Company's answers to questions asked online during the 28 August 2023 conference on the Company's performance in H1 2023

Do you see any signs of a rebound in the freight volume of hard coal transport in Q3 as a result of preparations for the heating season? What is the outlook for this commodity in Q4?
We recorded a significant increase in seasonal hard coal transport volumes around mid-August in previous years. In June, transport volumes dwindled noticeably due to factors such as the completion of the heating season, the accumulation of inventories stored in coal yards and overhaul operations carried out at power plants and cogeneration plants. What we are expecting for the months to come is a slight increase in the quantity of coal transport operations, yet in light of the imminent preparations for the winter season it is also reasonable to expect an increase in freight volume.
Will the volume of grain freight increase in Q3, thereby offsetting the decline in coal transport operations?
We expect to see an increase in grain freight transport in Q3 2023, but it will certainly not be strong enough to compensate for the decline in hard coal volumes, which have dominated the PKP CARGO Group's freight structure for years.
Data published by the Office of Rail Transport (UTK) point to an anticipated decline in freight turnover in the coming months. Is PKP CARGO losing its market share?
Of key significance for us was to take steps aimed at increasing the profitability of our freight operations. Towards that end, we renegotiated those of our contracts the performance of which was generating losses for PKP CARGO. Another key action was to improve the efficiency of PKP CARGO's business operations in order to keep our expenses in check. This meant, for instance, a more efficient use of rolling stock, elevating our work organization standards and generating savings in certain expense areas.
What investments in rolling stock do you intend to make by the end of 2023?
The pursuit of our strategic objectives calling for growth in freight transport requires assurance that our rolling stock is of appropriate functionality and quality. In view of this, we have been tapping into available sources of funding for rolling stock investments from European Union programs for a number of years. Modern wagons and locomotives will certainly contribute to increasing our operational capabilities in domestic and international transport.

What is the reason for the rapid loss of the market share in intermodal transport?

The decline in intermodal transport is of a macroeconomic nature and affects all players in this market. Inflationary pressures caused a significant increase in the price of intermodal transport, and some customers began using truck transport again. The second factor in the decline is the ongoing war in Ukraine. Russia's aggression caused a significant reduction in container train traffic on the New Silk Road in the first place. Moreover, the embargo on imports of many raw materials and industrial products from Russia has forced an increase in coal imports from non-European countries and their import to ports to ensure Poland's energy security, especially fuel supplies for Polish families. This has also reduced container transport. Our goal is to gradually regain the market. We have not set ourselves any specific targets for the percentage of the market we intend to capture by the end of the year. Above all, we are making efforts to improve our offering, increase our competitiveness and elevate our customer service level. A new, but very promising segment of intermodal transport may be truck trailer transport. The growth in demand for such services may be driven in a large part by the European Union's initiatives to reduce CO_2 emissions, which may force a shift of transport from road to rail. For this reason, we are carefully scrutinizing the market and customer expectations. If circumstances turn out in our favor, we will position ourselves as a participant in this transportation segment.

In connection with emergency coal transport operations in 2022, has the company received compensation from the State Treasury for lost revenue caused by the abandonment of other assignments? If so, then what amount has the company been paid? If not, then is the company taking any steps to obtain such compensation?

No, the company has not received any compensation from the State Treasury for the coal transport operations carried out in 2022. We have received remuneration for the transport services we rendered that year from our contractual counterparties – importers of coal. Financial settlements between our company and those counterparties have been carried out on an arm's length basis. We have not received any grants from the state budget, as this would constitute unlawful state aid. PKP CARGO is not taking any steps to obtain such compensation.

Do you foresee an increase in employee compensation? Have trade unions already come forward on this issue?

In consultation with trade unions that came up with the initiative to recognize employees, we have decided to disburse a taxable PLN 450 bonus to all employees.

What impact do expenses associated with the purchase of fuel, energy, maintenance of rolling stock in good working order, fees for access to rail and road infrastructure, personnel, etc., exert on the transport, forwarding and logistics operations of the Group? Which of these expenses are currently the most painful for the Group and what changes do you expect to see in this respect in the coming months?

Combined expenses associated with the purchase of fuel, energy, rolling stock maintenance, infrastructure access fees and personnel account for approximately 70% of the Group's total operating expenses, meaning that they indeed exert a major impact on the financial efficiency of our operations. Recently, they have been subjected to significant price pressures. Particularly severe was the increase in the cost of traction fuel and traction energy consumption caused by increases in the market prices of fuel, the unit energy rates and the power charge rate. In turn, the cost of employee benefits has increased for a number of reasons, predominantly as a result of the execution of a wage increase agreement, partly caused by the existence of an inflationary environment. In recent years, we have also recorded a noticeable increase in the cost of materials necessary for maintaining the operability of our rolling stock and all sorts of external maintenance work, due to a spike in labor market rates and the shortage of specialists in the market. The infrastructure access rates, despite having remained frozen in recent years, do not compensate for the high unit costs incurred relative to those paid by truck transport competitors and others.

In response to these phenomena, it has become necessary to make our freight rates more realistic, reduce or eliminate unprofitable transport operations and terminate some contracts. As a result, we recorded a decline in freight volume – which clearly had an impact on our market share – but at the same time our profitability increased. 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.