1,032	-50.7%	9%	15%	546	1,030	-484	-47.0%
Other[7]	251	248	3	1.3%	2%	2%	131	142	-11	-7.8%
Total	**11,632**	**13,335**	**-1,702**	**-12.8%**	**100%**	**100%**	**5,215**	**6,785**	**-1,570**	**-23.1%**

Source: Proprietary material

[64] SŽDC
[65] SŽDC
[66] PKP CARGO S.A.'s own statistics

Table 14. Freight volume of the PKP CARGO Group in H1 and Q2 2023 and 2022

Description	H1 2023	H1 2022	Change H1 2023/ H1 2022		H1 2023	H1 2022	Q2 2023	Q2 2022	Change Q2 2023/ Q2 2022	
	(million tons)			*%*	*percentage of total (%)*		*(million tons)*			*%*
Solid fuels[1]	22.7	25.5	-2.7	-10.8%	53%	50%	9.3	11.3	-2.0	-17.6%
of which hard coal	19.9	22.8	-2.9	-12.8%	47%	45%	7.9	10.0	-2.1	-21.1%
Aggregates and construction materials[2]	9.4	10.0	-0.7	-6.8%	22%	20%	4.9	5.5	-0.5	-9.6%
Metals and ores[3]	2.5	3.9	-1.4	-36.1%	6%	8%	1.1	2.2	-1.1	-48.6%
Chemicals[4]	2.3	3.0	-0.7	-23.8%	5%	6%	1.2	1.5	-0.3	-19.9%
Liquid fuels[5]	0.9	1.2	-0.3	-24.3%	2%	2%	0.4	0.7	-0.3	-42.4%
Timber and agricultural produce[6]	1.3	1.6	-0.3	-17.3%	3%	3%	0.5	0.9	-0.4	-48.4%
Intermodal transport	2.6	4.8	-2.2	-46.2%	6%	9%	1.3	2.4	-1.1	-44.2%
Other[7]	0.8	0.9	-0.1	-16.4%	2%	2%	0.4	0.5	-0.2	-28.1%
Total	**42.5**	**51.0**	**-8.5**	**-16.7%**	**100%**	**100%**	**19.2**	**25.0**	**-5.8**	**-23.4%**

Source: Proprietary material

In H1 2023, the average haul of freight transported by rail by the PKP CARGO Group was 274 km (an increase by +12 km yoy). The average haul increased in Q2 2023 (+1 km yoy).

Table 15. Average haul of the PKP CARGO Group in H1 and Q2 2023 and 2022

Description	H1 2023	H1 2022	Change H1 2023/ H1 2022		Q2 2023	Q2 2022	Change Q2 2023/ Q2 2022	
	(km)			*%*	*(km)*			*%*
Solid fuels[1]	241	206	36	17.3%	222	214	8	3.6%
of which hard coal	230	193	36	18.8%	202	202	0	0.0%
Aggregates and construction materials[2]	274	259	15	5.6%	277	263	14	5.3%
Metals and ores[3]	332	323	9	2.7%	349	331	18	5.6%
Chemicals[4]	335	363	-28	-7.7%	337	379	-42	-11.1%
Liquid fuels[5]	254	334	-79	-23.8%	243	324	-81	-25.1%
Timber and agricultural produce[6]	373	274	99	36.2%	449	255	194	76.2%
Intermodal transport	389	424	-35	-8.4%	405	426	-21	-5.0%
Other[7]	330	273	58	21.1%	340	265	75	28.3%
Total	**274**	**262**	**12**	**4.7%**	**272**	**271**	**1**	**0.3%**

[1] Includes hard coal, coke and lignite.
[2] Includes all kinds of stone, sand, bricks and cement.
[3] Includes ores and pyrites, as well as metals and metal products.
[4] Includes fertilizers and other chemicals.
[5] Includes crude oil and petrochemical products.
[6] Includes grain, potatoes, sugar beets, other produce, wood and wooden products.
[7] Includes other freight.
Source: Proprietary material

The following were key factors affecting the volume of transport in various cargo categories in H1 2023:

solid fuels

- Growth rate of changes occurring in the international and domestic coal market influenced clients' decisions on coal deliveries in H1 2023, which translated into the quantity and directions of transports performed by PKP CARGO;
- accumulated inventories (intensification of transport in 2022),
- generation of energy by commercial power plants based on hard coal only in the period from January to June 2023 stood at 37,571 GWh, i.e. down 13.0% as compared to the same period of 2022 (in the 6 months of 2022, 43,176 GWh were produced based on hard coal),

- increase in the average haul of hard coal by 36 km (18.8%) in connection with the changed direction of deliveries;
- PKP CARGO International - higher hard coal shipments, lower coke and lignite shipments to cogeneration plants and power plants.

aggregates and construction materials

- The decrease in freight volume in the case of shipments of construction materials was primarily due to a decline in customer demand for such materials in connection with the accumulation of inventories,
- limited operational possibilities of PKP CARGO (priority given to the transport of hard coal)
- reduced volume of limestone transport operations to Czech steelworks and German power plants,
- lower volume of transport operations in exports of quartzite through seaports to Iceland – weaker demand from buyers,
- increase in the average haul by 15 km (5.6%) in connection with the changed structure/direction of deliveries, in H1 2023 PKP CARGO made increased deliveries of crushed stone from mines in Lower Silesia to stations located in the northern and eastern parts of Poland,
- PKP CARGO International a.s. – reduced volume of transport operations for a major producer in this segment which decided to suspended cement production in February due to its high price.

metals and ores

- The volume of shipments in this market segment is heavily influenced by the economic situation in Poland and globally, affecting the volume of supply and demand for steel. The war in Ukraine in 2022 has caused financial turmoil, the collapse of trade with Russia and Belarus, which has translated into increased price pressure in the metals markets, among others. In 2023, the persistently high inflation and steep interest rates in most economies curbed the recovery in demand for steel,

According to the World Steel Association, global steel production in the period from January to June 2023 was 943.9 million tons, down 1.1% compared to the same period in 2022. At the same time, steel production in the European Union plummeted (to 66.3 million tons, down 10.9% year-on-year). In H1 2023, Poland's steel production plunged by 20.0% yoy to 3.4 million tons, the average haul increased by 9 kilometers (2.7%), having stayed at a level similar to that of the corresponding period of last year.

liquid fuels

- The declining haul is a result of Orlen Koltrans (now Lotos Kolej) performing an increasing share of domestic transport and imports from Lithuania, the loss of transport for Slovnaft
- decrease in the average haul by 79 km (-23.8%) due to the increased share of short-haul operations near the border with Ukraine.

timber and agricultural produce

- Absence of imported timber shipments through Polish seaports,
- less transports of imported timber from Belarus and Lithuania,
- reduction in domestic transport of timber (in connection with a significant downturn in the market for paper and wood products manufacturers),
- increase in the average haul by 99 km (+36.2%) as a result of a change in the structure of transport operations.

chemicals

- Decrease in the production volume of fertilizers by the largest Polish producer due to problems with domestic sales (high production costs) and exports (tough competition due to the high prices of natural gas which is a key raw material for production),
- decline in average haul by 28 km (-7.7%).

intermodal

- Difficult situation on the global intermodal market: war in Ukraine, economic slowdown, inflationary pressure – these factors translated considerably into an increase in the prices of intermodal transport operations and resulted in decreased quantities of transported cargo (in favor of road and sea transport), priority given to coal transport,
- repairs of the infrastructure in the East-West corridor, insufficient throughput of the infrastructure in connection with transports from and to Ukraine;
- decrease in the average haul by 35 km (-8.4%) due to a change in the structure of transport operations,
- PKP CARGO INTERNATIONAL – no transport services for a major customer.

others

- Maintenance of transport operations involving other commodities in H1 2023 at a similar level to the corresponding period in 2022.

3.3. Information on business segments

The PKP CARGO Group does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Group. The Group conducts its business within one main segment – domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Group additionally provides services related to rolling stock repairs, infrastructure maintenance and land reclamation services, but they are not material for the Group's business and therefore are not treated as separate operating segments.

3.4. Headcount

Information concerning the headcount in the PKP CARGO Group in 6M 2023 and 2022 is presented below. In H1 2023, the PKP CARGO Group recorded a decrease in headcount by 54 persons.

Figure 16. Headcount in the Company and the PKP CARGO Group in 6M 2023 and 2022

HEADCOUNT IN **GROUP** (IN PERSONS) AS AT:	BLUE-COLLAR POSITIONS IN **GROUP** (IN PERSONS) AS AT:	WHITE-COLLAR POSITIONS IN **GROUP** (IN PERSONS) AS AT:
30/06/2023 **19.984**	30/06/2023 **15.167**	30/06/2023 **4.817**
31/12/2022 **20.038**	31/12/2022 **15.271**	31/12/2022 **4.767**

3.5. PKP CARGO Group's investments

In the 6 months of 2023, the PKP CARGO Group incurred capital expenditures of PLN 962.0 million, up 154.0% compared to the corresponding period of 2022. These expenditures were spent on the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and periodic checkups of P3 rolling stock). Moreover, right-of-use assets arising from IFRS 16 (mainly related to purchase of locomotives and real estate leases) were recognized.

The majority of capital expenditures during the 6 months of 2023 in the PKP CARGO Group were allocated to the execution of capital expenditure endeavors associated with its rolling stock, specifically to periodic repairs (P4 and P5) and checkups (P3) of rolling stock and purchase of locomotives – in total PLN 516.5 million (or 53.7% of capital expenditures). Moreover, expenditures were incurred on investment construction activity in the amount of PLN 66.7 million, purchases of machinery, equipment, other workshop fittings and means of transport for PLN 13.4 million, on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 12.4 million, and on right-of-use assets for PLN 353.0 million, including: PLN 270.4 million (i.e. 28.1% capital expenditures) in locomotive leases, PLN 72.2 million in real estate leases and PLN 10.4 million in other rights.

Table 16. Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in 6M 2023 as compared to 6M 2022 (PLN million)

Description	6 months 2023	6 months 2022	Change 2023-2022	Change 2023-2022 %
Investment construction activity	66.7	9.3	57.4	617.2%
Locomotive purchases	140.8	0.3	140.5	-
Locomotive upgrades	0.1	13.7	-13.6	-99.3%
Wagon purchases	0.0	110.6	-110.6	-100.0%
Workshop machinery and equipment	12.3	3.6	8.7	241.7%
ICT development	12.4	1.7	10.7	629.4%
Other	1.1	0.9	0.2	22.2%
Components in overhaul, including:	375.6	225.1	150.5	66.9%
Repairs and periodic inspections of locomotives	*81.4*	*48.5*	*32.9*	*67.8%*
Repairs and periodic inspections of wagons	*294.2*	*176.6*	*117.6*	*66.6%*
Right-of-use assets*, including:	*353.0*	*13.6*	339.4	2495.6%
Locomotive leases	*270.4*	*0.0*	*270.4*	-
Total	**962.0**	**378.8**	**583.2**	**154.0%**

** Expenditures for right-of-use assets for 6M 2023 do not include increases of PLN 1.5 million resulting from leaseback of transport equipment.*
Source: Proprietary material

3.6. Key information and events in H1 2023 and until the statement date

- On 2 January 2023, PKP CARGO executed an Investment Loan Agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. up to the maximum amount of PLN 100 million with the availability term until 29 December 2023.
- On 24 January 2023, the Company signed a Memorandum of Understanding as part of mediation carried out on 18 and 24 January 2023 to resolve an industrial dispute regarding the implementation of a systemic wage increase. The Management Board and the Trade Unions agreed that as of 1 January 2023, funds will be allocated for the increase of basic remuneration of PKP CARGO employees remunerated in accordance with CBA in the average gross amount of PLN 415.00 per 1 employee (on FTE basis) and for the employees remunerated based on Resolution No. 498/2012 (as amended) of the Management Board of PKP CARGO S.A. in the average gross amount of PLN 764.00 per 1 employee (on FTE basis). Thus, the collective dispute launched by the statement of 1 March 2022 was ended.
- On 16 January 2023, a decision was issued by the President of the Office of Competition and Consumer Protection (UOKiK) to approve, at the request of PKP Polskie Linie Kolejowe S.A. with its registered office in Warsaw, a concentration whereby PKP Polskie Linie Kolejowe S.A. with its registered office in Warsaw ("PKP PLK") obtained control over CARGOTOR (a fully-owned subsidiary of PKP CARGO).
- On 30 January 2023, the Company's subsidiary, PKP CARGOTABOR and ALSTOM POJAZDY SZYNOWE Sp. z o.o. executed an agreement for the purchase of assets of ALSTOM's branch under liquidation. The agreement concerns the purchase of tangible assets along with related property rights to the documentation of assets and intangible assets, that is protection rights to trademarks, and property rights to the documentation of assets and other proprietary copyrights to the documentation of assets, inventories. The net value of the agreement is PLN 13.5 million plus VAT at the applicable rate.
- By the end of January, PKP CARGO announced and published the PKP CARGO Group Strategy Revision for 2019-2023. The revision reaffirmed the Group's vision and mission and modified its strategic goals. The PKP CARGO Group strives to become number 1 in the Three Seas Initiative area and on the New Silk Road routes in the EU, as measured by freight turnover and freight volume by 2023, and strengthen its position in 2023–2038, and to attain a 50% share in the Polish rail freight market measured by freight turnover by 2027.
- On 20 February 2023, PKP CARGO S.A. obtained a consent from the Supervisory Board to the disposal of assets in the form of a transfer to PKP CARGOTABOR USŁUGI of the ownership title and the perpetual usufruct right to real property, the ownership title to buildings and structures located on the land and representing property separate from the land, and the ownership title to the movable property comprising assets of the former Fabryka Wagonów Gniewczyna S.A. in Gniewczyna Łańcucka with the total net market value of PLN 29.8 million.

- On 17 March 2023, PKP CARGO executed an annex to the Overdraft Facility Agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. of 19 December 2019 for the maximum amount of up to PLN 100 million, amending the contractual terms by extending the loan availability until 19 March 2024.
- On 22 March 2023, PKP CARGO accepted twelve Dragon 2 electric locomotives manufactured by Newag S.A.
- On 30 March 2023, PKP CARGO and PKP CARGO TERMINALE entered into a loan agreement for up to PLN 20 million.
- In performance of the agreement for the purchase of locomotives, which the Company informed about in its Current Report No. 45/2019, the Company continued to finance the delivery of locomotives based on the agreements entered into by and between PKP CARGO, the consortium of NEWAG S.A. and NEWAG LEASE Sp. z o.o. S.K.A., and PKO LEASING S.A. and Pekao Leasing Sp. z o.o. on the financing of locomotive deliveries. Under the agreements and framework lease agreements signed, a total of 16 lease agreements were executed for a total value of PLN 270.4 million.
- On 24 May 2023, PKP CARGO executed an annex to the overdraft facility agreement extending the availability period of the facility until 24 May 2024.
- On 26 May 2023, PKP CARGO and PKP CARGOTABOR executed an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to the maximum amount of PLN 50 million, to be available until 25 May 2024.
- On 26 June 2023, PKP CARGO executed an annex to an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. for the maximum amount of up to PLN 100,000,000.00, which extends the loan availability until 27 June 2024.
- On 5 July 2023, PKP CARGO executed with ING Lease (Polska) sp. z o.o. the Master Lease Agreement for the total net price of the acquired fixed assets up to PLN 200,000,000.00. The limit is available to PKP CARGO and the PKP CARGO Group Companies for the term of 12 months provided that an appropriate annex is executed.
- On 27 July 2023, the Management Board of PKP CARGO adopted Resolution No. 267/2023 on the payment of an additional bonus to the employees. The Company allocated PLN 7,642,849.50 for this purpose.

3.7. Description of the key threats and risks

Risks related to the economic and market environment

In H1 2023, the PKP CARGO Group operated in an environment of high uncertainty related to the war in Ukraine and its many economic repercussions. These issues were topped by a series of phenomena stemming from both the aggression and previous efforts to stimulate the economy in countering COVID-19. The key problems in the global market included the economic slowdown, which, combined with the rising cost of capital, high inflation and high energy prices, generated numerous tensions and strongly affected the Group's domestic and international operations.

Bulk cargo, including mainly hard coal, aggregates, coke, ores and metals, chemicals and chemical products, and liquid fuels continued to be essential for the operations of the PKP CARGO Group. The weakening demand for the aforementioned commodities had a very negative impact on the demand for transportation services, especially in the area of rail freight. In H1 2023, the volume of industrial output in Poland fell by -1.7% yoy (as compared to 13.6% yoy increase in H1 2022).[67] Although industrial processing proved relatively insensitive to any changes in the market, this key section still recorded a slight decline in H1 2023 (-0.4% yoy), which translated into weaker performance of the industry as a whole. Declines in the mining and quarrying segment were also critical, with a -8.7% reduction in output as compared to H1 2022. In spite of the difficult market conditions, exports in Poland and the Czech Republic effectively supported maintenance of relatively favorable performance of the economy as a whole. A gradual reduction in the rate of growth of output was observed, which was due to the decline in new orders, as well as the general economic situation in Western Europe. These businesses represent a significant part of recipients of manufactured goods and have a substantial impact on the scale of production. Further deterioration or gradual recovery of the region's economies will have a significant influence on the performance and operations of PKP CARGO Group companies in the second half of 2023.

The war between Russia and Ukraine, as well as the economic conflict between the United States and China, are exacerbating tensions and generating a significant increase in uncertainty in the newly emerging world of economic relations and exchanges. The two most powerful global economies are engaged in a trade war, pushing other countries to choose a form of cooperation or to resign, which is accompanied by an increase in geopolitical tension. With the change in the global balance of power and building new trade ties, the entire world trade is changing and many tensions and conflicts are surfacing.

[67] Statistics Poland (in enterprises employing more than 9 people)

A key issue in the period under analysis was also the increase in energy prices (resulting from the aggression of the Russian Federation and a very nervous reaction of the markets), which is one of the very important costs in the production of goods and in their transportation. A response to the surge in prices was interest rate rises by central banks, which contributed to a significant increase in the cost of raising capital and reduced its availability. Although the time of interest rate rises is slowly coming to an end and prices are gradually stabilizing (often at new higher levels), inflation is still a heavy burden, and the high cost of capital has led to a significant cooling of the global economy, which has consequently reduced market demand very much, leading to stagflationary phenomena.

Risk resulting from the macroeconomic and geopolitical situation

- Critical impact of demand in global markets on economic activity in Poland and the Czech Republic. Because most of the adverse supply shocks caused by Russia's aggression on Ukraine have subsided, the issue of recession has become the priority in the functioning of the economies. Overcoming adverse phenomena in the economy (such as inflation, high cost of energy, dwindling demand and a decreasing number of orders) will make it possible to return to a growth path, but there is a high risk of not very dynamic recovery, in the shape of U rather than V, as it was in the case of the COVID-19 pandemic;
- the risk of energy crisis in Europe – although the last winter turned out to be relatively mild and each country has considerable reserves of fuels, an adverse scenario of harsh winter approaching should not be ruled out. With a negative accumulation of atmospheric phenomena, which would also lead to reductions in supply, coupled with disruptions in logistics chains, it is possible that there will be particularly strong turbulences in the energy (including gas) market);
- the risk of further deterioration of the economic growth rate in Poland in H2 2023 The economic slowdown abroad (especially in European countries), a reduced demand for products, effects of high inflation (whereby the cost of capital and the cost of doing business are high), further turbulences in the energy and fuel markets, and a suspended inflow of European funds – all of these factors may cause the growth rate to decrease significantly;[68]
- a very low level of investments (especially private ones) in Poland – reducing the growth potential in the coming years;[69]
- demographic risk – because of a shortage of appropriate human resources in the market, already now particular sectors of the economy record shortages of employees (including specialists or drivers);
- the ban on the import of a large group of goods from Russia and Belarus introduced by the European Union (e.g. coal, cement) or price caps on oil imposed as part of another package of sanctions, combined with restrictions on the movement of cars (registered in Poland for the territories of Russia and Belarus and for operators from the latter countries for the territory of Poland) limit significantly trading possibilities even in areas not covered by the sanctions.[70]

Risks associated with the situation on the rail transport market in the main cargo categories

negative impact on the coal market:

- the gradual decline in thermal coal consumption (both in Poland and the Czech Republic). What is crucial is a gradual phase out of hard coal, which is a necessary process, because we are observing how this raw material continues to be depleted in terms of supply (as a result of reduced coal output and lower headcount in Polish mines, diminishing significance and advanced age of most coal-based power plants which often record failures) and demand (requirements of businesses and entities cooperating with them to minimize the carbon footprint of delivered energy, social resistance to incur costs of high emissions). In Poland, experts and business people indicate the urgent need to update both the "Program for the hard coal mining industry in Poland", the "National Plan for Energy and Climate for 2021-2030" as well as "Poland's Energy Policy until 2040" in view of the changes in the market that have occurred as a result of Russia's aggression on Ukraine. At present, consultations are underway about possible corrections but the most important thing is that the discussed programs must also take into account the direction and rate of change planned in the European Union's energy policy, which is the driving force of rapid changes in the Member States. Without the right coordination and appropriate consolidation of solutions, there might be an uncontrolled process of transformations between Polish solutions and those adopted by the community;[71]

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[68] WNP
[69] efcongress.com
[70] biznes.gov.pl
[71] Poland's Energy Policy until 2040, Program for the hard coal mining industry in Poland

- high and increasing costs of CO_2 emission allowances make up regular and growing costs of production especially in the power industry, heat industry and other sectors, which follows from the assumptions of the EU policy and the way the ETS system works (a decreasing supply of certificates was pre-programmed). All of this encourages companies to give up high emission technologies (e.g. coal-based ones) because of cost-intensity and investments in environmentally friendly technologies;[72]
- oversupply of coal in the Polish market – given the very high level of coal imports last year and the possibility that the surplus exceeding the economy's capacity to absorb it will be repeated;
- the potential closure (in 2025, as planned by the Czech government) of the last hard coal mine in the Czech Republic and acceleration of the energy transition may be a decisive factor for a considerable limitation of coal transports by the PKP CARGO Group companies in the territory of the Czech Republic (because of specialization in bulk cargo). However, Poland has reserves of coking coal (including those mined by JSW), which is considered to be a "critical raw material" in accordance with the European Union's legislation,[73] and which is indispensable in steelmaking processes and may fill the gap in transports left by thermal coal (although only to a limited extent).

negative impact on the steelmaking market:

- the constantly high costs of purchasing raw materials, energy and CO_2 emission allowances generate a progressing increase in the cost of production of steel and steel products, with a decline in demand and rates in the market, which in principle limits the profitability of steelmaking. As a result of a deeper economic slowdown in global markets than originally thought, the production potential in Europe is still severely limited (and may be further reduced). Modernization and overhaul work is underway in Europe and in Poland to maintain production capacity while reducing the costs associated with the operation of companies. The key element, however, is changes at the European Union legislative level, which will have the greatest significance for the direction of the industry's transformation over the next few years;
- the war in Ukraine led to disruptions and changes in supply chains (products purchased by Polish companies from Russia and Ukraine included iron ore, metallurgical products or semi-finished products). After the limitation of the role of Ukraine, and elimination of Russia, to a large extent, from the European market, the roles of these two countries is being taken over by producers from Asia, such as India and Turkey. Ukraine is gradually restoring iron ore exports, using the railroad through the Polish port of Świnoujście. Companies in Poland are trying to gain access to more geographically diverse sources so that, if there are problems in one area, it is possible to get supplies from other areas, which at the same time makes maritime transport more important and generates additional costs of deliveries. This process will continue, while stabilization can only occur after the end of military operations.

negative impact on the liquid fuels and chemicals market:

- a strong coupling between the economic situation and results of the industry of liquid fuels and chemicals (changes in the segment are highly dependent on results of the whole economy). There is a risk of further persistence of a decrease in production in connection with the economic downturn processes, and therefore a strong decline in demand for rail and road transport in the area. In view of the strong connections of the chemical industry with numerous businesses practically in the whole economy, the economic slowdown and limitations of production in each branch will have a strong impact on the industry's results;
- a high uncertainty in the market (the result of the war in Ukraine), a potential re-emergence of the energy crisis in Europe as well as the progressing price rises, strongly influence the production processes (also their reduction) because of the increase in costs and not very attractive prices of finished products for clients;
- in spite of momentary stabilization in the market of fuels (including gas, oil), new directions of deliveries are being arranged and contracted to ensure independence and accessibility of numerous alternatives, which, however, requires, among others, the construction of an infrastructural base and is time-consuming, while prices set in long-term contracts respond to a limited extent to positive changes on stock exchanges;
- uncertainty in the market whether full gas volumes will be supplied follows from the sensitivity of the critical infrastructure (in Poland, only nearly 1/4 of gas is used by consumers, while the remaining part falls mainly to the industry, mostly the chemical industry);[74]
- a difficult situation for manufacturers of fertilizers – still relatively high costs of purchasing gas (combined with growing production costs connected, among others, with CO_2 emissions) cause still relatively high, although certainly lower than the year before, prices for farmers, who delay purchases, waiting for further reductions of rates or support in

[72] strefainwestorow.pl
[73] WNP
[74] WNP

the form of co-financing from the state. At the same time, imported products reach the market, competitive in terms of prices with Polish domestic products, which reduces the scale of production in Poland and deteriorates results of domestic manufacturers;[75]

- the progressing energy transition of the economy, radical reduction of use of fossil fuels and pursuit of "carbon neutrality" essentially remodel the system operating to date based on the necessary mass supplies of "mineral resources", which determined the functioning of the economy and ensured energy indispensable for production.

negative impact on the construction market:

- prolongation of waiting for funds from the EU Recovery Fund (within the so-called Recovery and Resilience Plan, RRP) and the application of pre-financing of the funds effectively reduces to a limited extent the industry's activity and slows down investments in the public sector. The delay is visible, among others, in railroad construction, where the scale of signed contracts, granted funds and started works is considerably lower than assumed, which may translate into the effectiveness of transport in the area;[76]
- the persistent significant cost of capital and limited availability of financing, with the high cost of energy raw materials and construction materials, as well as reduced investment demand from companies will continue to adversely affect the construction market. A key area is the resumption of a large-scale of investments in the construction of residential buildings, where there was the largest decline in newly started projects, which will reduce supply in the market and contribute to further price increases.

negative impact on the cement industry:

- problems with purchasing coal with the right parameters (the industry consumes about 580 thousand tons of the raw material per annum) and the high cost of its purchase, as well as the need to import it from abroad, pose a challenge for manufacturers and, combined with the influx of cheaper imported goods, may lead to a reduction in the scale of its production in Poland. Analyses of the Institute for Economic Forecasts and Analyses provide for a decrease in the quantity of produced cement this year to about 18 million tons (i.e. approx. by -4.0% yoy);[77]
- high costs of CO_2 emission allowances (which grew by about ¼ compared to last year) and increase in costs related to prices of raw materials, packaging and fuels will consequently translate into a possible further increase in the prices of cement on the market.[78]
- a very high share, compared to other European Union states, of high-emission sources in the production of electricity in Poland and a significant energy input in the production of cement as well as continuing high electricity prices are all causes of a further increase in the cost-intensity of the production (as a result, domestic manufacturers become less competitive, prices in the market increase and it becomes less profitable to make such investments in Poland).[79]

negative impact on the equipment and machinery industry:

- high prices of energy, considerable cost of raw materials and components, as well as the necessity to secure new supply destinations to maintain the scale of production (due to reduced demand in the European market), coupled with a decline in investments in Poland (resulting from high cost of capital, high inflation making it difficult to carry out economic calculations and instability of laws) are negatively affecting the industry's production capacity.

negative impact on the paper and wood industries:

- high prices of energy and raw materials (such as wood, pulp) and problems with their availability (resulting among others, from the sanctions on trading with Russia and Belarus as well as by exports of Polish wood) caused a reduction in the scale of production in this area and, consequently also a strong increase in the prices of finished products;
- sanctions connected with the war in Ukraine hit strongly entities specializing in trading and acquiring the raw material from the Eastern direction, especially Belarus, which in the previous years was an important reserve of wood and woodchips for Polish clients (what was important here was geographical proximity and easy organization of transport, including rail transport).

[75] farmer.pl
[76] gov.pl, WNP
[77] Polskicement.pl
[78] Polskicement.pl
[79] Polskicement.pl

negative impact on the intermodal industry:

- decreased importance of Poland as a transit country for shipments from China. Following the outbreak of war in Ukraina, the volume of cargo shipped within the New Silk Road was considerably reduced (at the level of even several dozen percent). The decrease in this area was due to a series of disturbances resulting from the progress of the pandemic in China (as well as the relevant policy of the Chinese authorities), the outbreak of war in Ukraine and higher risks associated with transporting shipments via the route through the Russian Federation and Belarus (including problems and increased costs associated with cargo insurance), compounded by the global slowdown, which, among other things, resulted in a significant decline in sea freight rates (which are now highly competitive with rail freight).

negative impact on the automotive industry:

- a strong "post-pandemic" rebound can be observed in the automotive industry (both at the global level and in particular European economies, including Poland and the Czech Republic). Although when the pandemic ended, most supply chains were restored but because of the war in Ukraine and changes of directions for the production of cars, few shortages appear here, limited only to selected areas (a potential source of serious problems may be, among others, semiconductors, which have become a key element in modern constructions);
- the drop in commodity prices, as well as normalization of energy prices, are conducive to catching up with previous periods, but this is adversely affected by the economic slowdown and the lower household consumption and demand reported by businesses. The processes merge, making managers associated with the industry take adaptive measures, which is strongly influenced by the policy of the European Union with regard to emissivity of new models, and therefore directions for the sector's development (where fully electric vehicles become much more important).

Risks associated with the rail freight sector

- increase in the number of rail operators providing rail freight services: according to data presented by the Office of Rail Transport (UTK), there are currently 120 rail operators active on the Polish rail freight market holding an active license issued by the UTK President for the conduct of rail freight operations (UTK data as at 4 August 2023).[80] Among these companies are also three members of the PKP CARGO Group: PKP CARGO, PKP CARGO SERVICE and PKP CARGO International[81] In the market, the competition becomes fiercer, with new rail operators entering the market – in 2022, the Office of Rail Transport issued 10 new licenses for rail operators rendering freight transport services;[82]
- increase and change in the structure of headcount in the rail freight sector: after a decrease in headcount in 2021 (which was -0.3% yoy), 2022 brought about an increase in headcount by +2.3% yoy (with a decrease in headcount at PKP CARGO by -3.1% yoy). However, in the most important groups of employees working in regulated professions, there was a decrease in the number of specialists by -4.3% yoy, and it was similar in non-regulated jobs (as such as dispatcher and service maintenance employee) by -1.8% yoy. The decrease in headcount is continuing to a higher degree in jobs crucial for the performance of the transportation process. Unfortunately, the average age of employees and a lack of the appropriate number of trained persons will make the deficit deeper in the following years, resulting in limited possibilities of performing transports;[83]
- the average cargo transport route became longer[84] as a result of the combination of several factors, i.e. the outbreak of war in Ukraine and the need to acquire goods coming by road and by sea, work carried out by the infrastructure manager (which, unfortunately, prolonged the travel time on selected routes) as well as a change in the structure of demand for goods from clients (the aftermath of price surges for selected cargo categories and changes in the type of raw materials used). This, unfortunately, has an adverse effect on travel time and competitiveness of rail transport against road transport, especially with a very low average commercial speed of freight trains (in 2022, it was the lowest in the period of last 4 years, in spite of the progress of modernization work); [85]
- intermodal transport turned out to be very vulnerable to geopolitical factors, which made them lose their high growth rate and, at the same time, their competitiveness declined because of sea transport rates going down;[86]
- in 2022, the number of entities which exceeded a 1% share in the rail transport market in terms of the weight of cargo increased to 20. The rail operators competing with the PKP CARGO Group provide a wide range of transport services

[80] Office of Rail Transport (licensed rail operators, as stated in the updated list of the Office of Rail Transport as at 4 August 2023), the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating in the market under an international license, including a PKP CARGO Group member, PKP CARGO International.
[81] Office of Rail Transport
[82] Office of Rail Transport
[83] Office of Rail Transport
[84] Office of Rail Transport
[85] Office of Rail Transport
[86] Office of Rail Transport

(as well as supporting services), such as transports of coal, aggregates, metallurgical products, liquid fuels and chemicals. There is also a greater number of companies that have their own rail operator, which apart from working for the company (thus, excluding considerable streams of cargo from being contracted and competed for other companies, therefore this is some kind of 'monopoly' for services) often performs commissioned transport services on the free market, which additionally increases the level of competition for the remaining transport services. Only a few companies also provide dispersed transport services and unusual transports, whereas the number of companies performing transports of dangerous goods is on the increase.[87]

The main competitors of the PKP CARGO Group operating on the Czech market are ČD CARGO (the national carrier and the company dominating the market), Metrans Rail (an international logistics operator strongly oriented to the intermodal transport segment in the countries included in the Three Seas Initiative), ORLEN Unipetrol Doprava (operator specialized in transportation of fuel and chemical products), a company of the PKN Orlen Group, Rail Cargo Carrier – Czech Republic (a subsidiary of the international carrier Rail Cargo), LOKORAIL, and IDS CARGO.[88] Similarly to the Polish market, competing rail operators provide services covering all the segments of the rail freight transport market, including solid fuels, liquid fuels and chemicals, construction materials and containers.[89]

Considering the increasingly intense competition and also faced with decreased demand for its services, the PKP CARGO Group, on each market in geographical and product terms, tries to improve the quality of provided services gradually and to approach the Client's needs for a transport offer in a comprehensive manner (including the replacement of rolling stock, the introduction of regularly running trains for Clients interested in transporting even single containers) and to improve and enhance the provided logistics services (such as road transport services providing within the Group).

Risks associated with operations

Risk associated with rail infrastructure

Ongoing work on track infrastructure in Poland and the Czech Republic significantly affect the throughput capacity which is a major risk factor for rail transport in terms of longer transport times (and transport route) or the impossibility of providing the service, which is consequently associated with an increase in the cost of transport and a reduction in the quality of services provided. In 2022, there was a considerable increase in the number of sections of railway routes with limited throughput, which is connected especially with the adverse impact of passenger transports. [90]

Risks related to road transport

In spite of slight turbulences in the market in Poland and in the Czech Republic, the upward trend of the share of the road transport market continues at the expense of, among others, the rail transport market. Over successive years, road transport is taking over practically most of the freight volume appearing in the market or is continuing to grow its share when freight volume is limited. Considering the above, this kind of transport is the major beneficiary of the increase in freight volumes, which, in view of the analyses, published from time to time, about the possibility of effective and efficient electrification of transports in the area, poses the main threat to the development of other forms of transport, including rail transport (road transport may lead to a further decrease in the importance of rail transport in the economic life because of a very rapid technological progress in the field and, among others, requirements of the European Union).[91]

The steady increase in the dominance of cargo transport by road results from the diverse specifics of various branches of transport (including cost-intensity of investments) and its relative advantages against rail transport, which include:

- no significant barriers to entry (it is accessible and easy to acquires means of transportation through lease, among others, and also the range of offered vehicles is quite wide) and low fixed costs incurred at moment of starting to provide services;
- clear and growing disparities in the prices of energy sources for rail (electricity) and road (diesel fuel) transportation. Electricity prices, after increasing several times, remain at a relatively high level (such a situation may continue for next years), while the cost of fuels, which grew at a certainly smaller scale, returned to the levels similar to previous periods (after taking into account change in the time value of money);
- a well-developed and constantly expanded road network, due to, among others, European Union funds (including especially expressways) in Poland and in the Czech Republic;

[87] Office of Rail Transport
[88] SŽDC
[89] SŽDC
[90] Office of Rail Transport
[91] Statistics Poland, Czech Statistical Office

- insignificant costs of access to road infrastructure in Poland (the road network where the toll applies is small relative to the whole road network in Poland);
- easy adaptability to changing freight volumes and to variable freight volumes and route lengths, including international transport (road transport is generally profitable even at short distances and small volumes of transported cargo due to low fixed and variable costs, which is difficult for other branches of transport);
- significantly greater average speed of this mode of transport relative to rail transport coupled with the possibility to provide direct door-to-door transport services.

Risk associated with regulatory changes

Risk of changes to laws and regulations with regard to monitoring transports and sanctions that have been and are being imposed. There are occasional interpretative doubts, causing turbulences in transport until a given case is explained. Planned acts of law which concern monitoring of transports:

- Draft Regulation of the Minister of Finance amending the regulation on transports of cargo which are subject to the system of road and rail monitoring of freight services and trade in heating fuels.
  stage: 2 August 2023 – Legal consultations following public consultations. The Regulation came into force on 12 August 2023 – changing the list of goods whose transports are monitored.
- Draft Act on Amending the Act on the Monitoring System for Road and Rail Cargo Transport and Trade in Heating Fuels, the Energy Law Act, the Excise Tax Act and Certain Other Laws.
  stage: sent to the Sejm, amending the list of goods whose transports are monitored and some other elements of the act of law – most probably until 1 January 2024.

Guidelines of the Chief Veterinarian about the manner of checking animal feed materials introduced into the territory of the Republic of Poland from outside of the EU for PKP border crossings – UZ of 16 February 2023 – instead of random inspections of the quality of crops, mandatory monitoring (with taking samples) was introduced for each shipment in a train set (group of wagons).

Risk of failure to comply with the employer's duties following from provisions of the labor law

In connection with limited possibilities of performing medical prevention tests by the Railway Occupational Medicine Clinic, including in particular tests for persons occupying positions related to rail traffic safety, there is a risk that, in 6 consecutive months of the financial year, the employer's duties following from provisions of Article 229 of the Labor Code (medical tests) will not be complied with.

Risk related to the inability to recruit appropriate staff

Based on identified needs, justified in business terms, recruitment processes were carried out, resulting in the acquisition of appropriate staff. Employees have an opportunity to obtain new qualifications from scratch to carry out work in key positions for the provision of transport services, including as a train driver, rolling stock auditor or shunter. In the Company, internal training courses are also conducted to improve employees' competences. PKP CARGO also cooperates with post-elementary schools all over Poland. Students of such schools, as part of mandatory practical training, familiarize themselves with the special character of the Company's activity, its organizational culture, so that finally PKP CARGO should become for them an attractive first choice employer. Furthermore, the Company regularly takes part in Work Fairs/Career Days so as to promote the employer's brand and initiate contacts with potential employees. Owing to the measures taken, the risk related to the inability to recruit appropriate staff has been minimized.

Risk of a shortage of trained personnel.

The Company has been properly managing the risk associated with shortage of trained personnel. Actions are taken with a view to ensuring appropriate number of employees with required skills to make it possible to achieve the business objectives.

Financial risks

Liquidity risk

PKP CARGO is exposed to liquidity risk ensuing from the ratio of current assets to net current liabilities (current liabilities less short-term provisions). In H1 2023, the liquidity of PKP CARGO remained at a stable level. To ensure an additional source of funds required to secure its financial liquidity, PKP CARGO used external financing sources, such as a current account overdraft facility.

Moreover, to optimize financial expenses in PKP CARGO, cash pooling systems are in place comprising, as at 30 June 2023, 8 PKP CARGO Group companies.

FX risk

PKP CARGO is exposed to market risks associated with fluctuations of exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short and medium term. PKP CARGO manages market risks following from the aforementioned factors on the basis of internal procedures which define the rules of measurement of individual exposures, parameters and time horizon.

The principles of market risk management are implemented by designated organizational units under the supervision of the Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivatives are used only to limit the risk of a change in the carrying amount and the risk of cash flow changes. Derivative instrument transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures.

In H1 2023, PKP CARGO was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. PKP CARGO's receivables expressed in foreign currencies are short-term receivables with the maturity up to 1 month and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities over 5 years.

The balance sheet valuation of receivables and some current and non-current liabilities long-term liabilities expressed in foreign currencies, settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. The Parent Company used hedge accounting for all EUR loans. Details are presented in **Note 6.1 to the CFS.**

Interest rate risk

PKP CARGO is exposed to the risk of volatility of interest rate cash flows following from, among others, bank loans, leasing based on variable interest rates. In H1 2023, interest on financing agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M. The interest rate risk in lease contracts is executed through revaluation of lease installments in one-month periods.

In H1 2023, interest on loan agreements were accrued according to the WIBOR O/N, WIBOR 1M, WIBOR 3M and EURIBOR 3M reference rate plus the banks' margin. The interest rate risk in loan agreements were executed through revaluation of loan installments in monthly, and quarterly periods.

Credit risk

PKP CARGO conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received. In order to minimize credit risk, PKP CARGO manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. As part of its internal policy, the Company makes application of the deferred term of payment conditional on acceptability of the counterparty's condition and positive history of cooperation.

Receivables from business partners are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered.

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from its customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which PKP CARGO invests free cash operate in the financial sector.

The maximum exposure to credit risk is represented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through safeguards established in favor of PKP CARGO (in the form of bank/insurance guarantees, guarantee deposits, etc.).

4. Analysis of the financial situation and assets of the PKP CARGO Group

4.1. Rules for preparing the interim financial statements

The Interim Standalone Financial Statements and the Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard no. 34 Interim Financial Reporting as endorsed by the European Union ("EU").

Based on the financial projections approved at the Company, the Interim Standalone Financial Statements of PKP CARGO for the 6 months ended 30 June 2023 and the Interim Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2023 have been prepared based on the assumption that both PKP CARGO and the Group will continue to be a going concern in the foreseeable future.

As at the preparation date of these financial statements, there are no material circumstances indicating any substantial threat to PKP CARGO's and the Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Interim Standalone Financial Statements of PKP CARGO for the 6 months ended 30 June 2023 and the Interim Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2023 have been prepared in accordance with the historical cost principle, except for investments in equity instruments.

4.2. Key economic and financial figures of PKP CARGO Group

4.2.1. Financial highlights of the PKP CARGO Group and PKP CARGO S.A.

Table 17. Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million[92]		EUR million	
	6M 2023	6 months of 2022	6M 2023	6 months of 2022
Exchange rates (PLN/EUR)			**4.6130**	**4.6427**
Operating revenue	2,919.1	2,477.3	632.8	533.6
Operating profit / loss	221.5	6.1	48.0	1.3
Profit / loss before tax	139.8	(46.9)	30.3	(10.1)
Net profit / loss	109.7	(42.4)	23.8	(9.1)
Total comprehensive income attributable to the owners of the parent company	70.3	2.2	15.2	0.5
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share (PLN)	2.45	(0.95)	0.53	(0.20)
Diluted earnings / losses per share (PLN)	2.45	(0.95)	0.53	(0.20)
Net cash flow from operating activities	695.7	320.0	150.8	68.9
Net cash flow from investing activities	(587.6)	(430.8)	(127.4)	(92.8)
Net cash flow from financing activities	(111.1)	(31.7)	(24.1)	(6.8)
Movement in cash and cash equivalents	(3.0)	(142.5)	(0.7)	(30.7)

[92] To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data are presented with greater accuracy.

	30 Jun 2023	31 Dec 2022	30 Jun 2023	31 Dec 2022
Exchange rates (PLN/EUR)			**4.4503**	**4.6899**
Non-current assets	6,895.1	6,354.1	1,549.4	1,354.8
Current assets	1,212.8	1,305.8	272.5	278.4
Non-current assets classified as held for sale	-	0.3	-	0.1
Share capital	2,239.3	2,239.3	503.2	477.5
Equity attributable to the owners of the parent company	3,303.2	3,232.9	742.2	689.3
Non-current liabilities	2,529.4	2,344.6	568.4	499.9
Current liabilities	2,275.3	2,082.7	511.3	444.1

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2023 prepared according to EU IFRS.

Table 18. Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million[93]		EUR million	
	6M 2023	6 months of 2022	6M 2023	6 months of 2022
Exchange rates (PLN/EUR)			**4.6130**	**4.6427**
Operating revenue	2,235.3	1,830.9	484.6	394.4
Operating profit / loss	174.0	(19.9)	37.7	(4.3)
Profit / loss before tax	127.7	(45.0)	27.7	(9.7)
Net profit / loss	105.2	(35.6)	22.8	(7.7)
Comprehensive income	99.3	(10.2)	21.5	(2.2)
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share (PLN)	2.35	(0.80)	0.51	(0.17)
Diluted earnings / losses per share (PLN)	2.35	(0.80)	0.51	(0.17)
Net cash flow from operating activities	647.9	277.3	140.4	59.7
Net cash flow from investing activities	(531.4)	(386.7)	(115.2)	(83.3)
Net cash flow from financing activities	(114.9)	(5.4)	(24.9)	(1.1)
Movement in cash and cash equivalents	1.6	(114.8)	0.3	(24.7)
	30 Jun 2023	**31 Dec 2022**	**30 Jun 2023**	**31 Dec 2022**
Exchange rates (PLN/EUR)			**4.4503**	**4.6899**
Non-current assets	6,512.0	5,948.0	1,463.3	1,268.3
Current assets	737.0	800.0	165.6	170.6
Non-current assets classified as held for sale	-	0.1	-	-
Share capital	2,239.3	2,239.3	503.2	477.5
Equity attributable to the owners of the parent company	3,022.6	2,923.3	679.2	623.3
Non-current liabilities	2,162.9	1,985.9	486.0	423.4
Current liabilities	2,063.5	1,838.9	463.7	392.2

Source: Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2023, prepared in accordance with EU IFRS

[93] To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data are presented with greater accuracy.

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group and the Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the period of 6 months ended 30 June 2023:

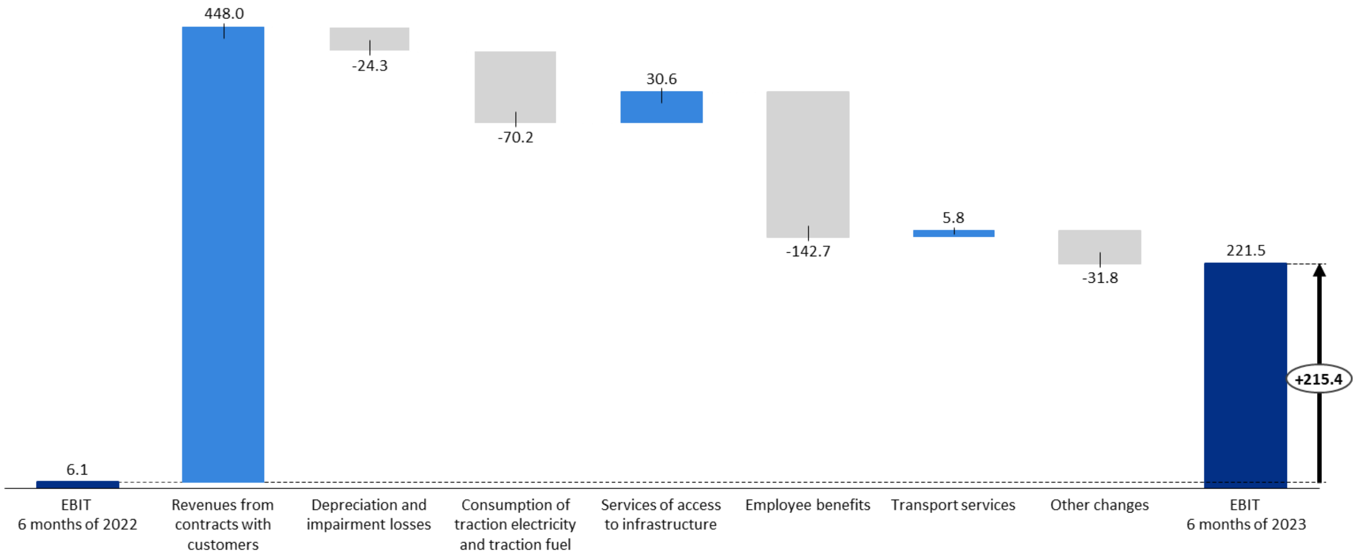
- exchange rate in effect on the last day of the reporting period: 30 June 2023: EUR 1 = PLN 4.4503; 31 December 2022: EUR 1 = PLN 4.6899,
- average exchange rate in the period calculated as the arithmetic mean of the FX rates prevailing on the last day of each month in a given period: 1 January – 30 June 2023: EUR 1 = PLN 4.6130, 1 January – 30 June 2022: EUR 1 = PLN 4.6427.

4.2.2. Analysis of selected financial highlights of the PKP CARGO Group

Statement of profit or loss of the PKP CARGO Group

During the first 6 months of 2023, EBIT reached PLN 221.5 million, marking an improvement compared to the corresponding period of 2022 by PLN 215.4 million.

Figure 17. EBIT in 6M 2023 as compared to the corresponding period in 2022 (PLN million)



Source: Proprietary material

The following is a description of the most significant deviations affecting EBIT in the first 6 months of 2023 as compared to the first 6 months of 2022:

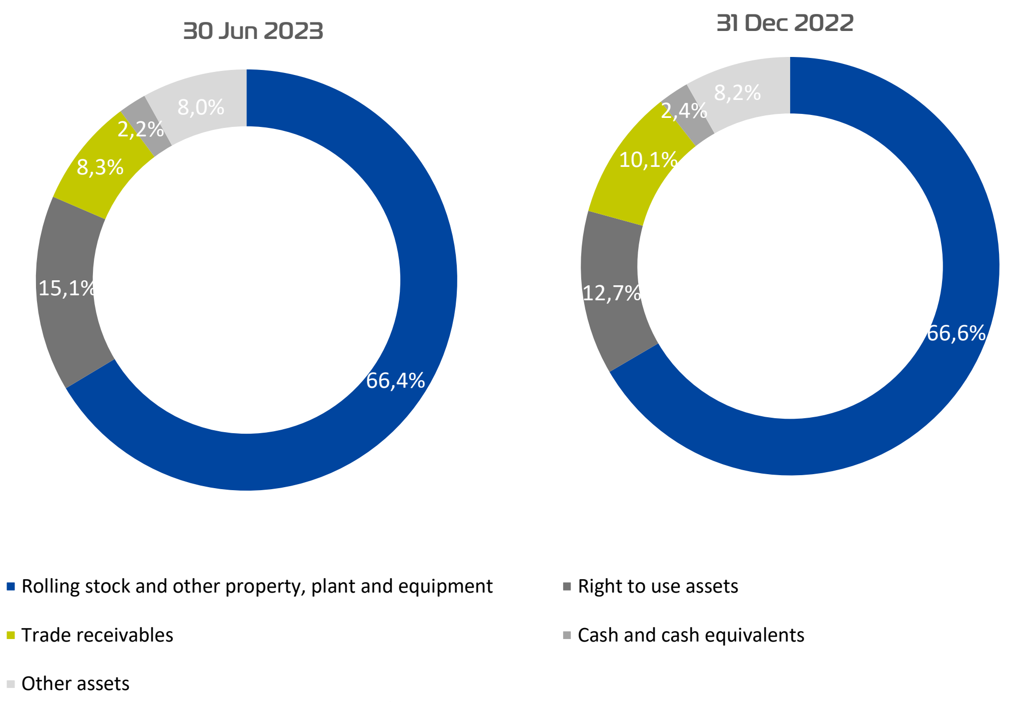
- increase in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services and also, without limitation, siding and traction services and transshipment services) as a direct consequence of the increase in freight rates. The details pertaining to the PKP CARGO Group's transport services are described in section **3.2.5 PKP CARGO Group's rail transport business.**
- increase in depreciation and impairment allowances resulting from higher capital expenditures (predominantly expenditures on rolling stock) in 2023;
- increase in the costs of consumption of electricity and traction fuel resulting chiefly from an increase in prices of energy contracted on the Polish Power Exchange (POLPX);
- increase in the costs of employee benefits, including in connection with the signing of agreements on wage increases as of June 2022 and January 2023, an increase in other employee benefits during the employment period and a concurrent decline in the total number of employees. Detailed information on the changes in headcount is presented in section **3.4 Headcount;**
- increase in costs under "other changes" by PLN 31.8 million, caused by, among other factors, the higher electricity, gas and water consumption, and transshipment services.

Statement of financial position of the PKP CARGO Group

ASSETS

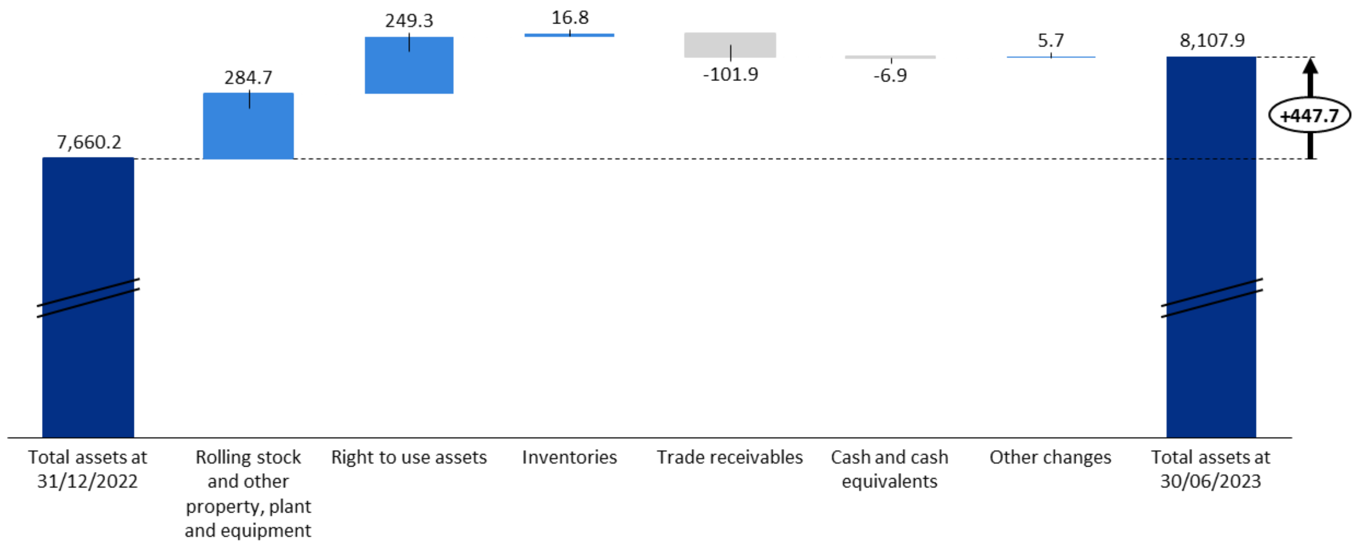
The biggest share in the PKP CARGO Group's asset structure as at 30 June 2023 was held by rolling stock and other property, plant and equipment, which in aggregate accounted for 66.4% of total assets, compared to 66.6% as at 31 December 2022. At the same time, the largest share in the structure of current assets was attributable to trade receivables the value of which accounted for 8.2% of the Company's total assets (8.3% including non-current assets).

Figure 18. Structure of assets – as at 30 June 2023 and 31 December 2022



Source: Proprietary material

Figure 19. Movement in the Group's assets in the first 6 months of 2023 (PLN million)



Source: Proprietary material

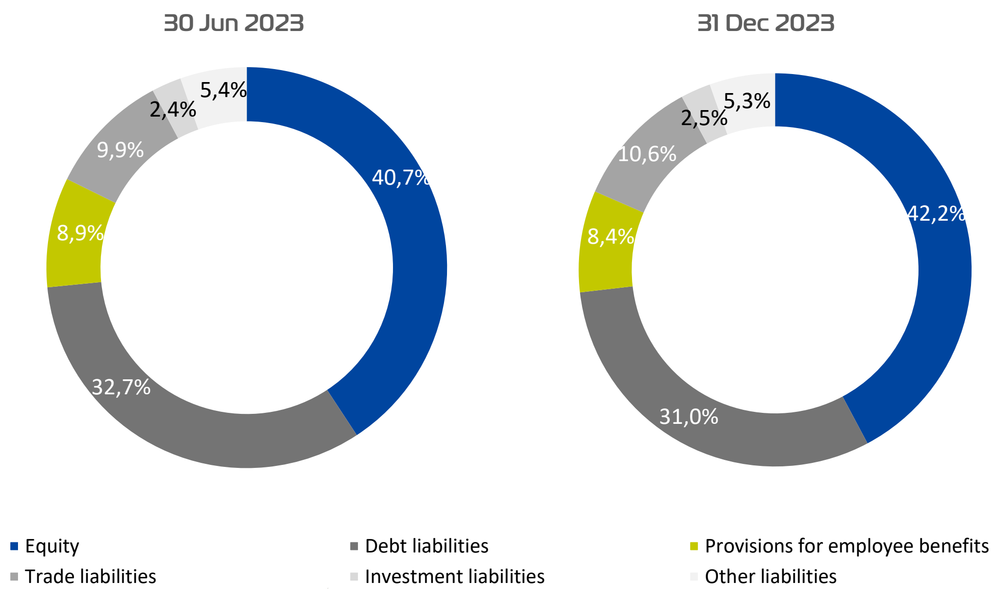
The most significant changes affecting the value of assets as at 30 June 2023 as compared to 31 December 2022 are discussed below:

- increase in the value of rolling stock and other property, plant and equipment as a result of changes in the first 6 months of 2023 in investments made in property, plant and equipment (predominantly rolling stock) in excess of depreciation;
- increase in right-of-use assets resulting predominantly from greater capital expenditures in excess of depreciation. Right-of-use assets related mostly to rolling stock, including the lease of locomotives;
- increase in the value of inventories (mostly strategic inventories and other inventories) as a consequence of purchases for the execution of the investment project involving the replacement of monoblock wheels co-funded by the European Union;
- decrease in trade payables related to the active management of working capital;
- decrease in cash by PLN 6.9 million resulting predominantly from expenditures related to the acquisition of non-financial non-current assets in the amount of PLN 596.0 million, repayment of loans, borrowings and leases along with interest in the amount of PLN 308 million, with simultaneous proceeds from operating activities of PLN 695.7 million and proceeds from loans of PLN 198.1 million;
- increase in the line item “other changes,” chiefly as a result of an increase in income tax receivables.

EQUITY AND LIABILITIES

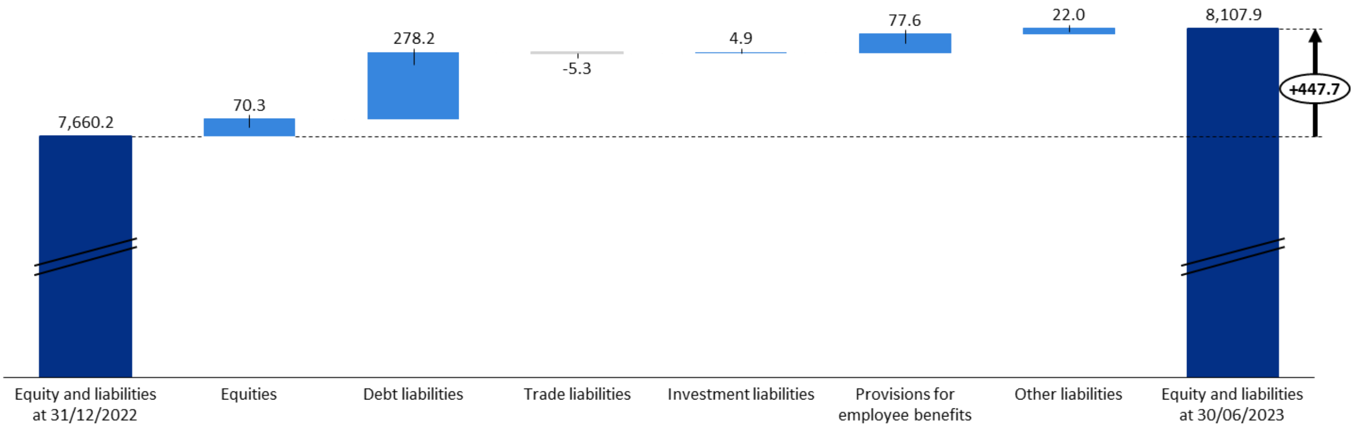
The largest share in the structure of the PKP CARGO Group’s equity and liabilities as at 30 June 2023 was attributable to equity, which accounted for 40.7% of total equity and liabilities, compared to 42.2% as at 31 December 2022. In the period under analysis, debt liabilities accounted for 32.7% of total equity and liabilities, compared to 31.0% as at 31 December 2022.

Figure 20. Structure of the Group’s equity and liabilities as at 30 June 2023 and 31 December 2022



Source: Proprietary material

Figure 21. Movement in the Group's equity and liabilities in the first 6 months of 2023 (PLN million)



Source: Proprietary material

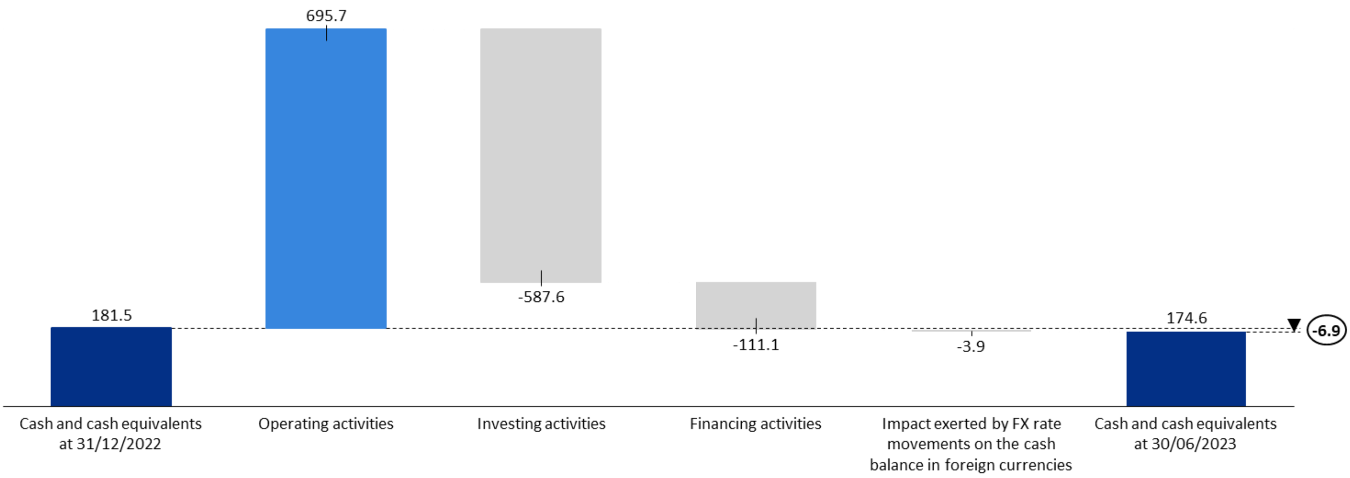
The most significant changes affecting the value of equity and liabilities as at 30 June 2023, as compared to 31 December 2022, are discussed below:

- increase in equity mainly due to the positive net result for 6M 2023 reported by the PKP CARGO Group;
- increase in the value of debt liabilities resulting from new liabilities incurred on account of loans, borrowings and leases in the amount of PLN 486.5 million, modification of existing lease agreements in the amount of PLN 62.7 million and a concurrent repayment of principal under loans, borrowings and leases of PLN 235.9 million. Detailed information on debt liabilities is presented in **Note 4.1 to the Consolidated Financial Statements**;
- increase in the value of provisions for employee benefits, largely as a result of an update of actuarial assumptions, including a change in the discount rate from 6.8% as at 31 December 2022 to 5.75% as at 30 June 2023 and an assumed increase in the calculation basis of the provision on account of a charge to the Company Social Benefits Fund (15.1% in H2 2023 and 6.3% from 2024, with 5.2% for the whole projection period as at 31 December 2022). The update of actuarial assumptions caused a decrease in provisions for employee benefits by PLN 74.1 million;
- decrease in trade payables mainly as a result of active working capital management;
- increase in the value of other changes caused largely by the increase in public-law liabilities and other settlements.

4.2.3. Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 30 June 2023 decreased by PLN 6.9 million compared to 31 December 2022.

Figure 22. Cash flows of the PKP CARGO Group in 6M 2023 (PLN million)



Source: Proprietary material

- positive cash flows from operating activities were generated, among other sources, on profit before tax of PLN 139.8 million, depreciation and impairment allowances of PLN 389.7 million and positive cash flows caused by movement in working capital of PLN 195.7 million;
- negative cash flows from investing activities resulted predominantly from capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 596.0 million (including investments in rolling stock);
- negative cash flows on financial activities, chiefly as a result of the repayment of loans and leases with interests in the amount of PLN 308.0 million, offset by inflows of PLN 198.1 million from new loans.

4.2.4. Selected financial and operating ratios of the PKP CARGO Group

The table below presents the PKP CARGO Group's key financial and operating ratios in the first 6 months of 2023 compared to the corresponding period of the previous year.

Table 19. Key financial and operating ratios of the PKP CARGO Group in 6M 2023 as compared to the corresponding period of 2022

Description	6M 2023	6 months of 2022	Change	Rate of change
			2023 - 2022	2023 - 2022
EBITDA margin[1]	20.9%	15.0%	5.9	39.6%
Net profit margin (ROS)[2]	3.8%	-1.7%	5.5	-
ROA[3]	3.7%	-1.8%	5.5	-
ROE[4]	9.1%	-4.5%	13.6	-
Average distance covered per locomotive (km per day)[5]	201.2	213.2	-12.0	-5.6%
Average gross train tonnage per operating locomotive (tons)[6]	1564.0	1517.0	47.0	3.1%
Average running time of train locomotives (hours per day)[7]	12.8	14.2	-1.4	-9.9%
Freight turnover per employee (thousands tkm/employee)[8]	585.3	655.7	-70.4	-10.7%

Source: Proprietary material

1. Calculated as the ratio of the operating result plus depreciation and amortization (EBITDA) to total operating revenue.
2. Calculated as the ratio of net result to total operating revenue.
3. Calculated as the ratio of net result for the last 12 months to total assets.
4. Calculated as the ratio of net profit for the last 12 months to equity.
5. Calculated as the ratio of vehicle-kilometers (i.e. the distance covered by the Group's vehicles in the given period) to vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the respective period).
6. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the respective period).
7. Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of the Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
8. Calculated as the ratio of freight turnover to the average headcount (in FTEs) in the Group in the given period.

The metrics shown here are Alternative Performance Measures (APMs). In the Company's opinion, they provide significant information on the Group's financial standing, efficiency of operations and profitability. The APMs applied by the Group should be treated only as additional information and should be viewed in parallel with the Group's financial statements as they facilitate the analysis and assessment of the Group's financial performance in the reporting periods. They also provide useful information on the Group's financial standing and, in the Company's opinion, enable an optimal assessment of the Group's financial performance. The metrics applied by the Group were calculated in accordance with the formulas mentioned above.

To assess the performance of the PKP CARGO Group, the following basic financial indicators may be applied: EBITDA margin, net profit margin, ROA, ROE, and the following basic operational indicators: average daily mileage, average daily running time of locomotives and average train weight per locomotive, which reflect the freight volume and the degree of utilization of traction vehicles.

- in 6M 2023, the EBITDA margin slightly improved, chiefly due to the significant increase of operating revenue. Detailed information on the reasons for movement in EBITDA and the net result is presented in section **5.3. Key economic and financial figures of the PKP CARGO Group;**
- improvement in the ROA and ROE ratios coupled with the return on sales (ROS), largely due to the better net result in the period under analysis;
- increase in the average gross tonnage per locomotive as a result of a change in the structure of freight transported;

- decrease in the average operating time and haul per locomotive per day is due to the lower realized freight turnover in the period under analysis coupled with an increase in commercial velocity;
- decrease in the freight turnover per employee ratio, reflecting predominantly a decrease in freight turnover by 12.8%, with a concurrent decrease in the average headcount expressed in FTEs by 2.3%.

4.3. Factors that will affect the financial performance in the next quarter

Situation related to the war in Ukraine

The war in Ukraine remains the main risk factor for the Group's performance in the current year. It is currently impossible to predict how this conflict will develop or when it will finally come to an end. The aggression of Russia (supported by Belarus) accelerated deglobalization and fragmentation processes in international trade. At present, the impact of the conflict on the prices of fossil fuels and food is diminishing, which is of crucial importance, especially for large manufacturers, for whom the security of uninterrupted energy supply and energy price is a priority. Manufacturers are struggling with high prices of fossil fuel and energy, which, combined with reduced domestic consumption and demand from key trading partners, have effectively slowed the production and transportation of finished goods (as well as materials and other components needed in the production process). The immediate effect of Russia's aggression is a rapid reduction of economic relations with Russia and Belarus (which, before the conflict, supplied Poland with metallurgical products, fuel, wood and cement). Additional EU sanctions packages (which have so far focused on selected products) are currently focused on sealing restrictions due to actions by third parties attempting to market products as their own. The restriction of trade in crude oil and petroleum products in December 2022 and February 2023 was a breakthrough in trade relations. Many contractors of the Group who traded with partners in the East have not yet reached the pre-war level of turnover, which has resulted in a decrease in the flow of goods ordered for transportation. The Group companies focused on the markets of their partners in the East continue to work to acquire new customers and new markets, which is difficult given the need to significantly redesign business processes, but necessary given the ongoing conflict and the lack of concrete prospects for a return to normal trade relations in these areas. The impact of the conflict on the prices of fossil fuels and food has diminished, but any escalation of war activities or production and transportation problems could lead to a return to rapidly rising prices and limited availability of goods.

Ports have maintained their increased importance as delivery points for goods that used to arrive in Poland mainly by land (such as coal from Russia, timber from Belarus), but this year the dynamics may be limited to selected areas only (e.g. fossil fuel) due to the weak economic situation in Poland and Europe. Maritime trade is positively affected by low sea freight prices and the unclogging of supply chains, which have been a major obstacle to production in recent years, as well as the reduced importance of the "New Silk Road". However, the overall volume of imports and transits will be lower due to direct shipments to the affected countries by sea freight, as well as a sharp reduction in production affecting all aspects of transportation activity (including a reduction in freight or transshipments).

As a result of the war, the scale of economic relations between Poland and Ukraine is growing, with exports mainly of goods needed for military operations (but also a whole range of goods needed for the proper functioning of the state) and numerous manufacturers continuing to do business in the country despite the difficult conditions. Taking advantage of the good economic situation in this area, PKP CARGO Group carries out mainly export and transit shipments of fuels, import shipments of metals and metal products, transit shipments of grain, export shipments of fertilizers and intermodal transportation in all directions. At the level of declarations, there is a desire to expand land connections between the two countries, but the pace of work is not very fast, which unfortunately causes numerous capacity constraints on the connections between the two transportation systems, with the border being the bottleneck. Additionally, as a result of farmers' protests, which were held among others in Poland, the import of food products to selected Eastern European countries has been restricted at the EU level, while the Polish authorities have increased the pressure on inspections and transit traffic. This could further reduce the potential for trade between the countries, which has been growing at double-digit rates in some areas.

The companies of the PKP CARGO Group constantly monitor and analyze all legal and factual changes in the rules of cargo transportation related to the changing situation in Ukraine. In the case of the import restrictions on certain agricultural products, an information campaign was conducted among customers and employees to ensure that the changed transportation process ran as smoothly and efficiently as possible. The border terminals in northeastern Poland and the freight forwarders in this area were the most affected by the problems caused by the hostilities. Only a full restoration of trade would allow them to reach 100% of their potential, but due to geopolitical factors we cannot expect this to happen quickly. In light of the above, it is necessary to further diversify and change the character of the business.

Rail transport in general and PKP CARGO Group companies in particular are strongly exposed to the effects of the macroeconomic environment, which is currently a negative factor limiting economic activity. The slowdown in GDP growth in Poland and in the countries with which Poland has the largest trade turnover (as well as the lack of a clear recovery in global

GDP growth), persistently high inflation, and limited investment all contribute to a reduction in the level of demand and, consequently, also production and the need for transportation. Nevertheless, the Polish economy is doing quite well in such a difficult macroeconomic environment, achieving a positive trade balance (the key here is the slowdown in imports and the growth in exports), which partially offsets the negative effects of decline in consumption. In the medium term, high inflation remains an important issue to be addressed, as it limits the ability of companies to invest (in part due to the high cost of capital).

The Group does not currently see any fundamental threats to its operations from the war in Ukraine or the macroeconomic environment, but the situation remains volatile and requires constant monitoring.

Situation related to COVID-19

In May 2023, the WHO announced the end of the pandemic in light of the declining number of cases worldwide and the diminishing impact of the few remaining infections on societies. The impact of the COVID-19 pandemic on the business of PKP CARGO Group companies is currently insignificant. The low severity of the disease and the low number of reported cases resulted in the lifting of most restrictions globally, which significantly contributed to the recovery of trade and freight transportation (despite the tough macroeconomic environment). The Polish government lifted the state of epidemic emergency on 1 July 2023, which in practice marked the end of all epidemic-related restrictions in the country.

The Annex to the occupational medicine contract binding on the Company since 1 March 2023 has introduced new prices for services rendered by the Rail Occupational Medicine Unit, the cost of which increased by approximately 10%. Accordingly, due to the lifting of the state of epidemic emergency on 1 July 2023 and the need to perform a large number of periodic medical check-ups of PKP CARGO employees by 31 December 2023, the validity of which has been extended due to the COVID-19 pandemic, the factor indicated above will affect the Company’s financial performance of the following 6 months.

Infrastructure

Another external factor affecting the PKP CARGO Group’s transport operations are the track closures carried out by PLK, which force trains to travel via detour routes. While the Company keeps getting informed about planned, long-lasting closures well in advance, thereby allowing it to reorganize its logistics, in the case of emergency closures they are imposed on an ad-hoc basis. In addition to the need to run trains along longer detour routes, this results in train delays, unscheduled stops at intermediate stations in anticipation of available throughput, and results in lower efficiency of train crews.

Energy costs and fuel prices

The relatively high energy and fuel prices are expected to persist into future periods. A risk factor in this context are potential large failures in hydrocarbon supply companies, which may effectively and abruptly increase the level of these rates, which at the moment, if things go wrong, may lead to the realization of recessionary scenarios (especially in Western Europe). The mild winter helped stabilize energy costs, while it is uncertain how they will evolve in future periods, especially given the unpredictability of the armed conflict across Poland’s eastern border and the threat of hybrid hostilities by Russia and Belarus.

Social dialog

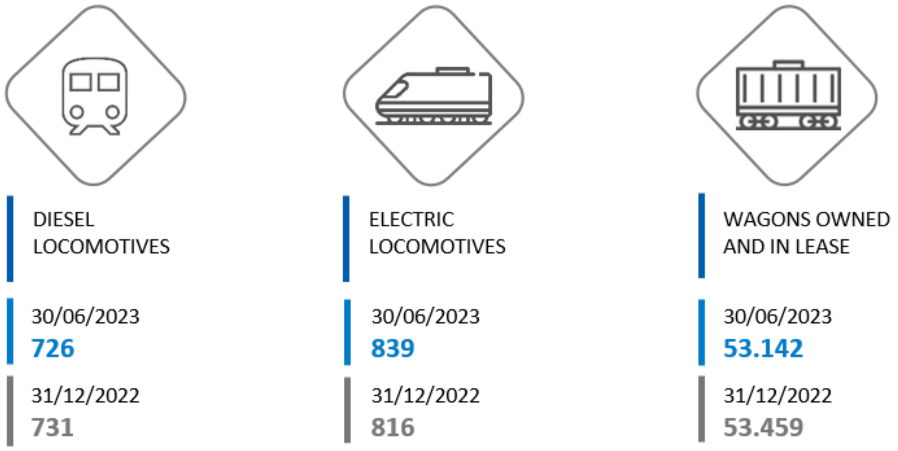
The social dialog carried out by the PKP CARGO Management Board with the Trade Unions in accordance with the principle of partnership resulted in making certain arrangements in January of this year, which meant that in H1 2023 the Trade Unions did not initiate any collective dispute or strike in the Company. As a consequence of these actions, the risk of such events occurring in the remaining six months of the financial year has been reduced to a minimum.

4.4. Information about production assets

4.4.1. Rolling stock

The PKP CARGO Group’s rolling stock is maintained by repair shops operating within the structures of PKP CARGO Units and in subsidiaries. The PKP CARGO Group’s rolling stock repair and maintenance organization is qualified to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5 and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, the Group’s establishments also repair rolling stock and sub-assemblies for other owners. On top of regularly-scheduled activities the points of repair functioning in the PKP CARGO Group’s structures conduct ongoing repairs to the rolling stock to fix the defects that appear in the rolling stock during the course of its operation. The quantity of current repairs of the rolling stock depends on the freight turnover.

Figure 23. Structure of rolling stock used by the PKP CARGO Group as at 30 June 2023 and 31 December 2022



4.4.2. Property

The real properties constituting the PKP CARGO Group's maintenance and repair facilities are for the most part used by the Group under long-term lease and tenancy agreements.

Table 20. Real properties owned and used by the PKP CARGO Group as at 30 June 2023 and 31 December 2022.

Description	30 Jun 2023	31 Dec 2022	Change 2023-2022
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,409	1,406	3
Buildings – owned, leased and rented from other entities [m^2]	728,003	722,756	5,248

Source: Proprietary material

The increase in the size of the land and buildings used (owned, leased and rented from other entities) results from the ongoing verification of the quantum of assets necessary for the Parent Company and its subsidiaries and adjusting it to the profile and scale of conducted activity. In the period under analysis, the greatest impact was exerted by the expansion of the employee amenity and office building at PKP CARGO TERMINALE, the acquisition of real estate by CARGOSPED TERMINAL BARNIEWO and the new sublease of real estate by PKP CARGOTABOR and PKP CARGO TERMINALE.

5. Other key information and events

5.1. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

PKP CARGO has not published any financial forecasts for 2023.

5.2. Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO and its subsidiaries did not participate in any major proceedings pending before courts, arbitration bodies or public administration authorities in cases concerning liabilities or receivables of PKP CARGO or its subsidiaries, except for those disclosed in the consolidated financial statements, in particular in the notes concerning contingent liabilities.

5.3. Information on transactions with related parties

No entity from the PKP CARGO Group entered in H1 2023 into any transactions with related parties on non-market terms.

5.4. Information on granted guarantees and sureties of loans or credits

PKP CARGO and its subsidiaries did not extend any sureties for loans or borrowings and did not grant guarantees to a single entity or subsidiary of such entity whose total amount would be material.

5.5. Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts

Other than the information presented in this report, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial performance, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

This document has been prepared by the PKP CARGO Management Board.

Management Board

Dariusz Seliga
President of the Management Board

Maciej Jankiewicz
Management Board Member

Marek Olkiewicz
Management Board Member

Jacek Rutkowski
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 25 August 2023