Company’s answers to questions asked on 31 January 2023 during the Conference on the revision of the Company Strategy for 2019–2023

Q: The Company’s previous strategy for 2019–2023 also presented the net profit margin parameter sought by the Company in 2023 at 8%. What is the Management Board’s current stance on the financial parameters contained in the revised strategy? **Q: The original strategy called for the attainment of a net profit margin of 5% in 2019 and 8% in 2023 – please specify the Group’s current financial objectives? What is the “proper” profitability target that the Management Board is aiming for?**
A: The strategy for 2019–2023 was developed and published in 2018 – the events that unfolded thereafter, especially the pandemic and the war in Ukraine, significantly affected the market situation and, as a consequence, the performance of businesses strongly intertwined with existing macroeconomic situation, such as PKP CARGO. Nonetheless, in 2022 the Company again generated quarterly profits, and the Management Board’s intention is to remain on the path of increasing revenues and to control the costs in a consistent manner. These measures should result in a gradual improvement of our financial performance. However, at this stage, we are not revealing any detailed figures in our financial plan.
When do you expect to regain financial profitability?
Both in Q2 and Q3 2022, the Company generated a positive financial result, and we hope to be able to uphold this trend in the coming periods. We believe that our strategic objectives aimed at solidifying the Company’s market position with the simultaneous maintenance of cost discipline will help us fulfill this aspiration at a level that will be acceptable for investors.
What CAPEX value does the Company assume for 2023? What CAPEX to EBITDA ratio would the Management Board expect to see within the time horizon of the new strategy?
The Company strives to achieve the degree of attainment of its objectives that would enable us to generate the projected financial results. However, at this stage, we are not revealing any detailed figures in our financial plan.
Is the Management Board considering a request to the main shareholder for recapitalization in order to help the pursuit of the Company’s growth strategy? **How does the Group intend to fund the expansion of its share in the transport market to 50% by 2027? Is the Management Board considering the issuance of shares, bonds or other form of debt financing?**

Currently, the Company has no such plans. We assume that our growth strategy will be financed using the Company's own funds and from external sources.

Will your next long-term plan include financial targets? At what level do you predict to see the Group's financial debt over the coming years?

The Company has begun to work on a strategy that will take into account the Company's key objectives for the coming years, but it is still too early to talk about any detailed financial parameters. The Management Board believes that the gradual improvement in profitability and financial performance will bring about a positive impact on the financing structure of our business.

Based on an increase in which cargo categories does the Management Board intend to attain an increase in the market share to 50% by 2027, considering the recent low transport volumes on the New Silk Road, which is additionally losing its competitive edge over maritime transport due to the decreasing freight prices and the major risk of a decrease in coal transport volumes in the coming years?

The intended increase in our market share is expected to be ensured predominantly by improvements in the quality of our customer service and an expansion of our operational capabilities. We will focus not only on the transport of cargo, but also on its handling in terminals and on rail sidings. Our major advantage in these endeavors will be the multimodal terminal currently under construction in Zduńska Wola – Karsznice. These activities will help make us more competitive on the market, resulting in an increase in the number of newly acquired customers. For instance, the Company will attempt to be more active in handling cargo from and to Polish seaports, which generate large increases in transshipments, and in efforts to win new business partners in various industries. Such activities are intended to counteract the expected declines in coal transport volumes.

Let me return to your 50% market share target. PKP Cargo would have to regain more than 10 percentage points over the course of four years. What key actions will be taken to achieve this goal?

Hello. The Company aims for a 50% market share in 2027. What are the market assumptions behind this parameter?

What is the path to reach the 50% market share? In which years specifically does the Company intend to reach 40% and 45%?

The Company, as an active participant in a competitive market, will take steps to gradually increase its market share. We are working on increasing our transport volumes in all cargo categories, namely coal (even though, due to the embargo imposed on imports from Russia, we are focusing on transport operations from seaports in order to maintain our dominant position), aggregates and construction materials – in response to the continuation of large infrastructural projects, and

through investments that either have already been completed or those that have been planned, including with EU co-funding, and we intend to strengthen our intermodal transport operations.
According to current data on transport volumes provided for 2022 by the Office of Rail Transport, PKP Cargo's share in freight volume actually decreased rather than increased, contrary to what CEO Seliga has said. "PKP Cargo remains the market leader in terms of its share in total freight volume transported. However, in 2022 this share decreased by 1.1 percentage points to 35.5%." Can you comment on that? **The report published by the Office of Rail Transport contains information according to which in 2022 PKP CARGO's market share declined in terms of freight volume and freight turnover. How will the CEO relate these figures to the revision of the Group's strategy which calls for increases in market shares?**
We brought to an end the downward trend in our transport volumes by recording an increase in freight turnover after the first 3 quarters of 2022. The market situation is changing rapidly. We experienced months when we recorded both increases in transport volumes and market shares, while in other months our competition, which is very strong on the Polish market, posted greater overall increases. However, the differences were minor. Let me remind you that PKP Cargo competes for customers with some 70 rail operators and as a Group we currently have a market share of nearly 40% in terms of freight turnover. In 2022, we were focused on building the foundations for growth of the PKP Cargo Group's business in the coming years. By 2027, we will strive to achieve the goal laid down in our revised strategy, that is a 50% market share in terms of freight turnover.
What investments in rolling stock does PKP Cargo intend to make?
Under the contracts currently in force, PKP Cargo will invest in modern rolling stock, specifically in wagons and locomotives, primarily for intermodal transport, but also for highly efficient conventional transport operations. We may also sign similar such contracts in the future, but whether we do or not will depend on the market situation and the Company's financial capabilities. It should also be kept in mind that every year we will incur major capital expenditures on repairs and upgrades of our locomotives and wagons.
When will PKP Cargo receive the first Dragon 2 dual-system locomotives manufactured by Newag?
The Company will receive the Dragon 2 dual-system locomotives according to the schedule of deliveries in 2023–2024.
Is your intended attainment of a 50% market share expected to be realized only through organic growth or are acquisitions still an option?

The main focus of the Company’s efforts in this respect is organic growth through active and efficient sales coupled with improvements in customer service and operational processes. Having said that, we will certainly take various acquisitions into consideration as long as they have the potential to strengthen our market position in line with the Group’s strategy.

What are your plans for investments to support the growth in transport and transshipment volumes at the border with Ukraine?

First, we need to see an upgrade of rail infrastructure, which is an assignment for PKP PLK and Ukrainian railways. Only then would PKP CARGO be able to launch the modernization and expansion of its border terminals. For now, we are doing our best to take advantage of our existing capabilities at these terminals as effectively as possible.