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Management Board's Report

of the activities of PKP CARGO S.A. and PKP CARGO CAPITAL GROUP

in

2023

PKPCARGO

Management Board report on the activity of PKP CARGO S.A. and the PKP CARGO Group for 2023

PKP CARGO S.A. with its registered office in Warsaw at ul. Grójecka 17, 02-021 Warsaw, entered in the Register of Commercial Undertakings kept by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, under file number KRS 000027702, taxpayer identification no. NIP 954-23-81-960, statistical no. REGON 277586360, Waste Management Database entry no. BDO 000000758, with the share capital of PLN 2,239,345,850.00, paid up in full.

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1. Letter from the President of the Management Board to the Shareholders

Dear Stakeholders,

The year 2023 was marked by an economic slowdown and a decline in industrial output, which affected the condition of the freight sector in Poland. The situation unfolding near Poland's eastern border as a consequence of the ongoing war in Ukraine exerted a major adverse impact on the freight market. The flow of cargo on the east-west route has been largely reduced and international trade has suffered as a result. Due to the stretching of cargo distances and structural changes in freight arrangements, the sector experienced declines in both freight volume (by 6.8% yoy) and freight turnover (by 1.4% yoy). Only in January 2023 did the volume of freight rebound by 3.9% compared to 2022. The beginning of this year saw a consolidation the sector's downward trend.

The PKP CARGO Group remains the leader of the rail freight market in Poland with a share of 33.1% (-4.4 p.p. yoy) in freight volume and 33.9% in freight turnover (-6.0 p.p. yoy). The decline in the Group's market shares last year was a side effect of the war in Ukraine which is disorganizing logistics chains, including along the "New Silk Road." The current macroeconomic and geopolitical situation is unfavorably affecting freight operations involving our largest cargo categories, namely coal, metal ores and intermodal transports.

During the reporting period, the Company was also required to pursue strategic duties to ensure the country's energy security, which affected the diversification of its orders and curtailed its potential for involvement in other major segments, such as intermodal transport.

The PKP CARGO Group wrapped up 2023 with a slight increase in revenue and EBITDA coupled with a net profit in the black. In the period under review, the Group's revenue and EBITDA increased by 2% to PLN 5.5 billion and 1.6% to 1.08 billion, respectively. The EBITDA margin in 2023 was 19,5%. Total freight volume transported in 2023 was 82.7 million tons, compared to 100.6 million tons the year before. Freight turnover reached 22.3 billion tkm, a notch down compared to 2022. The Group's leading market position coupled with its infrastructural advantages and fixed asset base create room for an active pricing policy despite the tightening competition in the sector. The active pricing policy pursued by the Group helped offset the decline in freight volume, while cost optimizations resulted in keeping the EBITDA margin almost unchanged compared to 2022. In the reporting period, EBIT reached PLN 291.4 million, down 13% yoy, adversely affected by a 12.7% yoy, or PLN 220 million, increase in employee benefits. Due to the rising inflation and wage pressures, the Company signed agreements providing for increases in employee compensation January 2023 along with a one-time bonus for employees in July 2023. In the period under review, the Group's depreciation stood at PLN 791.7 million, a derivative of the capital expenditure program implemented in previous years as part of the Company's investment in an expansion of freight logistics and rolling stock capacity. Net profit amounted to PLN 82.1 million. The Group closed 2023 with positive operating cash flows of PLN 1,211.0 million. At the end of the period, the Group held cash and cash equivalents of PLN 263.7 million.

PLN 5,491.9 million

REVENUES FROM CONTRACTS WITH CUSTOMERS

PLN 82.1 million

NET RESULT

PLN 1,083.1 million

EBITDA

EBITDA margin 19,5%

In 2023, the Company continued its capital expenditure program. At the beginning of 2023 12 new Dragon 2 locomotives were delivered to PKP CARGO. The key investment project of the Zduńska Wola – Karsznice Multimodal Terminal was also completed. The facility, located in the geographical center of Poland at the intersection of all major transportation routes, is the largest multimodal terminal in Poland and is of crucial significance to our strategic expansion in the Three Seas Initiative area. When operational, it will greatly improve the Company's capacity to provide comprehensive logistics services to companies in a variety of industries. We currently operate 25 transshipment terminals, including seven that are of an intermodal type or combine the functions of an intermodal and conventional terminal. The expansion of a comprehensive network of logistics terminals is carried out within the framework of strategic initiatives aimed at ensuring the Group's long-term growth and building a competitive edge in the region. We are also executing projects to optimize our operations, including by ramping up the digitization of key processes related to the efficient use of rolling stock and the provision of services to customers.

The first months of this year brought continued declines in the sector, particularly for the largest market players, who saw their market shares decline along with a decrease in freight volumes. Small players were the only ones in the market to record an increase in freight volume (by +3.8% yoy).

Notwithstanding the current downturn, the freight market remains the most sustainable and promising form of transportation, and the ever-increasing number of players in the region in both conventional and intermodal transport[1] bears witness to the market's potential. In line with the European Union's goals to reduce transport-related emissions by 90% by 2050, rail transport and intermodal transport will be enhanced, international freight services will be improved and rail's share of the modal split will grow. This is the area where the PKP CARGO Group sees a huge opportunity to enlarge freight volumes in the medium and long term. Without losing sight of the trends in market development, the Group is currently focusing on the advancement of the Group's novel and comprehensive logistics offering.

Operational flexibility and effective process management pose a challenge to the improvement of the Company's market and financial standing in the current year and are crucial for the Company's ability to continue growing. The Management Board analyzes all internal processes with a view to improving the efficiency of operations and cutting down costs while increasing the Group's sales potential. Maintaining the current customer base and fervently acquiring new partners in promising segments, will have a vital impact on the Group's market position. Given PKP CARGO's major competitive advantages, the Management Board trusts in its ability to consolidate the Company's market position. Considering the current market situation and upcoming prospects in the first half of this year, the Management Board is currently focusing on developing the Company's proposal for customers, energizing activities aimed at expanding the portfolio of orders, optimizing costs and processes.

I am confident that owing to the operational and sales endeavors aimed at aligning the PKP CARGO Group's operations with the existing business environment, we will successfully deliver on the expectations set before us for the benefit of our Customers, Business Partners and Shareholders.

Phd, Maciej Jankiewicz

Acting President of the Management Board,

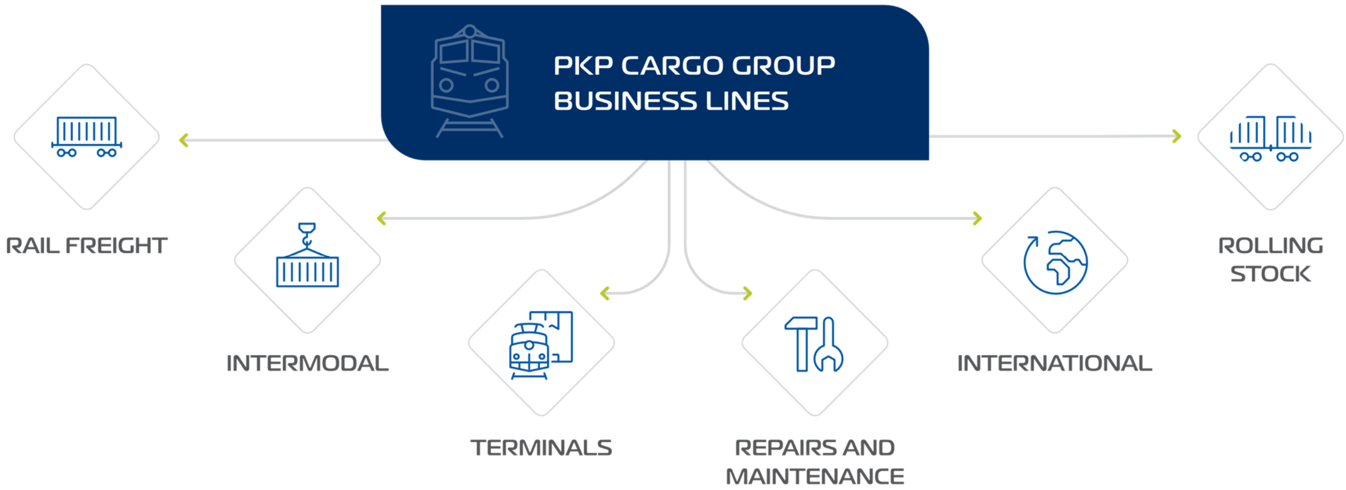
Management Board Member in charge of Finance

[1] Statistics Poland data for January-February 2024

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group[2]

The PKP CARGO Group is a rail freight operator offering comprehensive logistics services in Poland and across the European Union. The Group's value chain rests on the provision of comprehensive logistics services, for which rail transport serves as the primary service complemented by a broad d range of freight-related services, including: intermodal, freight forwarding (domestic and international), terminal, siding and traction services as well as repair and maintenance of rolling stock and land reclamation services. The PKP CARGO Group holds licenses for the provision of rail freight services in the following 9 EU countries: Lithuania, Slovakia, Slovenia, Austria, the Czech Republic, Germany, the Netherlands, Hungary and Poland. The second largest freight operator in the PKP CARGO Group is PKP CARGO International a.s., a provider of transport services mainly in the Czech market. Poland and the Czech Republic are significant players in European and global trade as well as a major link in the international supply chain.



By integrating such a broad spectrum of activities, the PKP CARGO Group provides its customers with rail logistics services in a comprehensive manner, using its own resources. This significantly reduces the degree of risk associated with relying on external service providers. Of relevance in this context are the Group's own transshipment terminals (conventional, container and conventional-container) and its ability to repair and service the rolling stock using solely its own resources. The Group's terminals for intermodal transport alone, with a total area of 130 hectares, are capable of accommodating over 1,000 thousand TEUs at any given time. This provides the Group with significant independence in terms of transshipment capacity and means that the Group does not have to depend on other market players specializing in the repair of rolling stock.

The PKP CARGO Group conducts business within one main segment, namely 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. As part of the Group's endeavors aimed at improving its operating business model, further work is underway to organize the division of business lines in terms of increasing the efficiency of processes, taking advantage of synergies and reducing operating expenses.

[2] Whenever the Report mentions:
- the Company, the Parent Company or PKP CARGO, it should be construed to mean PKP CARGO S.A.,
- the PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

2.2. Information on capital ties of PKP CARGO

As at 31 December 2023, the PKP CARGO Group consisted of the following entities:

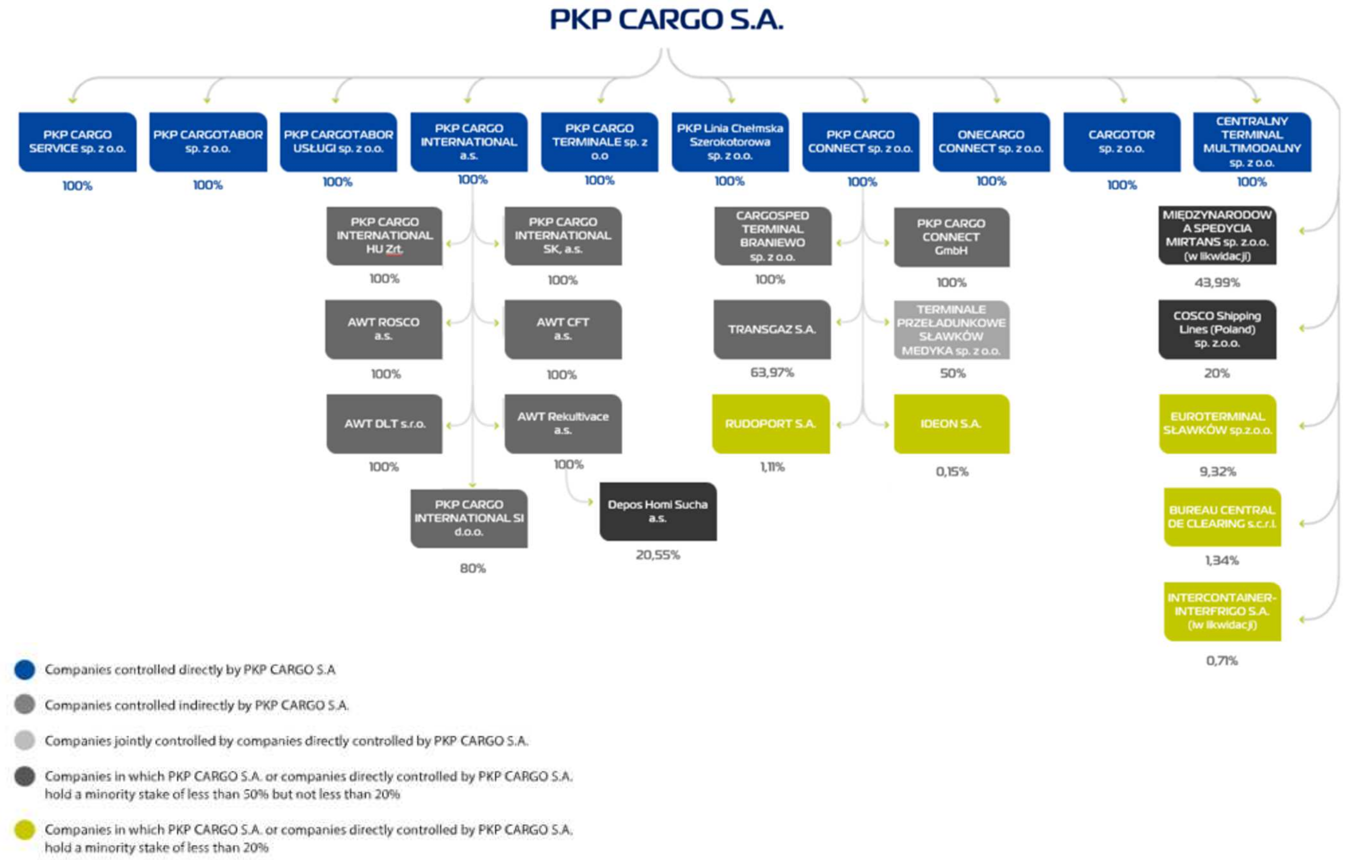
a) 20 subsidiaries of PKP CARGO, controlled directly or indirectly (by entities controlled by PKP CARGO), including:
- 10 subsidiaries controlled directly by PKP CARGO;
- 10 subsidiaries controlled directly by companies directly controlled by PKP CARGO (and indirectly controlled by PKP CARGO), including 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 – TERMINALE PRZEŁADUNKOWE SŁAWKÓW MEDYKA sp. z o.o. – 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),

Moreover, as at 31 December 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 S.A. or its subsidiaries hold an equity stake – as at 31 December 2023:

Figure 1 Structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 31 December 2023



Source: Proprietary material

The percentage share of PKP CARGO S.A. and its (direct or indirect) subsidiaries in the share capital of the PKP CARGO Group companies specified in the above chart corresponds to the percentage of votes at the General Meeting or Shareholder Meeting of each company.

2.3. Consolidated entities

The Consolidated Financial Statements for the financial year ended 31 December 2023 encompass PKP CARGO S.A. as the Parent Company 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 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, leasing of real estate. As at the delivery date of this report, the company does not conduct any operating activity.
PKP CARGO TERMINALE sp. z o.o. ("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, unit cargo and 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 also active in wholesale and retail sales .
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. ("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. 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. ("AWT CFT")	International freight forwarding services. As at the delivery date of this report, the company does not conduct any operating activity.
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. ("PKP CARGO INTERNATIONAL HU")	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

Additionally, a list of companies accounted for under the equity method is presented in Note 5.3 of the Consolidated Financial Statements for the financial year ended 31 December 2023.

2.4. Organizational structure of PKP CARGO S.A.

PKP CARGO S.A.'s Management Board performs its tasks with the aid of reporting organizational units and their constituent organizational divisions and teams. The following organizational units have been distinguished within the Company's organizational structure:

Company's Head Office

The key tasks of the Company's Head Office include operations of the Company's Management Board in the area of strategic, operational and financial management and handling the Company's affairs vis-a-vis its main clients and business partners, administration and coordination of the freight procedure. Distinct departments of the Company's Head Office operate as organizational cells reporting to the President of the Management Board or individual Management Board members.

In 2023, changes were made to the organizational structure of the Company's Head Office, with the primary goal of achieving maximum concentration of management staff on key tasks and increasing the level of specialization and professionalization of employees in distinct aspects of their substantive activities.

Units

The key tasks of the Units is to manage the Company's resources in the area of their operations, organize and perform cargo deliveries in accordance with executed agreements using the rail freight procedure, including: transshipment, storage, traction service of freights performed by the Company, lease of traction vehicles, repair of own rolling stock and provision of repair services, maintenance of technical equipment and workshop facilities and performance of the Company's objectives in terms of marketing and sales services in the respective area.

During the period under review, no changes were made to the structure of the Company's Units.

2.5. Changes in key principles of managing the enterprise of PKP CARGO S.A. and its Group

In 2023, the Company's Management Board took steps to confirm that in its day-to-day business PKP CARGO S.A. adheres to the sustainability principles (also known as the "ESG principles"), which include compliance with the three fundamental ESG pillars, namely:

1. environmental (E) issues, covering activities related to the protection and prevention of environmental degradation,
2. social (S) issues, covering various aspects of social responsibility and human rights,
3. corporate governance (G) issues, related to the transparent and responsible conduct of business.

In particular, these activities comprised:

- on 6 September 2023, the adoption of Resolution No. 319/2023 of the PKP CARGO S.A. Management Board, which adopted declaration to implement ESG principles in the Company,
- adoption of the "ESG Strategy of the PKP CARGO Group for 2024-2028" (Resolution No. 449/2023 of the PKP CARGO S.A. Management Board of 8 December 2023, approved by Resolution No. 128/VIII2023 of the PKP CARGO S.A. Supervisory Board of 11 December 2023). Published by Current Report No. 36/2023 of 11 December 2023.

On 30 January 2023, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 38/VIII/2023 on the adoption of "Bylaws for Appointing Management Board Members in PKP CARGO S.A." The previously applied document was reviewed by the Nomination Committee and the PKP CARGO S.A. Supervisory Board and as a result of this action its provisions were updated.

The most significant issue in the amended Bylaws is the indication that, within the framework of the PKP CARGO S.A. Supervisory Board, the recruitment procedure for positions on the PKP CARGO S.A. Management Board, including the position of President of the Management Board, is arranged and carried out by the Nomination Committee of the PKP CARGO S.A. Supervisory Board tasked, in particular, with issuing opinions or recommendations on matters to be decided on by the PKP CARGO S.A. Supervisory Board.

On 27 September 2023, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 116/VIII/2023 on the adoption of "Bylaws of the PKP CARGO S.A. Supervisory Board."

The Bylaws were aligned with the needs of the PKP CARGO S.A. Supervisory Board and the Company and amended to ensure compliance with the currently applicable laws and the Statute of PKP CARGO S.A. A number of major amendments concerned the very manner of operation of the PKP CARGO S.A. Supervisory Board as a corporate body.

Among the most crucial amendments is that contained in §19(3) of the Bylaws, according to which any modifications to contracts, agreements, agreements, etc., approved by the PKP CARGO S.A. Supervisory Board were minimized only to those absolutely necessary. The approval of the PKP CARGO S.A. Supervisory Board will be required only in the 4 cases enumerated in §19(3) unless the (respective) resolution of the Company's Supervisory Board provides otherwise.

Other amendments to the Bylaws of the PKP CARGO S.A. Supervisory Board included the following:

- clarification added to §3(1) according to which: "The work of the Supervisory Board is managed by the Supervisory Board chairperson (hereinafter also referred to as the "Supervisory Board Chairperson"), who also represents the Supervisory Board before the Company's other corporate bodies."
- amended §4(5) and (6), the new content of which is a transposition of Article 382(4) of the Commercial Company Code to the Bylaws of the PKP CARGO S.A. Supervisory Board (due to the importance of the relevant powers for Supervisory Board Members), now reading as follows:

"5. The Supervisory Board may inspect and review all areas of the Company's business, inspect all of the Company's documents, including by examining all documents of the Company and auditing the Company's assets. In performing its supervisory activities, the Supervisory Board may request directly from:

- the Management Board or members of the Company's Management Board,
- commercial proxies,
- or individuals hired by the Company under an employment contract or who regularly perform certain activities for the Company under a work product agreement, a mandate contract or any other contract of a similar nature,

the preparation or provision of any information, documents, reports or clarifications concerning the Company, in particular its business or assets.

6. The subject matter of the Supervisory Board's request referred to in sec. 5 may also be any information, reports or clarifications regarding subsidiaries or related companies remaining in the possession of a corporate authority or obligated person.

- amended provisions of §20(1) and §23, the effect of which is to change the name of one of the committees of the PKP CARGO S.A. Supervisory Board to: "Strategy and Sustainability Committee," with an ensuing expansion of the scope of responsibilities of this committee.

2.6. Description of changes in the Group's organization

In terms of the structure of capital links, the following changes occurred in 2023:

- 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 S.A.

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 share capital was increased with a view to recapitalizing the Company.

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 S.A.

On 30 January 2023, an Extraordinary Shareholder Meeting of PKP CARGOTABOR sp. z o.o. 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 S.A. with a cash contribution of PLN 13,500,000.00. The share capital was increased with a view to recapitalizing the Company.

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 S.A.

On 2 March 2023, the Extraordinary Shareholder Meeting of PKP CARGOTABOR USŁUGI sp. z o.o. was held, during which a resolution was adopted 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 S.A. 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, will be transferred to the supplementary capital of PKP CARGOTABOR USŁUGI sp. z o.o. in the form of a share premium.

The said increase in the share capital of PKP CARGO 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 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. did not change.

3. Key areas of operation of the Company and PKP CARGO Group

3.1. Macroeconomic environment

In 2023, the tough macroeconomic environment and weaker industrial output exerted a strong unfavorable impact on the financial performance of PKP CARGO Group companies owing due to the specificity of the TFL (Transport, Forwarding, Logistics) sector as one providing a complementary function to the work of manufacturers and serving as the bloodstream of economic organisms. The marked shrinking of the rail freight market, including the decline in the PKP CARGO Group's freight volume in 2023, was a consequence of the reduction in new orders and weaker demand (especially from West European customers). A strong slowdown in household consumption coupled with an unfavorable external environment, high inflation rate and increasing operating expenses (along with stabilizing or decreasing prices), significant decline in production and infrastructure investments severely slowed down the Group's market activity.

Industry and the economy in Poland

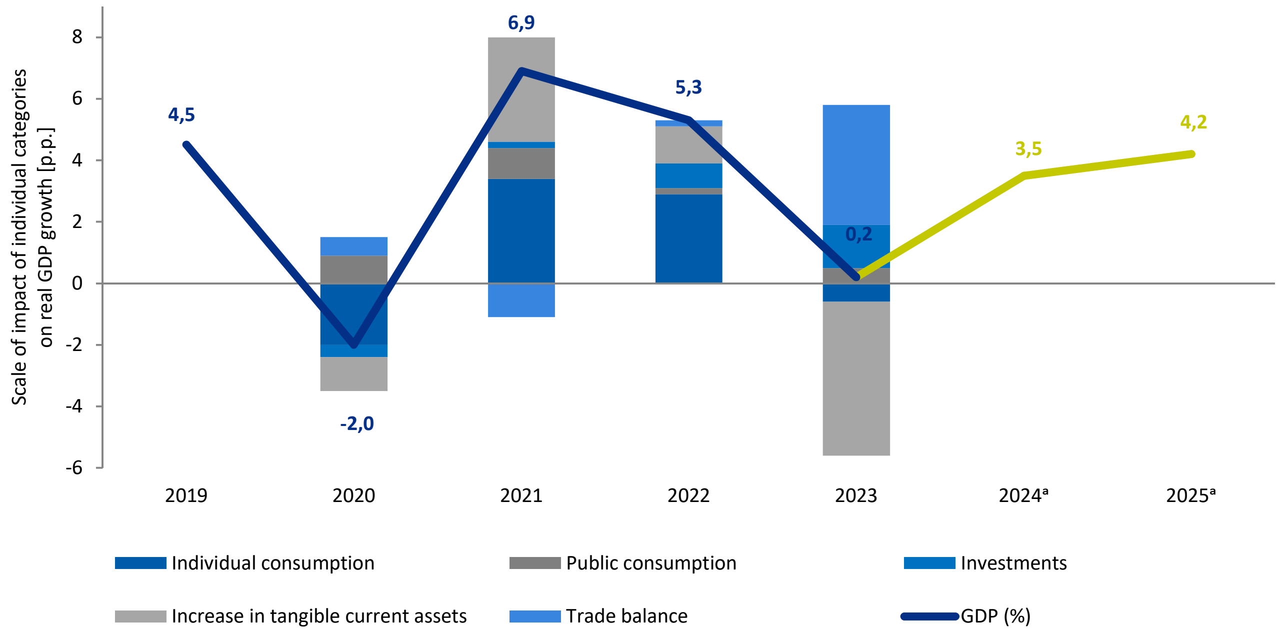
Decline in industrial output sold in 2023 by -1.5% yoy (compared to +10.2% yoy in 2022).[3] In year-on-year terms, sales declined in each of the four industry sections, with manufacturing (the main section) recording a -1.2% yoy decline, and mining and quarrying along with electricity, gas, steam and hot water generation and supply each declining by -5.0% yoy.

Year-on-year (January to December) decline in output in 22 industrial branches (out of 34 branches) whose share in the sector's sold output was 59.2%. Year-on-year decreases were also recorded in various industrial branches of major significance for the PKP CARGO Group's business, including: coal and lignite mining (-15.4%), wood products (-14.6%), chemicals and chemical products (-12.9%), metals (-12.0%), other non-metallic mineral products (-10.9%), paper and paper products (-10.6%), furniture (-7.4%), rubber and plastic products (-2.8%) and metal products (-1.9%). The following were among the branches that experienced a positive rate of growth: production of motor vehicles (+14.6%) and machinery and equipment (+6.3%).[4]
GDP growth in 2023 by +0.2% yoy (compared to +5.3% yoy in 2022) Last year's weak GDP growth was primarily caused by low domestic demand, which translated into a -3.7 p.p. decrease in the annual result (in which accumulation was a key factor, with a very strong negative impact of property, plant and equipment, whose marked downward movement served as a major contributor to last year's -5.0 p.p. suppression of the GDP growth rate). The balance of foreign trade (owing to improved exports) had a positive impact on the rate of economic growth, which drove GDP up by +3.9 p.p. and actually sealed last year's positive result. Investment (contribution of +1.4 p.p.) and government consumption (contribution of +0.5 p.p.) were also significant drivers of the increase in GDP. The reduced household consumption suppressed the final annual result by -0.6 p.p.[5]

According to the preliminary estimate by Statistics Poland, **GDP grew in Q4 2023 by +1.0% yoy in real terms** (compared to a growth rate of +2.5% in the corresponding period of 2022), following a +0.5% yoy growth rate in Q3 of last year.[6]

[3] Statistics Poland (in enterprises employing more than 9 staff) – The country's socio-economic situation in 2023
[4] Statistics Poland – The country's socio-economic situation in 2023
[5] Statistics Poland – Preliminary estimate of gross domestic product in Q4 2023
[6] Statistics Poland – Preliminary estimate of gross domestic product in Q4 2023

Figure 2 Real GDP growth rate in Poland in 2019-2023 (decomposed for 2020-2022) and forecast for 2024-2025 – data not adjusted for seasonality.



a – macroeconomic forecasts of the National Bank of Poland for 2024-2025 (March 2024)
Source: Proprietary material based on data published by Statistics Poland and the National Bank of Poland

Strong price growth in 2023: prices of consumer goods and services increased by +11.4% yoy (compared to +14.4% yoy in 2022), of which prices of goods increased by +11.4% yoy and prices of services by +11.2% yoy.[7] In 2023, only a minor increase was recorded in the prices of sold industrial output (+2.4% yoy, compared to +22.4% in 2022) coupled with a moderate increase in the prices of construction and assembly output (+10.2% yoy, compared to +12.7% in 2022).[8]

Weak leading indicator for industrial processing, the Purchasing Managers' Index (PMI) – in December, for the twentieth consecutive month, the PMI was below the 50.0-point threshold marking the technical border between recovery and recession in the industrial processing sector. In 2023, the annual index value stood at 46.2 points (compared to 47.0 points in 2022 and 55.1 points in 2021). The main reason for the continued low levels of the index in 2023 was the very strong economic slowdown experienced by Poland's key European economic partners, which translated into a decline in demand and, as a consequence, a lower number of new orders and thus reduced need for new output.

Deterioration of the business tendency indicator for industrial processing (Statistics Poland) – this indicator, after the Q2 2023 improvement to -11.6 (compared to -15.0 in Q1), declined in Q3 2023 to -12.9 and then deteriorated even further to -13.1 in Q4 2023. This means a noticeable increase in H2 2023 in the number of businesses expecting a further deterioration of the economic situation in the coming months grew in relation to the number of businesses expecting the opposite to occur.[9]

Forecasts: according to the National Bank of Poland's current inflation and GDP projection, a return may be expected to more rapid economic growth in 2024-2025 (following the strong slowdown in 2023). NBP forecasters predict the GDP growth rate in 2024 and 2025 to reach +3.5% and +4.2% yoy, respectively. The years 2024-2025 are expected to experience noticeable price growth (however, without any major fluctuations in the CPI from year to year), with inflation projected at +3.0% yoy in 2024 and +3.4% yoy in 2025.[10]

Czech industry and economy

Industrial output was -0.8% yoy lower in 2023 (after a +2.5% yoy increase in 2022). The production of cars, trailers and semi-trailers increased in 2023 (+15.4% yoy), and so did the production of electrical equipment (+2.7% yoy), among other merchandise groups. By contrast, merchandise categories the output of which recorded decreases included: metal products (-2.3% yoy), machinery and equipment (-2.7% yoy), rubber and plastic products (-4.4% yoy), wood and wood products (-4.8% yoy), paper and paper products (-5.7% yoy), chemicals and chemical products (-9.3% yoy), electricity, gas, heat and air conditioning manufacturing and distribution (-10.9% yoy), furniture (-14.4% yoy), metals (-14.7% yoy), other non-metallic mineral products (-18.2% yoy), and coal and lignite mining (-15.3% yoy).[11]

[7] Statistics Poland – The country's socio-economic situation in 2023
[8] Statistics Poland – The country's socio-economic situation in 2023
[9] Statistics Poland – The country's socio-economic situation in 2023, Statistical Bulletin No. 12/2023
[10] National Bank of Poland – Projection of inflation and economic growth (March 2024)
[11] Czech Statistical Office – Industry – Time series

Decline in the value of new orders in 2023 by -1.7% (after a +10.7% yoy increase in 2022), of which domestic orders increased by +0.7%, while international ones decreased by -3.9% yoy. The value of total orders was maintained at a similar level to that of last year largely due to an increase in the value orders for the manufacture of motor vehicles, trailers and semi-trailers (by +5.7%), especially in light of the strong declines (of approx. 20% yoy) in the chemical and metal manufacturing branches.[12]

In Q4 2023, the main sectors of the Czech industry (account being taken of the PKP CARGO Group's transport operations) **recorded declines in output,** except for the automotive industry (+11.7% yoy). The key segment of the Czech industry, namely the production of chemicals and chemical products, recorded a -3.9% yoy decrease in output. Decreases were also recorded in the manufacture of metal products (-1.1% yoy), metals (-7.7% yoy) and coal and lignite mining (-17.2% yoy).[13]

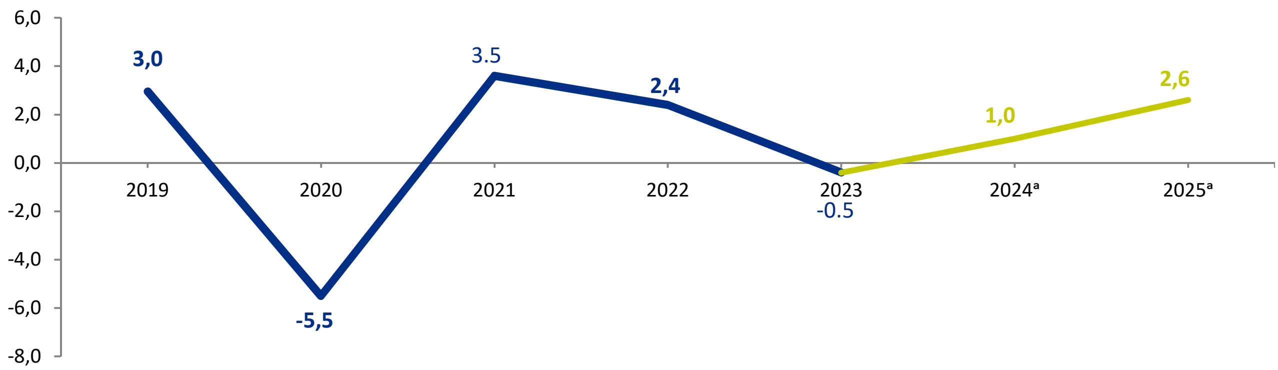
Lingering unfavorable economic tendencies: due to the strong ties of the country's economy with its European Union counterparts and the still relatively underdeveloped domestic market, companies in the Czech Republic are struggling with significantly dampened demand (as a result of the strong deceleration of the continent's leading economies) and the consequences of disruptions in the commodity and energy markets (where elevated prices still persist).

GDP decline in 2023 – According to the Czech Statistical Office's preliminary estimates, the price effect-adjusted and seasonally adjusted GDP was -0.4% yoy lower (following the increases by +2.4% yoy in 2022 and +3.6% yoy in 2021). The drop in household consumption (due to the high cost of capital and the lingering high inflation) coupled with the gradually declining level of inventories in the economy acted as the primary suppressors that ultimately resulted in a negative rate of economic growth last year. Importantly, despite the noticeable favorable impact of external demand, problems experienced by foreign contractors effectively prevented the economy from closing the gap caused by, among other factors, reduced individual domestic activity and the process of liquidating the high stocks of components used in production (the accumulation of which resulted from earlier problems in supply chains).[14]

GDP in Q4 2023: according to the Czech Statistical Office's preliminary estimates, the price effect-adjusted and seasonally adjusted GDP was -0.2% yoy lower (following the decreases by -0.8% yoy in Q3 2023, -0.4% yoy in Q2 2023 and -0.3% yoy in Q1 2023), as a result of the negative impact of accumulation outweighing the positive impact of external demand. At the same time, GDP grew by +0.2% qoq, driven by the gradual rebound of household demand and the favorable foreign exchange figures, with external demand giving a conspicuous boost to the growth rate.[15]

GDP forecast: analysts at the Czech Ministry of Finance predict a gradual increase in seasonally adjusted gross domestic product (following the decline in 2023) by +1.0% yoy and +2.6% yoy in 2024 and 2025, respectively. This will be possible owing to a rebound in household consumption, which should be supported by private investment and growth in export markets. The prediction anticipates a yoy decline in GDP in Q1 2024 (by -0.1% yoy); in the following quarters of this year, the economy will finally reverse the negative trend and enter a path of noticeable growth (by +0.3% yoy, +1.6% yoy and +2.2% yoy in Q2, Q3 and Q4, respectively), with quarter-on-quarter growth already recorded in Q4 2023 and continuing in subsequent quarters.[16]

Figure 3 Real GDP growth rate in the Czech Republic in 2019-2023 and forecasts for 2024-2025 – data adjusted for seasonality



a – Macroeconomic forecasts of the Czech Ministry of Finance
Source: Proprietary material based on data from the Czech Statistical Office and the Ministry of Finance of the Czech Republic

Inflation in 2023 reached +10.7% yoy (after the +15.1% yoy increase in 2022). A decrease in the rate of growth in prices is noticeable, with the braking factors including declines in the prices of raw materials and stabilization of energy prices.

[12] Czech Statistical Office – Industry – Time series
[13] Czech Statistical Office – Industry – Time series
[14] Czech Statistical Office – Gross domestic product – Time series
[15] Czech Statistical Office – Gross domestic product – Time series
[16] Czech Ministry of Finance – Macroeconomic Forecast of the Czech Republic

Inflation forecast: according to forecasts published by the Czech Ministry of Finance, in 2024 and 2025 the average annual price growth will stand at +3.1% yoy and +2.6% yoy, respectively. The disinflationary pressures include the effect of a high base from previous years and the stabilization of energy and raw material prices.[17] In turn, the Czech National Bank expects inflation to grow at +2.7% yoy in Q1 2024, and then a progressive decrease will continue so that in the next 5 quarters it will approximate the assumed target of 2%. In 2024, the inflation rate will gradually decrease to +2.6%, to eventually reach a value close to the target (of +2.1% yoy) in 2025.[18]

Prevalence of pessimistic business sentiment and low PMI Index ratings: in Q4 2023, PMI averaged 42.3 points for the Czech Republic (compared to 42.0 points in Q3, 42.1 in Q2 and 44.4 points in Q1 2024), remaining clearly below the 50.0 threshold delineating the technical boundary between recovery and recession in the industrial sector.[19] For the past sixteen months, the index has failed to climb above 45.0 points. In turn, for the whole of 2023, the average value of the index was only 42.7 points (vis-à-vis 49.2 points in 2022 and 58.9 points in 2021). These low readings of the PMI index indicate a significant deceleration of the Czech economy, caused by a sharp drop in demand for products manufactured by European Union makers and the significant dependence of the local economy on exports. Uncertainty about export opportunities, a drop in the number of new orders and a decline in output coupled with still relatively high operating expenses (and weak domestic demand) effectively reduced capacity utilization and led to process optimization endeavors.[20]

3.2. Transport activities of the PKP CARGO Group companies

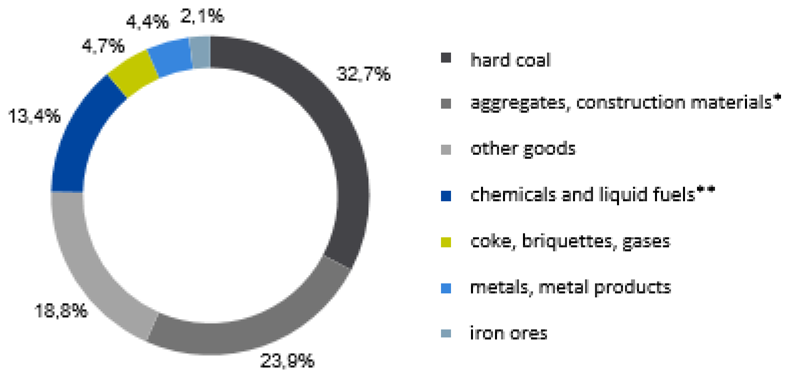
3.2.1 Rail transport market in Poland

The rail freight market, despite a clear deterioration of the economic situation and a decline in demand, has been growing steadily, as demonstrated by the increasing number of carriers being licensed to carry out rail freight operations. At present, 126 rail operators active on the Polish rail freight market hold a valid license issued by the President of the Office of Rail Transport ("UTK") for the conduct of rail freight operations (as at 12 January 2024).[21] In the corresponding period of 2022, there were 116 rail operators, meaning that as many as 10 new ones entered the market over the course of a single year. Three members of the PKP CARGO Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s., render rail freight transport services.[22]

In 2023, in the freight transport market, a decrease in demand for rail freight transport services could be clearly observed. Adverse trends for the rail sector include the economic downturn in Poland and abroad, strong reduction in cargo deliveries in connection with the situation on the east border as a result of war in Ukraine, high costs of capital, industrial stagnation in the euro zone as well as lower sea freight prices. This segment still strongly feels consequences of ongoing war in Ukraine but data show also a high negative scale, on an annual basis, of the impact of high fuel and energy prices and inflation. In 2023, 231.7 million tons of goods were transported by rail, down -16.9 million tons (-6.8%) as compared to the previous year's volume. At the same time, the freight turnover of all rail operators totaled 61.6 billion tkm (-0.9 billion tkm), i.e. it went down by -1.4% yoy (because of the lengthening of trade routes and structural changes in freight). In 2023, only in January did rail operators manage to increase the volume of transported goods (+3.9% yoy) compared to the results achieved in the corresponding periods of 2022. Since February 2023, only yoy declines have already been recorded in the weight of cargo carried by operators present in the Polish market, of which the biggest percentage drops were recorded in April, May and June (by -15.2% yoy, -12.1% yoy and -11.2% yoy, respectively). 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 in 2023 was 266 km, i.e. it was greater than in 2022 (+14 km, or +5.7% yoy). In the same period, the average haul increased both for competitive rail operators (+21 km, or +8.7% yoy) and to a lesser extent for the PKP CARGO Group (+4 km, or +1.7% yoy).[23] The factors contributing to the increase in average haul included both changes in delivery destinations and new cargo distribution channels as well as large-scale repairs to the rail infrastructure.

[17] Czech Ministry of Finance – Macroeconomic Forecast of the Czech Republic
[18] Czech National Bank – Forecast – Winter 2024
[19] S&P Global – PMI Press Releases
[20] S&P Global – PMI Press Releases
[21] Office of Rail Transport (licensed rail operators, as stated in the list published by the Office of Rail Transport on 12 January 2024); 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;
[22] Office of Rail Transport – List of entities holding a rail operator license issued by the President of the Office of Rail Transport.
[23] Office of Rail Transport – publication of data for 2023 (January 2024)

Figure 4 Share of cargo categories[24] in total rail freight during 2023 [25]



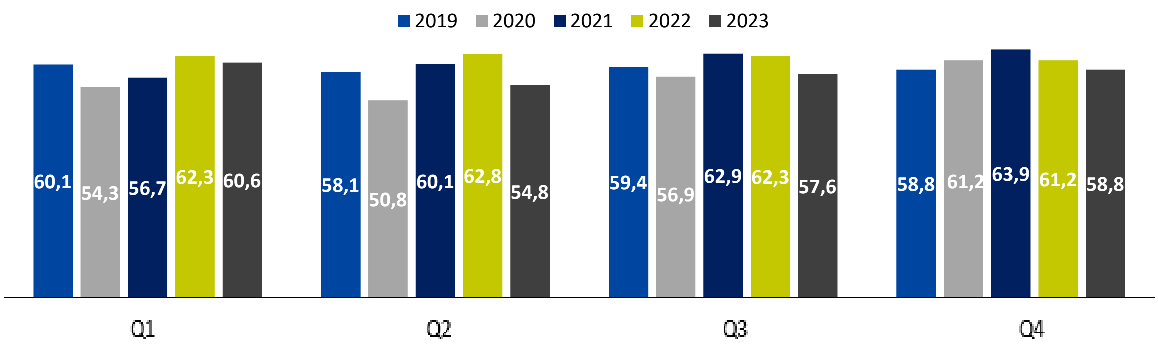
** Cargo categories: "aggregates, sand, gravel"; "cement, lime, gypsum"; "other construction materials"*
*** Cargo categories: "refined petroleum products"; "chemicals, chemical products".*

In 2023, the main cargo category transported by rail[26] continued to be hard coal the transport of which, even though showing a downward trend, still accounted for as much as 32.7% of the total rail freight transport volume. The following changes in rail transport yoy performance were recorded over that period in the cargo categories defined by Statistics Poland:[27]

- hard coal (freight volume down by -12.2% yoy to 75.2 million tons),
- aggregates, stone, sand and gravel (freight volume up by +10.8% yoy to 51.9 million tons),
- refined petroleum products (up +7.2% yoy to 21.5 million tons),
- coke, briquettes and gases (up +3.6% yoy to 10.8 million tons),
- metals and metal products (down -7.2% yoy to 10.1 million tons),
- chemicals, chemical products (down -7.3% yoy to 9.3 million tons),
- agricultural products (up +10.7% yoy to 7.2 million tons),
- iron ores (down -29.4% yoy to 4.9 million tons).

Significant decreases in freight volume transported by rail relative to 2022 were recorded in the following cargo categories: hard coal (-10.5 million tons), iron ore (-2.1 million tons), timber and wooden products (-0.8 million tons), metals and metal products (-0.8 million tons), chemicals and chemical products (-0.7 million tons), scrap metal and recycled raw materials (-0.5 million tons), cement (-0.2 million tons) and others. At the same time, increases in rail freight volumes were recorded in the following cargo categories: aggregates, sand and gravel (+5.0 million tons yoy), refined oil products (+1.4 million tons), agricultural products (+0.7 million tons yoy), coke, briquettes and gases (+0.4 million tons), other construction materials (+0.3 million tons).[28]

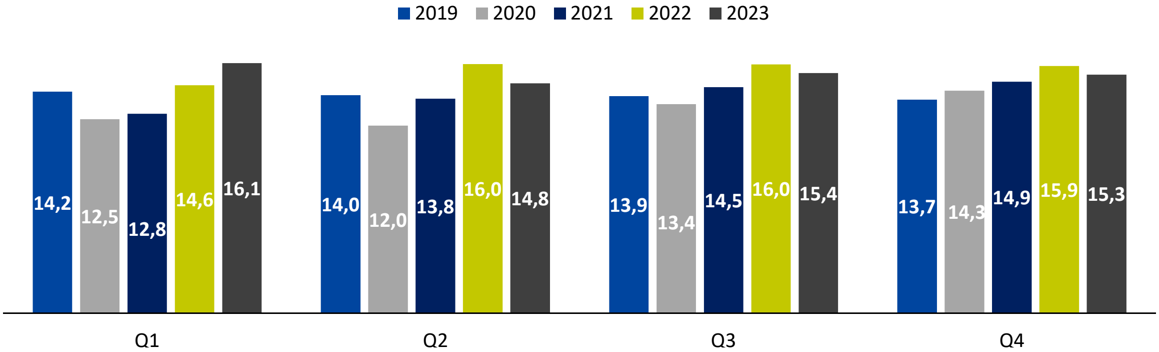
Figure 5 Rail freight volumes in Poland broken down by quarter in 2019-2023 (million tons)



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

[24] Based on the NST classification
[25] Statistics Poland – data for 2023
[26] Based on the NST classification
[27] Statistics Poland – data broken down by cargo category for 2023
[28] Statistics Poland – data broken down by cargo category for 2023

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



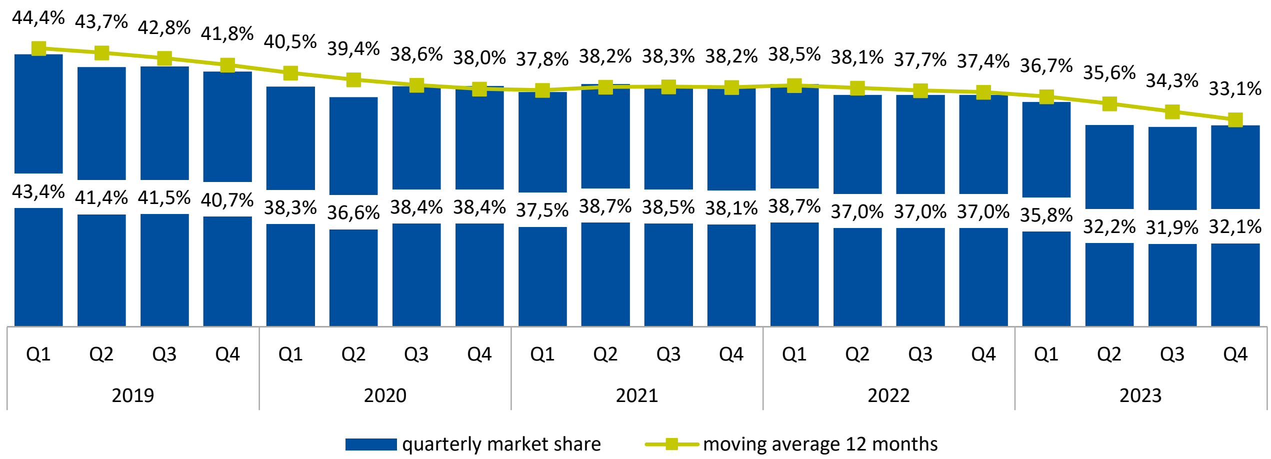
Source: Proprietary material based on the Office of Rail Transport's data.

3.2.2 Position of the PKP CARGO Group and the Company in the rail transport market in Poland

According to the Office of Rail Transport's data, in 2023, 30 rail carriers conducted transport operations whose market share in terms of transported freight volume exceeded the 0.5% threshold (in 2022, the corresponding figure was 27 rail operators).[29] These included two members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO Service Sp. z o.o. The rail freight market in Poland is highly competitive and continues to grow rapidly, as demonstrated, for instance, by the situation in the intermodal segment, where during the first 9 months of 2023, despite a number of factors significantly weakening the intermodal segment (such as the deterioration of the global economy, the slump in demand suppressing freight exchanges and the ongoing war in Ukraine relentlessly curtailing transport operations along the East-West route), the market continued to grow quickly in terms of the number of active market players, with 26 licensed operators carrying out rail intermodal transport operations (in 2022 there were 23 operators and back in 2015 there were as few as 11 operators).[30]

The PKP CARGO Group[31] 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 share in 2023 was 33.1% (-4.4 p.p. yoy) in terms of freight volume and 33.9% in terms of freight turnover (-6.0 p.p. yoy).[32] The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 31.3% (-4.2 p.p. yoy) in terms of freight volume and 33.5% (-5.8 p.p. yoy) in terms of freight turnover.[33]

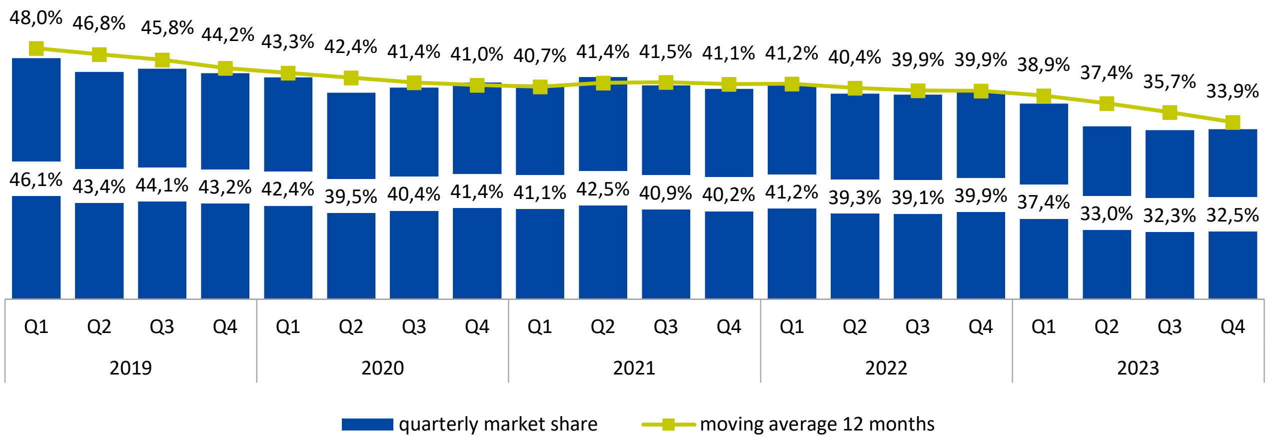
Figure 7 Share of the PKP CARGO Group in freight volume in Poland in 2019-2023



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

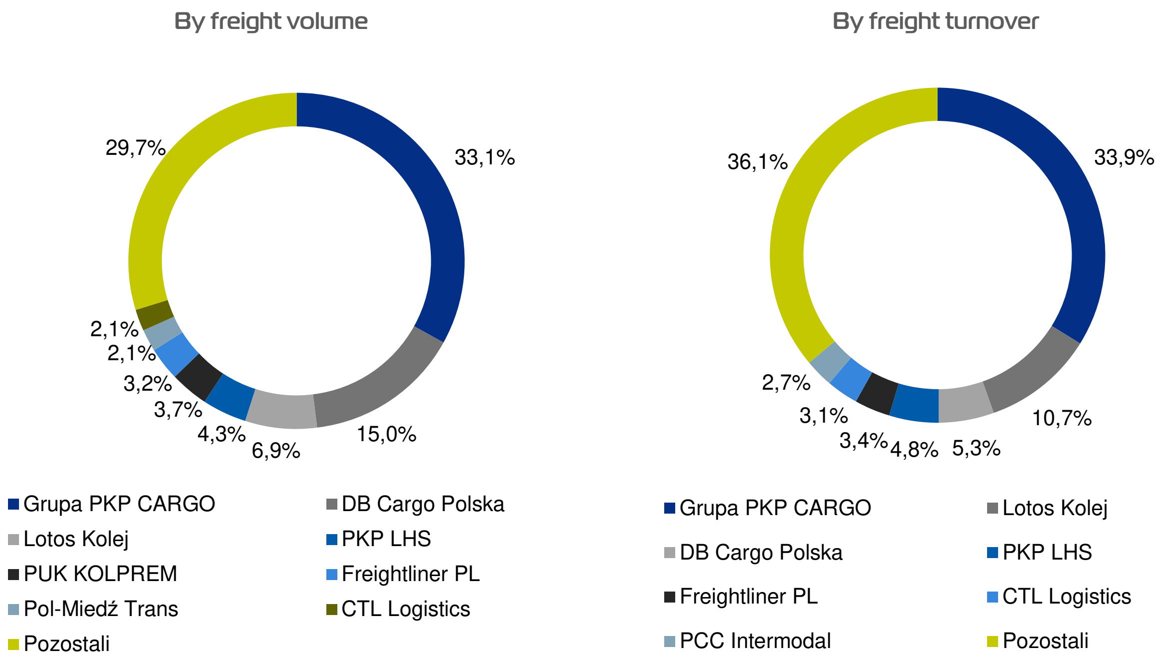
[29] Office of Rail Transport – publication of data for 2023 (January 2024)
[30] Office of Rail Transport – intermodal transport data for 9M 2023
[31] The PKP CARGO Group's freight volume takes into account also freight transported by PKP CARGO International a.s. in Poland.
[32] Office of Rail Transport – publication of data for 2023 (January 2024)
[33] Office of Rail Transport – publication of data for 2023 (January 2024)

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.

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



Source: Proprietary material based on the Office of Rail Transport's data (published on 31 January 2024)

In 2023, the following companies were the Group's main competitors on the Polish rail freight transport market: DB Cargo Polska, Lotos Kolej, PKP LHS, PUK Kolprem, Freightliner PL, Pol-Miedź Trans, and CTL Logistics.

3.2.3 Rail freight transport market in the Czech Republic

In 9M 2023, a total of 396.0 million tons of cargo was transported in the Czech Republic (-10.3% yoy), while freight turnover amounted to 62.5 billion tkm (-4.5% yoy).[34] During this period, a yoy decrease in transported freight volume and freight turnover was recorded in both road and rail transport, in line with the trend described above. The other land transport branches combined* also recorded a decrease in the transported volume, with a slight increase in freight turnover.

[34] Ministry of Transport of the Czech Republic, Czech Statistical Office. Data for Q4 2023 will be available in late Q1/early Q2 2024 (data without air transport)

The average haul of cargo in the market increased by +6.4% yoy and reached 157.9 km, with the road transport segment recording an increase in the average haul by +8.1% yoy (to 152.2 km) and the rail transport showing a decrease in the average haul by -1.6% yoy (to 176.7 km).[35]

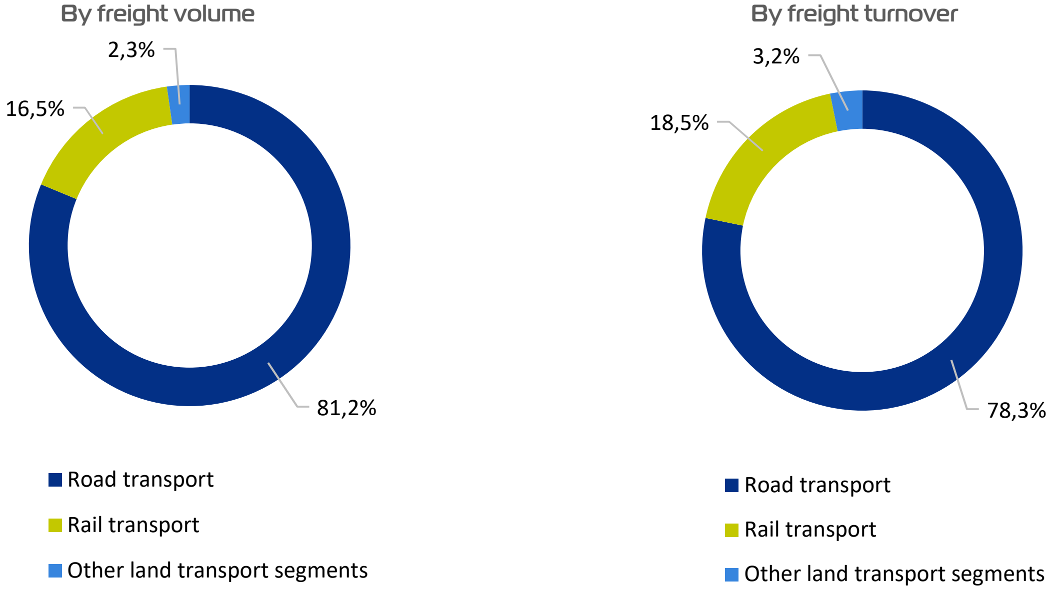
Table 2 Freight transport market in the Czech Republic in 9M 2023

Description	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (million tons)	Yoy change	% yoy change	Volume (billion tkm)	Yoy change	% yoy change	Distance (km)	Yoy change	% yoy change
Total transport market	396.0	-45.6	-10.3%	62.5	-3.0	-4.5%	157.9	9.6	6.4%
Road transport	321.5	-40.8	-11.2%	48.9	-2.1	-4.0%	152.2	11.4	8.1%
Rail transport	65.5	-4.6	-6.6%	11.6	-1.0	-8.1%	176.7	-2.9	-1.6%
Other land transport segments	9.0	-0.2	-1.8%	2.0	0.1	5.3%	224.8	15.2	7.2%

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

In 9M 2023, rail transport in the Czech Republic recorded a yoy decrease in freight volume to 65.5 million tons (-6.6% yoy) with a concurrent decrease in freight turnover to 11.6 billion tkm (-8.1% yoy).[36] In the same period, transport of goods by road was down -11.2% in terms of freight volume and -4.0% in terms of freight turnover. This translated into a noticeable decrease in the share of road transport in terms of freight volume (-0.9 p.p. yoy) and an increase in the share of rail transport (+0.7 p.p. yoy). At the same time, rail transport recorded a perceptible decrease in terms of freight turnover (-0.7 p.p. yoy), with an increase in the share of the road transport (+0.4 p.p. yoy).[37]

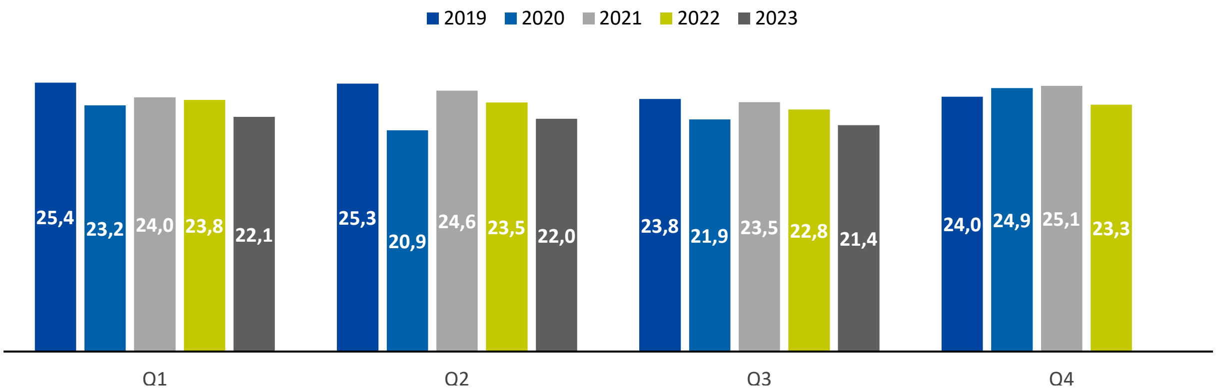
Figure 10 Shares of various modes of transport in the transport market in the Czech Republic in 9M 2023



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

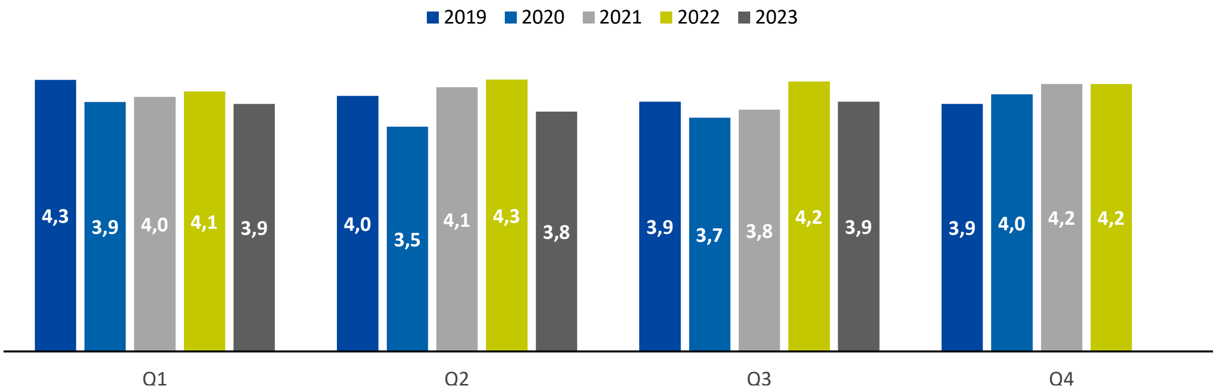
[35] Ministry of Transport of the Czech Republic, Czech Statistical Office (data without air transport) – Goods Transport – time series
[36] Ministry of Transport of the Czech Republic, Czech Statistical Office (data without air transport) – Goods Transport – time series
[37] Ministry of Transport of the Czech Republic, Czech Statistical Office (data without air transport) – Goods Transport – time series

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.

Figure 12 Rail freight transport in the Czech Republic by freight turnover broken down by quarter 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), 118 operators are currently licensed to provide rail freight services in this country, including 2 members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s.[38]

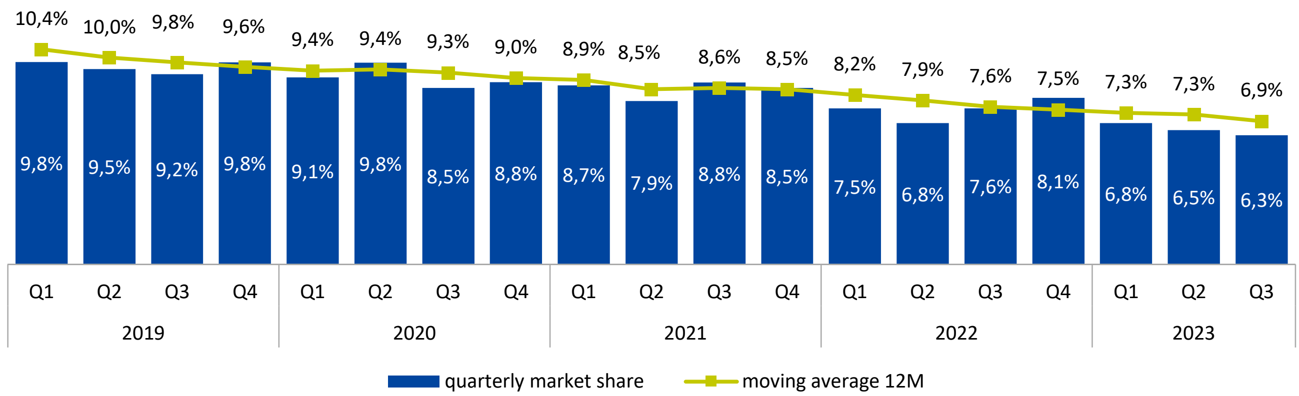
In 2023, PKP CARGO International a.s. transported 5.7 million tons of freight (-19.0% yoy) and achieved a freight turnover of 0.6 billion tkm (-37.3% yoy).[39] In the same period, the average haul of PKP CARGO International decreased to 101.7 km (-22.6% yoy), as a result of major rearrangements in the mix of transported freight and other factors.[40] Intermodal transport decreased significantly (-51.2% yoy to 0.8 million tons), and accounted for 13.8% of the Company's transport business (compared to a share of 22.9% in 2022). Freight volumes also plunged in the following cargo categories: liquid fuels (-34.0% yoy), solid fuels (-4.4% yoy), metals and ores (-65.0% yoy). Despite the decrease in freight volume, solid fuels accounted for 67.1% of PKP CARGO International's freight in the period under analysis, and their share in the Company's freight structure increased year-on-year by as much as +10.3 p.p. As regards changes in the freight structure, clearly noticeable is the increase in the freight volume of aggregates and construction materials (+22.2% yoy) as well as the highly diversified group of other goods (+25.1% yoy). However, these cargo categories do not account for a significant portion of the Company's transport services – their combined share in the Company's business in 2023 was 4.8%.[41]

The decline in realized volumes in most cargo categories was a consequence of the strong economic downturn in Europe. The severe decline in demand resulted from the high inflation rate and the significant cost of capital, which strongly affected the volume of business for all players in this market. Moreover, the war in Ukraine and the energy crisis, which largely curtailed the production capacity of key partners strongly affected the demand for rail freight services. 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 -1.5 p.p. yoy to 3.9% in 2023.[42] Because of the strong competition in the rail market, the Company

[38] SŽDC – Dopravci působící na železniční síti (as at 16 January 2024)
[39] PKP CARGO International's own statistics
[40] PKP CARGO International's own statistics
[41] PKP CARGO International's own statistics
[42] SŽDC – Podíl dopravců na výkonech sítě Správy železnic

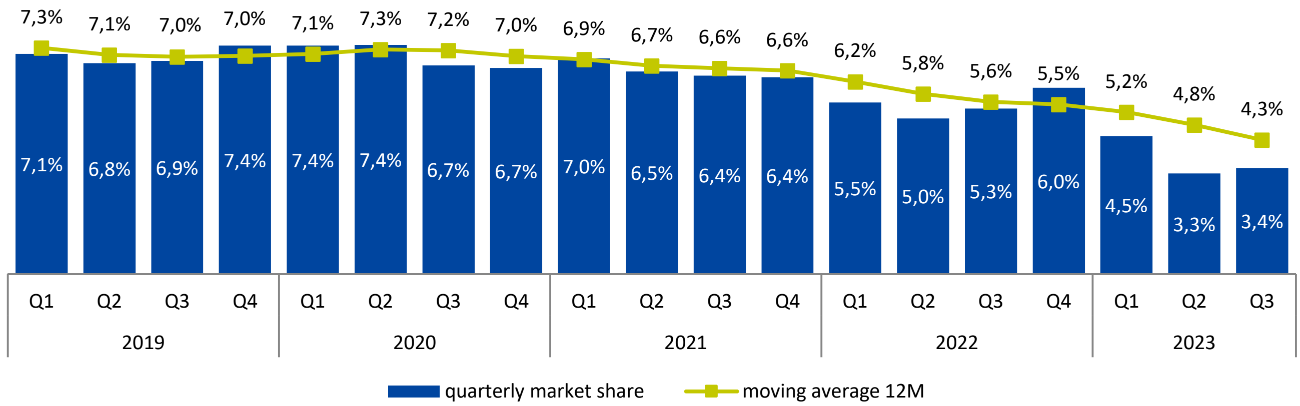
recorded another decrease in its share (a fall from the nearly 5.5% share achieved at the end of 2022), but still managed to maintain its sixth place in the Czech market.[43]

Figure 13 PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2018-2023*



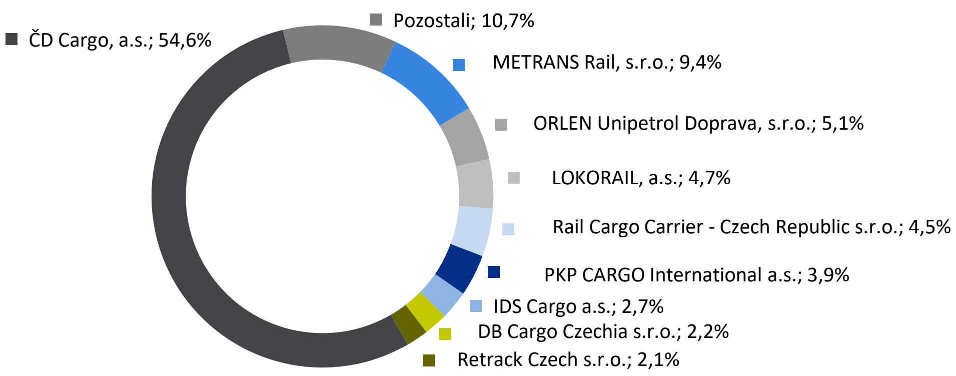
** data for Q4 2023 will be available at the end of Q1 and the beginning of Q2 2024.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International.

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



** data for Q4 2023 will be available at the end of Q1 and the beginning of Q2 2024.*
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 2023 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

[43] SŽDC – Podíl dopravců na výkonech sítě Správy železnic

ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market in terms of gross operational turnover despite the consistent quarter-on-quarter declines in the market share in 2023 (from 58.0% in Q1) to 54.6% at the end of the year (-3.8 p.p. yoy).[44] In turn, a significant increase in yoy market share was recorded by LOKORAIL a.s. (+1.8 p.p. yoy to 4.7%) and ORLEN Unipetrol Doprava (+1.2 p.p. yoy to 5.1%), a member company of the Orlen Group focusing its business on the fuels and chemicals transport segment. Retrack Czech s.r.o. (formerly known as Carbo Rail CZ s.r.o.) appeared in the list of noteworthy operators (for the fourth quarter in a row), with a 2.1% market share in 2023. Among the companies that also perceptibly improved their market position were Rail Cargo Carrier – Czech Republic (+0.6 p.p. yoy to 4.5%) and DB Cargo Czechia s.r.o. (+0.3 p.p. yoy to 2.2%). PKP CARGO International recorded a clear decline of its market share (-1.5 p.p. yoy to 3.9%). Metrans Rail's share decreased slightly (-0.1 p.p. yoy to 9.4%), but the company was able to defend its position as the runner-up on the rail freight market in the Czech Republic. The market share of IDS Cargo a.s., an independent logistics carrier operating in the Czech Republic and Slovakia was slightly lower than in 2022 (-0.1 p.p. yoy to 2.7%). CER Slovakia a.s. (which in 2022 had 1.2% of the market) failed to make it into the list, signifying a major decrease in its market share.[45]

The list of the largest rail operators on the Czech market published by SŽDC does not include PKP CARGO S.A. In 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 volume of slag transported from the Czech Republic to Poland also decreased. This situation was affected by the reduced demand for metal products and commodities for production, which also triggered a decrease in demand for raw materials, specifically metal scrap and iron ore, and a decrease in slag output. The reduced demand generated by the power industry brought about a decline in the volume of coal transported from Poland to the Czech Republic. The transport volumes of calcium flux to a Czech steel mill, metals, cement clinker, chemicals and timber also withered, as did the volumes of transported timber due to the high price of timber in Poland and the decline in demand for paper industry products. At the same time, an increase in the volume of intermodal transport and automotive transport in transit between Poland and Italy was recorded, as was the volume of malt exports from Poland to Slovakia.[46]

3.2.5 Consolidated data on transport activity in 2023

The data on the transport activity conducted by the PKP CARGO Group in 2023 and 2022 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and companies from the PKP CARGO International Group. Transport services are rendered by 6 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., PKP CARGO International a.s., PKP CARGO International HU Zrt., PKP CARGO International SK a.s. and PKP CARGO INTERNATIONAL SI d.o.o.

Table 3 PKP CARGO Group's freight turnover in 12 months of 2023 and 2022 and Q4 of 2023 and 2022

Description	2023	2022	Change 2023/2022		2023	2022	Q4 2023	Q4 2022	Change Q4 2023/ Q4 2022	
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*			*%*
Solid fuels[1]	9,376	11,690	-2,315	-19.8%	42%	43%	2,007	3,745	-1,739	-46.4%
of which hard coal	7,778	10,132	-2,354	-23.2%	35%	38%	1,685	3,387	-1,702	-50.2%
Aggregates and construction materials[2]	5,468	5,497	-29	-0.5%	25%	20%	1,361	1,261	100	7.9%
Metals and ores[3]	1,425	1,984	-559	-28.2%	6%	7%	289	263	26	10.1%
Chemicals[4]	1,651	1,909	-258	-13.5%	7%	7%	418	383	35	9.3%
Liquid fuels[5]	484	887	-403	-45.5%	2%	3%	129	212	-83	-39.3%
Timber and agricultural produce[6]	1,005	948	58	6.1%	5%	4%	282	279	3	1.0%
Intermodal transport	2,380	3,577	-1,197	-33.5%	11%	13%	775	614	161	26.1%
Other[7]	493	516	-23	-4.4%	2%	2%	101	133	-32	-23.8%
Total	**22,282**	**27,008**	**-4,726**	**-17.5%**	**100%**	**100%**	**5,361**	**6,890**	**-1,529**	**-22.2%**

Source: Proprietary material.

[44] SŽDC – Podíl dopravců na výkonech sítě Správy železnic
[45] SŽDC – Podíl dopravců na výkonech sítě Správy železnic
[46] PKP CARGO S.A.'s own statistics

Table 4 PKP CARGO Group's freight volume in 12 months of 2023 and 2022 and Q4 of 2023 and 2022

Description	2023	2022	Change 2023/2022		2023	2022	Q4 2023	Q4 2022	Change Q4 2023/ Q4 2022	
	(million tons)			*%*	*percentage of total (%)*		*(million tons)*			*%*
Solid fuels[1]	41.5	51.5	-10.0	-19.4%	50%	51%	9.8	14.2	-4.3	-30.5%
of which hard coal	36.3	46.2	-10.0	-21.6%	44%	46%	8.7	13.0	-4.3	-33.2%
Aggregates and construction materials[2]	20.0	21.0	-1.1	-5.2%	24%	21%	4.9	4.7	0.1	2.9%
Metals and ores[3]	4.6	6.5	-2.0	-30.2%	6%	6%	1.1	1.0	0.0	4.1%
Chemicals[4]	4.9	5.4	-0.5	-8.5%	6%	5%	1.3	1.2	0.1	12.0%
Liquid fuels[5]	1.9	2.8	-0.9	-31.8%	2%	3%	0.6	0.7	-0.1	-20.4%
Timber and agricultural produce[6]	2.5	3.2	-0.7	-21.3%	3%	3%	0.6	0.8	-0.2	-27.0%
Intermodal transport	5.9	8.4	-2.5	-29.4%	7%	8%	1.8	1.5	0.3	21.4%
Other[7]	1.5	1.8	-0.4	-19.5%	2%	2%	0.3	0.4	-0.1	-20.9%
Total	**82.7**	**100.6**	**-17.9**	**-17.8%**	**100%**	**100%**	**20.4**	**24.5**	**-4.1**	**-16.9%**

Source: Proprietary material.

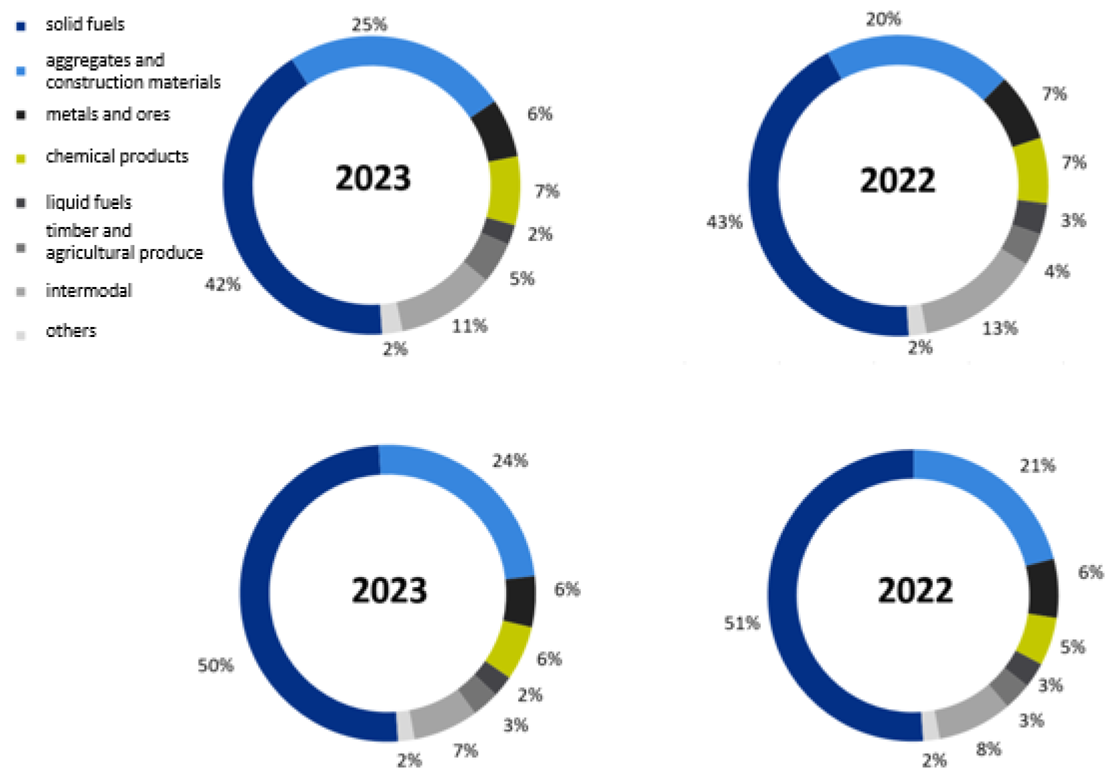
Table 5 PKP CARGO Group's average haul in 12 months of 2023 and 2022 and Q4 of 2023 and 2022

Description	2023	2022	Change 2023/2022		Q4 2023	Q4 2022	Change Q4 2023/ Q4 2022	
	(km)			%	(km)			%
Solid fuels[1]	226	227	-1	-0.5%	204	264	-60	-22.9%
of which hard coal	215	219	-5	-2.1%	195	261	-67	-25.5%
Aggregates and construction materials[2]	274	261	13	4.9%	280	267	13	4.8%
Metals and ores[3]	313	304	9	2.9%	268	253	15	5.8%
Chemicals[4]	335	354	-19	-5.5%	317	325	-8	-2.5%
Liquid fuels[5]	250	313	-63	-20.1%	232	304	-72	-23.7%
Timber and agricultural produce[6]	405	301	104	34.7%	468	339	130	38.3%
Intermodal transport	403	428	-25	-5.8%	428	412	16	3.9%
Other[7]	334	281	53	18.8%	309	320	-12	-3.6%
Total	**269**	**268**	**1**	**0.4%**	**263**	**281**	**-18**	**-6.4%**

Source: Proprietary material.

[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.

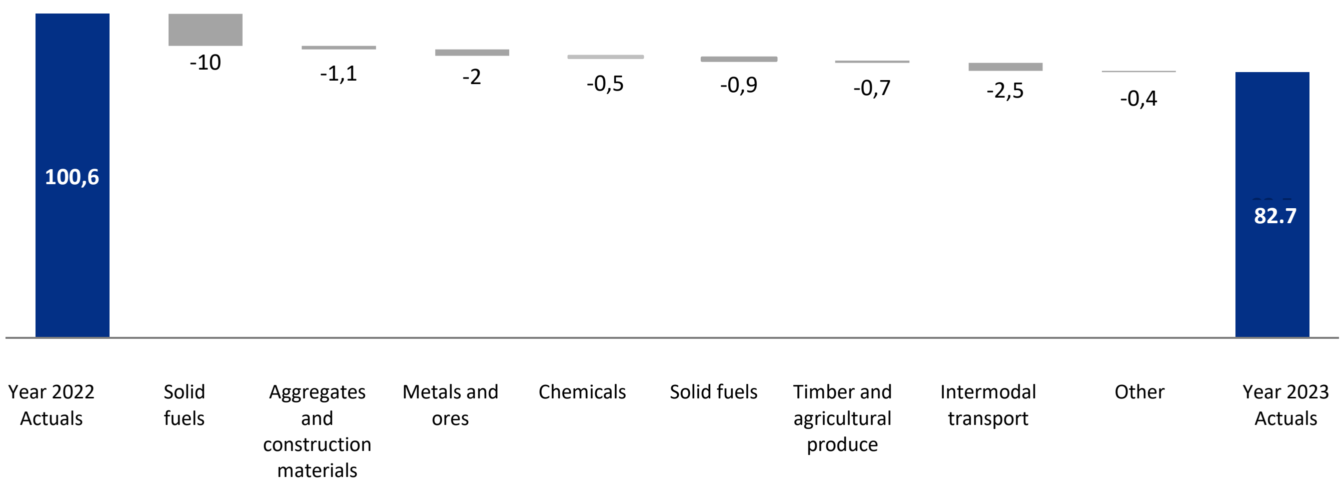
Figure 16 Structure of the PKP CARGO Group's freight turnover (G) and freight volume (D) in 12 months of 2023 and 2022



Source: Proprietary material

In 12 months of 2023, the PKP CARGO Group transported a total of 82.7 million tons of cargo.

Figure 17 Freight volume of the PKP CARGO Group in 2023 compared to the corresponding period in 2022 (million tons)



Source: Proprietary material

Key factors affecting the volume of transport in various cargo categories in 12 months of 2023:

solid fuels

- From February 2023, demand from the power industry was decreasing along with the volume of coal ordered by local governments. Accumulation of stockpiles at storage sites reduced coal imports through seaports;
- flooding a longwall at LW Bogdanka S.A., repairs of an access road to Połaniec, repairs in cogeneration plants in Łódź and Koziegłowy, repair works (in June 2023) at the siding of the Siekierki Cogeneration Plant, causing interruptions in deliveries; reduction of energy output at Elektrownia Ostrołęka S.A., failure of transshipment machines at the station of Łaziska Średnie; in July and August, repair works were performed in power plants and cogeneration plants as well as in Tauron Ciepło Branches, which acted as an additional factor reducing coal deliveries during the summer,
- the heating season starting later because of weather conditions,
- decrease in the average haul of hard coal by -5 km (-2.1%) in connection with the changed directions of deliveries.

aggregates and construction materials

- Increased activity on the part of competitors in the transportation market for aggregates and the freeing of rolling stock resources of rail operators due to a significant decline in coal freight volumes, which resulted in a greater degree of competitive activity in the transportation market for aggregates;
- discontinuation of limestone transport operations to a Czech steel mill – reduced demand due to the decline in steel output;
- lower volume of limestone freight operations to German cogeneration plants – transportation services carried out according to the current demand of customers, which depends on the electricity production level,
- lower volume of transport operations in exports of quartzite through seaports to Iceland – weaker demand from buyers;
- reduced volume of transported cement clinker in exports to the Czech Republic;
- increase in the average haul by 13 km (4.9%) in connection with the changed structure/direction of deliveries – PKP CARGO S.A. made increased transports of crushed stone from mines in Lower Silesia to stations located in the northern and eastern parts of Poland;
- PKP CARGO INTERNATIONAL – reduced volume of transport operations for a major producer in this segment which decided to suspended cement production in February 2023 due to its high price.

metals and ores

- A decreased demand for metal products and raw materials used in production in Poland and in the world. The reduced steel output also resulted in a decrease in demand for raw materials, specifically metal scrap and iron ore, and a decrease in slag output;
- temporary shutdowns and overhauls of blast furnaces at steel mills in Poland and the Czech Republic;
- shortages of head-and-swivel coal wagons in PKP CARGO S.A.'s wagon fleet preventing the transport of ores to the Třinec steel mill;
- increase in the average haul by 9 km (2.9%) – a level similar to that of the same period last year.

liquid fuels

- The declining haul is a result of a different rail operator performing an increasing share of domestic transport and imports from Lithuania,
- loss of haulage for a large counterparty,
- diversification of fuel suppliers through Ukraine – imports from Hungary, Slovakia and Romania,
- decrease in the average haul by 63 km (-20.1%) due to the increased share of short-haul operations near the border with Ukraine.

timber and agricultural produce

- Decrease in the volume of transported timber due to the weakening condition of companies in the paper, timber and wood products markets caused by the high price of wood in Poland and weakening demand for wood products,
- strong competition of road transport in the haulage of timber and finished products,
- limited capacity of Polish-Ukrainian rail border crossings for maintaining the current level of grain and feed freight from Ukraine due to the strong competition from other goods and other rail operators,
- increase in the average haul by 104 km (+34.7%) as a result of a change in the structure of transport operations.

- Decrease in the production volume of fertilizers by the leading manufacturer due to problems with domestic sales (high production costs, difficulties in selling grain) and exports (tough competition due to the high prices of natural gas which is a key raw material for production and the abolition of customs duties on fertilizers imported to the EU),
- starting in Q3, slow improvement in production and haulage, with additional transport services to Ukraine in Q4,
- decrease in the average haul by 19 km (-5.5%) – a significant share of shipments to Ukraine is short-haul operations near the border.

- Difficult situation in the intermodal transport market globally: a decrease in New Silk Road (NJS) transport operations, driven by the ongoing conflict in Ukraine and an increase in the price of rail transport, coupled with declining prices for maritime transport, which brought on greater interest in maritime transport,
- repairs of the infrastructure in the East-West corridor, insufficient throughput of border crossing hindering transports from and to Ukraine,
- congestion at ports, competition from road transport,
- decrease in the average haul by 25 km (-5.8%) due to a change in the structure of transport operations,
- PKP CARGO INTERNATIONAL – no transport services for a major customer.

- At a similar level to the corresponding period in 2022,
- increased volumes of vehicle freight.

3.3. Information on selling markets and sources of supply.

Key clients

PKP CARGO S.A. conducts its business within one segment only, i.e. domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located and other destinations to which the routes are being rolled out. Total revenues for all geographic areas outside Poland for the financial year ended 31 December 2023 and 31 December 2022 did not exceed 15% of total revenues from contracts with customers.

In 2023, the PKP CARGO Group transported 72.6 million tons of freight, compared to 88.4 million tons in 2022. As the rail freight market leader, we provide transport services in all segments of the market. The main sector of PKP CARGO S.A.'s freight business is solid fuels, with a 50% share in all PKP CARGO S.A.'s haulage carried out in 2023. In this market sector, transport services were provided for 158 customers, and their major commodity was hard coal. The second segment of transport activity of PKP CARGO S.A. are aggregates and construction materials, with a share of 24% in all transport services provided by PKP CARGO S.A. in 2023. In this segment, transport services were provided to 95 customers. Intermodal transport is another segment of PKP CARGO S.A.'s business, with a share of 7% in all transport services provided by PKP CARGO S.A. in 2023. In this segment, transport services were provided to 52 customers. Another sector of PKP CARGO S.A.'s freight business is chemicals, with a 6% share in all PKP CARGO S.A.'s haulage carried out in 2023. In this market sector, transport services were provided for 110 customers. A similar share, that is 6%, in all of PKP CARGO S.A.'s business in 2023 was attributable to the transport of ores and metals. In this market sector, transport services were provided for 85 customers. Another sector of PKP CARGO S.A.'s freight business is agricultural crops, timber and wooden products with a 3% share in all PKP CARGO S.A.'s haulage carried out in 2023. In this market sector, transport services were provided for 85 customers. The last distinguished cargo category for cargo transported by PKP CARGO S.A. in 2023, with a 2% share in all transport operations carried out by PKP CARGO S.A. was liquid fuels. In this market sector, transport services were provided for 18 customers. As a Group, we provide transport services to large companies.

In the financial year ended 31 December 2023 and 31 December 2022, the Group's revenue from any single client did not exceed 10% of the total revenues from contracts with customers. The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity.

The Group's revenues generated by external clients by geographic area are presented in *Note 2.1 to the Consolidated Financial Statements*, and the Company's revenues – in *Note 2.1 to the Standalone Financial Statements*.

Key suppliers

As they operate on the freight transport market, both the PKP CARGO Group and the Company are dependent on the largest supplier of access services to rail infrastructure in Poland, namely PKP Polskie Linie Kolejowe S.A. (hereinafter also referred to as "PKP PLK"). This company is a domestic provider that provides access to the prevalent portion of rail infrastructure in Poland in accordance with the price list approved annually by the President of the Office of Rail Transport. This infrastructure is made available for a fee on the same terms to all rail operators offering passenger and cargo rail transport. PKP PLK renders services to the PKP CARGO Group that include the provision of access to rail infrastructure, the provision of access to traction network equipment, the directing and carrying of traffic and access to train handling equipment.

Moreover, the Group's main supplier for traction fuel and traction energy is PGE Energetyka Kolejowa S.A. This supplier specializes in selling and supplying electricity, selling liquid fuels and providing electrical energy-related services.

3.4. Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 2019-2023 is provided below.

Table 6 Headcount in 2019-2023 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)*

Description	Headcount as at:					Change 2023-2022	% change
	31/12/2023	31/12/2022	31/12/2021	31/12/2020	31/12/2019		
PKP CARGO Group	**19,933**	**20,038**	**20,562**	**21,766**	**23,571**	**-105**	**-0.52**
including: PKP CARGO S.A.	*14,062*	*14,267*	*14,728*	*15,771*	*17,140*	*-205*	*-1.44*

Source: Proprietary material.

Table 7 Average headcount in FTEs in 2019-2023 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)*

Description	Average headcount in FTEs					Change 2023-2022
	12 months	12 months	12 months	12 months	12 months	
	2023	2022	2021	2020	2019	
PKP CARGO Group	**19,854**	**20,196**	**21,210**	**22,279**	**23,657**	**-342**
including: PKP CARGO S.A.	*14,071*	*14,464*	*15,351*	*16,185*	*17,293*	*-393*

Source: Proprietary material.

Table 8 Average headcount in FTEs in 2019-2023 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)*

Description	Average headcount in persons					Change 2023-2022
	12 months	12 months	12 months	12 months	12 months	
	2023	2022	2021	2020	2019	
PKP CARGO Group	**19,910**	**20,242**	**21,254**	**22,818**	**23,710**	**-332**
including: PKP CARGO S.A.	*14,095*	*14,478*	*15,360*	*16,616*	*17,309*	*-383*

Source: Proprietary material.

Table 9 Headcount in 2019-2023 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)*

Description	Headcount as at:					Change 2023-2022	% change
	31/12/2023	31/12/2022	31/12/2021	31/12/2020	31/12/2019		
White-collar positions – the Group	**4,825**	**4,767**	**4,808**	**5,079**	**5,439**	**58**	**1.22**
including: PKP CARGO S.A.	*3,405*	*3,342*	*3,389*	*3,644*	*3,936*	*63*	*1.89*
Blue-collar positions – the Group	**15,108**	**15,271**	**15,754**	**16,687**	**18,132**	**-163**	**-1.06**
including: PKP CARGO S.A.	*10,657*	*10,925*	*11,339*	*12,127*	*13,204*	*-268*	*-2.45*
Total	**19,933**	**20,038**	**20,562**	**21,766**	**23,571**	**-105**	**-0.52**
including: PKP CARGO S.A.	*14,062*	*14,267*	*14,728*	*15,771*	*17,140*	*-205*	*-1.44*

Source: Proprietary material.

** Active employees do not include employees on unpaid leave, parental leave or rehabilitation benefits.*

A comparison of 2023 with 2022 reveals a moderate decline in the headcount in the PKP CARGO Group by 105 persons (by 205 persons in PKP CARGO S.A. alone). The headcount structure in the Group was adjusted to the changing market environment.

Maintaining full operational efficiency requires, among other things, ensuring continuity of employment, despite the natural employee turnover (caused, for example, by the termination of employment of individuals without have acquired the right to retirement). In order to ensure this and provide logistics services at the highest level, the Company is carries out this process while focusing its efforts on renewing blue-collar positions (especially those requiring specialized rail industry qualifications) and effectively recruiting them in the demanding labor market as well as arranging training programs to educate future rail personnel. It is necessary to hire employees to ensure generational renewal and maintain work continuity in particular positions. The Company monitors and fine-tunes hiring levels to meet its current organizational and business needs, focusing both on growth rooted in internal resources and on external recruitment.

3.5. The Company's and the PKP CARGO Group's investments

3.5.1 Capital expenditures

PKP CARGO S.A.

In 2023, the Company incurred capital expenditures of PLN 1,581.5 million, up 138.9% 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 inspections of P3 rolling stock). Capital expenditures also contain right-of-use assets (mainly locomotive leases and property leases) under IFRS16.

Most of capital expenditures in the Company in 2023 were allocated for the execution of investment tasks associated with the rolling stock, mainly for repairs and periodic inspections of the rolling stock (the number of periodic repairs and periodic inspections performed in 2023 is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantity of rolling stock maintained as fit for operation as required for the provision of transportation services), the purchase of locomotives (including 5 multi-system locomotives for intermodal transport and 5 six-axle electric locomotives) for a total of PLN 1,219.2 million (or 77.1% of total capital expenditures). Moreover, the Company incurred capital expenditures in the IT area, in particular to purchase hardware and ICT equipment along with intangible assets (software, the purchase of licenses and modifications to IT systems owned and used by the Company) for the total amount of PLN 17.8 million, for investment construction in the amount of PLN 1.7 million, namely the construction and modernization of buildings, including changes to the heating of buildings, and the acquisition of machinery and equipment and workshop and office fit-out in the amount of PLN 3.8 million. Also, the Company incurred expenditures related to right-of-use assets in the amount of PLN 339.0 million covering, among others, purchases of 16 six-axle electric locomotives (PLN 270.4 million) and long-term property lease agreements (PLN 60.9 million).

Table 10 Capital expenditures in PKP CARGO S.A. in 2019-2023 (PLN million)

Description	2023	2022	2021	2020	2019	Change 2023-2022	Change 2023/2022 in %
Investment construction activity	1.7	5.6	27.7	9.9	7.0	-3.9	-69.6%
Locomotive purchases	191.4	0.0	0.4	33.0	65.3	191.4	-
Locomotive upgrades	0.0	0.3	91.2	123.4	252.0	-0.3	-100.0%
Wagon purchases	1.1	111.8	184.7	162.8	69.9	-110.7	-99.0%
Workshop machinery and equipment	2.7	0.3	4.3	1.5	8.5	2.4	800.0%
ICT development	17.8	3.2	11.0	7.4	11.4	14.6	456.3%
Other	1.1	0.1	0.0	0.2	1.2	1.0	-
Components in overhaul, including:	1,026.7	494.9	447.7	249.7	617.1	531.8	107.4%
Repairs and periodic inspections of locomotives	*215.9*	*92.3*	*111.5*	*61.5*	*162.2*	*123.6*	*133.9%*
Repairs and periodic inspections of wagons	*810.8*	*402.7*	*336.3*	*188.2*	*454.9*	*408.2*	*101.3%*
Right-of-use assets	339.0	45.9	29.5	20.8	*185.4*	293.1	638.6%
Total	**1,581.5**	**662.1**	**796.4**	**608.7**	**1,217.8**	**919.4**	138.9%

** Expenditures for right-of-use assets do not include increases resulting from leaseback of locomotives in the amount of PLN 258.9 million for 2023 and PLN 13.6 million for 2022.*
Source: Proprietary material.

In 2023, the Company obtained a PLN 97.0 million grant from the EU, of which PLN 96.3 million was associated with capital expenditure tasks completed in 2023, namely the purchase of 5 multi-system locomotives for intermodal transport for PLN 45.0 million and the installation of new monoblock wheel sets and LL-type composite wagon inserts for PLN 51.3 million. A PLN 0.7 million grant pertains to the investment task associated with the said wagons, to be completed in 2024.

PKP CARGO Group

In 2023, the PKP CARGO Group incurred capital expenditures of PLN 1,721.4 million, up 121.8% 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 (P4 and P5 periodic repairs of rolling stock and P3 periodic inspections of rolling stock). Moreover, right-of-use assets were recognized under IFRS 16 (mainly related to locomotive leases and real estate leases).

The majority of the capital expenditures in the Group in 2023 were allocated for the execution of investment tasks associated with rolling stock, mainly for periodic repairs and periodic check-ups of rolling stock (the number of periodic repairs and periodic inspections performed in 2023 is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services) and the acquisition of locomotives – for a total amount of PLN 1,174.8 million (or 68.2% of total capital expenditures). Moreover, the Group incurred expenditures on computerization, i.e. purchases of computer hardware in the form of computers and ICT equipment as well as intangible assets (software, purchase of licenses and modifications of IT systems owned and used by the Group) in the amount of PLN 25.5 million, for investment construction activity in the amount of PLN 92.9 million, chiefly to modernize container terminals, modernize and construct storage yards, repair rail infrastructure and modernize buildings and structures, including workshop buildings, and purchase and modernize machinery, plant and tools in container terminals and workshop buildings in the amount of PLN 31.6 million, to purchase office equipment and vehicles for PLN 3.1 million and right-of-use assets for PLN 393.5 million, including mainly for the purchase of locomotives for PLN 272.1 million, rental of real estate for PLN 92.2 million and in other areas for PLN 29.3 million, mostly for leasing vehicles and purchasing tools in container terminals and workshop buildings, ICT equipment financed by leases.

Table 11 Capital expenditures in the PKP CARGO Group in 2019-2023 (PLN million)

Investment area	2023	2022	2021	2020	2019	Change 2023-2022	Change 2023/2022 in %
Investment construction activity	92.9	44.4	70.5	50.8	39.5	48.5	109.2%
Locomotive purchases	191.5	0.3	0.4	33.0	65.3	191.2	-
Locomotive upgrades	0.0	12.5	99.4	132.0	258.5	-12.5	-100.0%
Wagon purchases	1.1	111.8	184.7	162.9	69.9	-110.7	-99.0%
Wagon upgrades	0.0	0.0	0.0	5.6	2.0	0.0	-
Workshop machinery and equipment	31.6	20.1	32.2	12.0	26.6	11.5	57.7%
ICT development	25.5	5.1	12.8	10.8	14.1	20.4	400.0%
Other	3.1	3.0	1.5	2.5	4.8	0.1	3.3%
Components in overhaul, including:	982.2	511.7	441.3	276.5	632.0	470.5	91.9%
Repairs and periodic inspections of locomotives	*212.1*	*113.1*	*115.9*	*73.7*	*167.1*	*99.0*	*87.5%*
Repairs and periodic inspections of wagons	*770.1*	*398.6*	*325.4*	*202.8*	*464.9*	*371.5*	*93.2%*
Right-of-use assets	393.5	67.3	65.5	68.4	237.6	326.2	484.7%
Total	**1,721.4**	**776.2**	**908.3**	**754.5**	**1,350.3**	**945.2**	121.8%

** Expenditures for right-of-use assets do not include increases resulting from leaseback of rolling stock and technical equipment in the amount of PLN 260.4 million for 2023 and PLN 16.7 million for 2022.*
Source: Proprietary material.

In 2023, the investment tasks carried out by PKP CARGO Group companies were predominantly of a replacement nature and accounted for approx. 80% of all investments pursued by the Group in 2023. The largest share in these tasks was attributable to expenditures on repairs and periodic inspections of rolling stock. Within the framework of these investments, machinery and equipment was also purchased, including for the performance of tasks in rolling stock repair shops and at terminals (e.g., Kalmar-type transshipment equipment, loaders, tractors).

The performance of such tasks of a replacement nature will enable the PKP CARGO Group to carry out its statutory activities in the years to come.

In 2023, tasks were also pursued aimed at boosting the Group's growth and improving its competitive position in the freight and logistics market. These tasks included the purchase of multi-system locomotives for intermodal transport and the purchase of six-axle electric double-system locomotives capable of carrying heavy trains in Poland, the Czech Republic and Slovakia. Meanwhile, in an effort aimed at improving its competitive position in the logistics market, the Group completed a major project to build a multimodal terminal in Zduńska Wola – Karsznice. The PKP CARGO Logistics Center in Zduńska Wola –

Karsznice was put into operation in 2023. It is a modern terminal, located in the heart of Poland (at the intersection of key trade routes).

3.5.2 Assessment of the capacity to execute investment plans

PKP CARGO Group companies intend to finance capital expenditures using partly their own funds in combination with external financing sources, such as investment loans, leases, assistance funds or other sources.

4. Analysis of the financial standing and assets of the Company and the PKP CARGO Group

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

Table 12 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	in PLN million[47]					in EUR million				
	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
Exchange rates (PLN/EUR)						**4.5284**	**4.6883**	**4.5775**	**4.4742**	**4.3018**
Operating revenue	4,257.9	4,044.8	3,127.0	3,062.0	3,601.4	940.3	862.7	683.1	684.4	837.2
Operating profit / loss	192.2	242.2	-235.7	-214.6	40.2	42.4	51.7	-51.5	-48.0	9.3
Profit / loss before tax	57.2	126.9	-268.4	-221.5	19.2	12.6	27.1	-58.6	-49.5	4.5
Net profit / loss from continuing operations	45.2	102.7	-223.3	-173.9	-8.3	10.0	21.9	-48.8	-38.9	-1.9
Comprehensive income	14.5	110.6	-146.1	-251.6	-37.4	3.2	23.6	-31.9	-56.2	-8.7
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	1.01	2.29	-4.99	-3.88	-0.19	0.22	0.49	-1.09	-0.87	-0.04
Diluted earnings / loss per share (PLN/EUR)	1.01	2.29	-4.99	-3.88	-0.19	0.22	0.49	-1.09	-0.87	-0.04
Net cash flow from operating activities	1,047.6	815.5	500.5	417.1	649.4	231.4	174.0	109.4	93.3	151.0
Net cash flow from investing activities	-866.1	-698.9	-558.9	-559.1	-693.4	-191.3	-149.1	-122.1	-125.0	-161.2
Net cash flow from financing activities	-116.5	-202.4	18.9	-57.5	201.6	-25.7	-43.2	4.1	-12.9	46.9
Movement in cash and cash equivalents	65.0	-85.8	-39.5	-199.5	157.6	14.4	-18.3	-8.6	-44.6	36.6
	31/12/2023	**31/12/2022**	**31/12/2021**	**31/12/2020**	**31/12/2019**	**31/12/2023**	**31/12/2022**	**31/12/2021**	**31/12/2020**	**31/12/2019**
Exchange rates (PLN/EUR)						**4.3480**	**4.6899**	**4.5994**	**4.6148**	**4.2585**
Non-current assets	6,768.9	5,948.0	6,031.2	5,948.9	6,030.5	1,556.8	1,268.3	1,311.3	1,289.1	1,416.1
Current assets	800.0	800.0	681.3	705.4	989.8	184.0	170.6	148.1	152.9	232.4
Non-current assets classified as held for sale	-	0.1	14.9	12.7	-	-	-	3.2	2.7	-
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	515.0	477.5	486.9	485.2	525.8
Equity	2,937.8	2,923.3	2,812.7	2,958.8	3,210.4	675.7	623.3	611.5	641.2	753.9
Non-current liabilities	2,417.5	1,985.9	2,442.9	2,646.7	2,659.0	556.0	423.4	531.1	573.5	624.4
Current liabilities	2,213.6	1,838.9	1,471.8	1,061.5	1,150.9	509.1	392.2	320.0	230.0	270.2

Source: Proprietary material.

[47] In this Management Board report on the activity of PKP CARGO S.A. and the PKP CARGO Group for the financial year 2023, to facilitate the reading, some figures have been rounded off, which may result in slight deviations in the presented data. In all cases of possible distortions, the data are presented with greater accuracy.

Table 13 Financial highlights of the PKP CARGO Group

PKP CARGO Group	in PLN million					in EUR million				
	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
Exchange rates (PLN/EUR)						**4.5284**	**4.6883**	**4.5775**	**4.4742**	**4.3018**
Operating revenue	5,552.0	5,448.8	4,326.5	4,235.9	4,865.5	1,226.0	1,162.2	945.2	946.7	1,131.0
Operating profit / loss	291.4	333.3	-208.8	-186.4	143.4	64.3	71.1	-45.6	-41.7	33.3
Profit / loss before tax	119.0	191.8	-264.4	-266.9	73.5	26.3	40.9	-57.8	-59.7	17.1
Net profit/loss	82.1	148.0	-225.3	-224.3	36.0	18.1	31.6	-49.2	-50.1	8.4
Total comprehensive income attributable to the owners of the parent company	-30.4	192.3	-103.2	-279.5	4.2	-6.7	41.0	-22.5	-62.5	1.0
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	1.83	3.31	-5.03	-5.01	0.80	0.40	0.71	-1.10	-1.12	0.19
Diluted earnings / loss per share (PLN/EUR)	1.83	3.31	-5.03	-5.01	0.80	0.40	0.71	-1.10	-1.12	0.19
Net cash flow from operating activities	1,211.0	1,018.4	699.8	553.1	806.5	267.4	217.2	152.9	123.6	187.5
Net cash flow from investing activities	-987.1	-772.9	-645.6	-655.1	-814.8	-217.9	-164.9	-141.0	-146.4	-189.4
Net cash flow from financing activities	-133.4	-319.5	-106.4	-145.9	111.4	-29.5	-68.1	-23.3	-32.6	25.9
Movement in cash and cash equivalents	90.5	-74.0	-52.2	-247.9	103.1	20.0	-15.8	-11.4	-55.4	24.0
	31/12/2023	**31/12/2022**	**31/12/2021**	**31/12/2020**	**31/12/2019**	**31/12/2023**	**31/12/2022**	**31/12/2021**	**31/12/2020**	**31/12/2019**
Exchange rates (PLN/EUR)						**4.3480**	**4.6899**	**4.5994**	**4.6148**	**4.2585**
Non-current assets	7,030.6	6,354.1	6,458.7	6,397.4	6,503.8	1,617.0	1,354.8	1,404.3	1,386.3	1,527.3
Current assets	1,289.4	1,305.8	1,139.0	1,149.3	1,487.5	296.5	278.4	247.6	249.1	349.3
Non-current assets classified as held for sale	-	0.3	15.7	12.7	-	-	0.1	3.4	2.7	-
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	515.0	477.5	486.9	485.2	525.8
Equity attributable to the owners of the parent company	3,202.5	3,232.9	3,040.6	3,143.8	3,423.3	736.6	689.3	661.1	681.2	803.9
Non-current liabilities	2,784.2	2,344.6	2,833.8	3,029.5	3,115.9	640.3	499.9	616.1	656.5	731.7
Current liabilities	2,333.3	2,082.7	1,739.0	1,386.1	1,452.1	536.6	444.1	378.1	300.4	341.0

Source: Proprietary material.

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 Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2023:

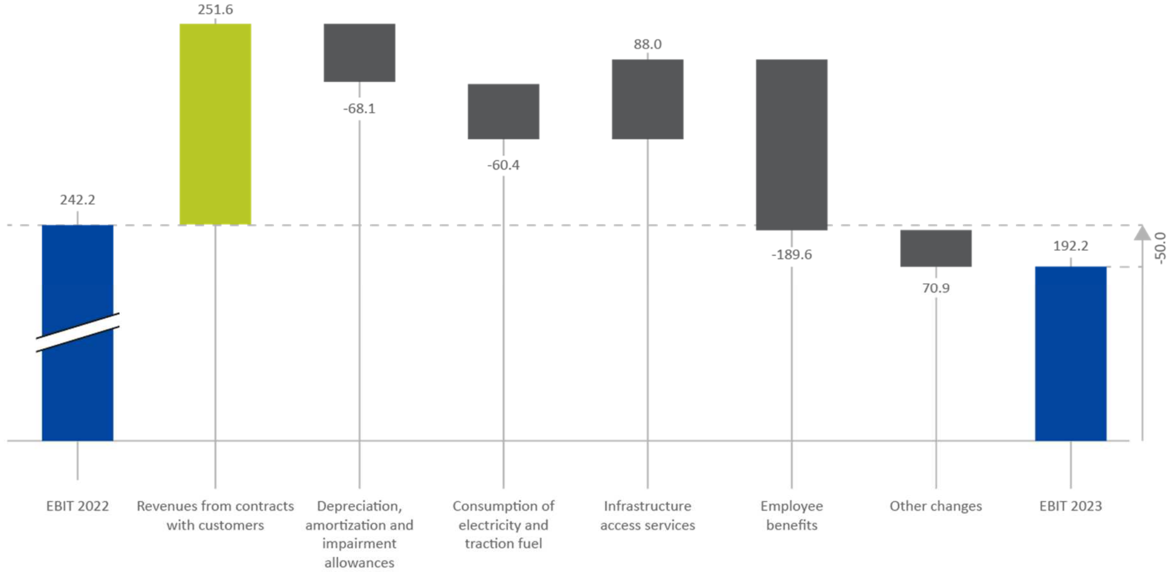
- exchange rate in force on the last day of the reporting period: 31 December 2023: EUR 1 = PLN 4.3480; 31 December 2022: EUR 1 = PLN 4.6899,
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in the respective period: 1 January – 31 December 2023: EUR 1 = PLN 4.5284, 1 January – 31 December 2022: EUR 1 = PLN 4.6883.

4.2. PKP CARGO S.A.'s economic and financial highlights

4.2.1 PKP CARGO S.A.'s statement of comprehensive income

In the period of 12 months of 2023, EBIT reached PLN 192.2 million, having gone down by PLN 50.0 million compared to the corresponding period of the previous year.

Figure 18 EBIT in the 12 months of 2023 as compared to the corresponding period in 2022 (PLN million)



Source: Proprietary material.

The most significant drivers of changes affecting EBIT in the 12 months of 2023, as compared to the 12 months of 2022, are described below:

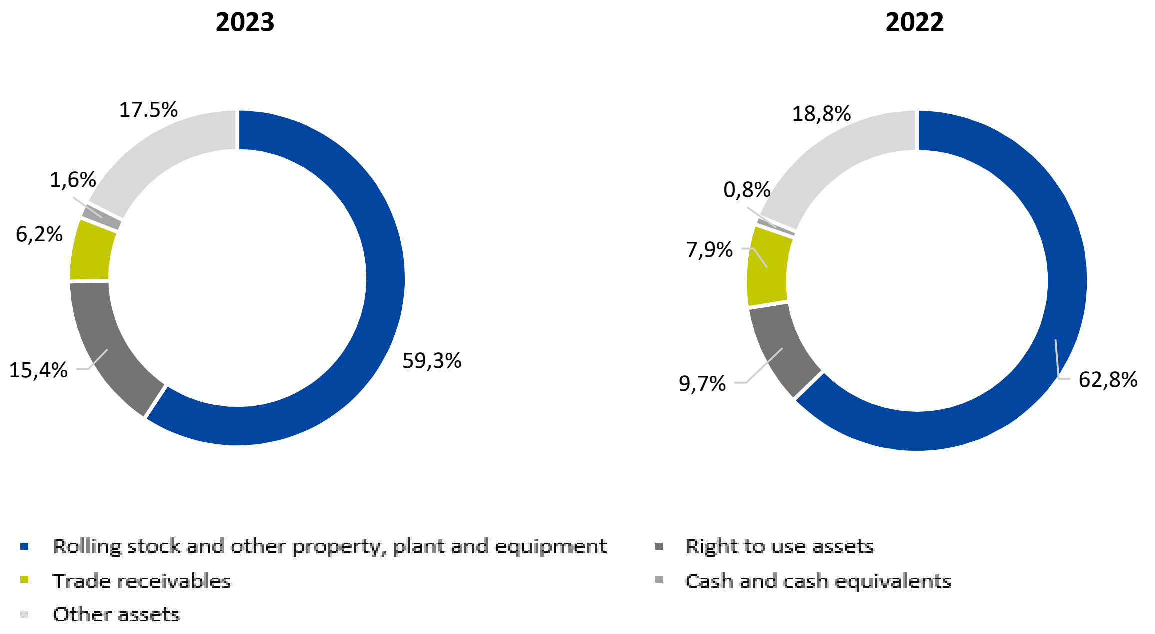
- increase in yoy revenues from contracts with customers (including chiefly revenue from transportation services and freight forwarding services) which resulted mostly from higher freight rates offered to customers for rail services, with the simultaneous decline in freight volume;
- increase in depreciation costs and impairment allowances resulting for the most part from intensification of investment activities in 2023 to satisfy the needs of transport logistics and to build the Company's future economic value;
- 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), with a concurrent decrease in the costs of consumption of traction fuel caused by the decline in freight turnover;
- decrease in the costs of access services to the infrastructure in connection with the decline in freight turnover;
- 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 and a one-time award for employees in July 2023, with 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 expenses on the "other changes" line item, including an increase in expenses for repair and maintenance of fixed assets, an increase in the cost of interest on trade payables, an increase in the cost of electricity, gas and water consumption, with a simultaneous decrease in expenses for rent and fees for the use of real estate and rolling stock, transportation services (related to the decrease in freight turnover), a decrease in the cost of the value of materials sold, and a decrease in profit on the sale of non-financial non-current assets.

4.2.2 Description of the structure of assets and liabilities of PKP CARGO S.A.

ASSETS

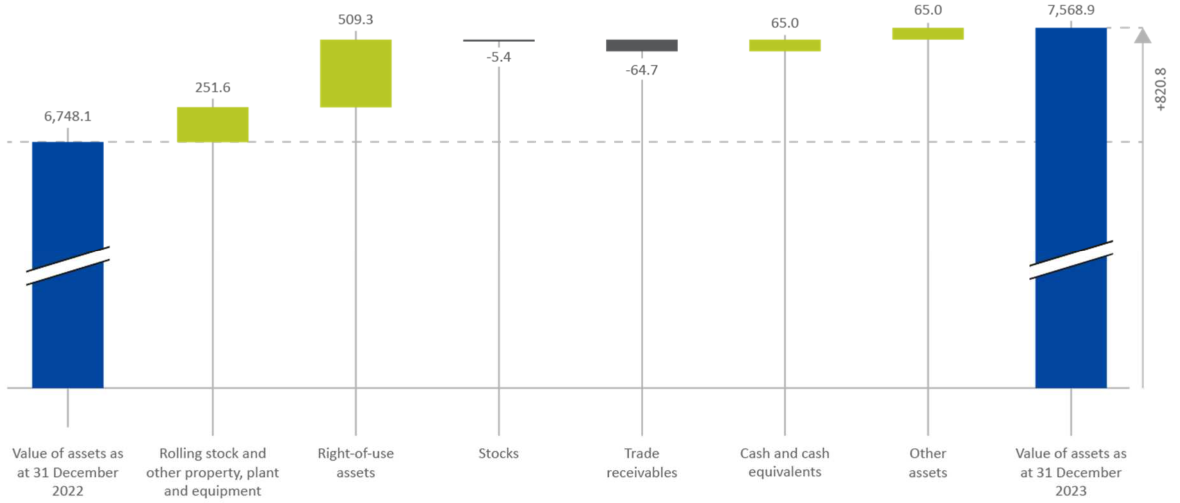
As at 31 December 2023, rolling stock and other property, plant and equipment represented the largest share in the structure of the Company's total assets, accounting for 59.3% of total assets, compared to 62.8% as at 31 December 2022. The largest share in the structure of current assets as at 31 December 2023 was attributable to trade receivables, which represented 6.2% of the Company's total assets.

Figure 19 Structure of the Company's assets – as at 31 December 2023 and 31 December 2022



Source: Proprietary material.

Figure 20 Movement in the Company's assets in the 12 months of 2023 (PLN million)



Source: Proprietary material.

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

- increase in the value of rolling stock and other property, plant and equipment, mainly reflecting the effect of investment activities;
- increase in right-of-use assets due to the signing of new lease agreements and leasebacks largely related to rolling stock;
- decrease in the value of trade receivables related to the decrease in sales in the last two months of 2023;
- increase in cash and cash equivalents as a result of net cash from operating activities of PLN 1,047.6 million, proceeds from the disposal of non-financial nn-current assets of PLN 316.8 million, proceeds from grants received of PLN 97.0 million and proceeds from borrowings of PLN 342.7 million, with concurrent expenses from on the acquisition of non-financial non-current assets of PLN 1,176.3 million, expenses from the repayment of loans and leases with interest of PLN 596.1 million and cash pool proceeds of PLN 41.6 million;
- increase in other assets resulting from, among other factors, an increase in investments in related parties and an increase in financial assets (a loan granted to a PKP CARGO Group subsidiary).

Table 14 Days in inventory in 2019-2023

Description	2023	2022	2021	2020	2019	Change 2023-2022	Rate of change 2023/2022
Days in inventory*	67.1	110.2	131.3	184.7	94.6	-43.1	-64.2%

* Days in inventory calculated for 360 days and total material consumption in the reporting year.
Source: Proprietary material.

As at the end of December 2023, the days in inventory indicator was 67.1, down by 43.1 days (or -64.2% yoy) compared to 2022. The noticeable decrease in the indicator was largely due to an increase in total material consumption, with a decrease in material inventories. The level of inventories is adapted mainly to the level of the rolling stock maintenance and repair. Detailed information regarding the level of inventories is presented in Note 5.4 to the Standalone Financial Statements of PKP CARGO S.A.

EQUITY AND LIABILITIES

The largest share of the Company's equity and liabilities was equity, which as at 31 December 2023 represented 38.8% of total equity and liabilities, compared to 43.3% as at 31 December 2022. At the same time, debt liabilities as at 31 December 2023 accounted for 34.6% of total equity and liabilities, compared to 31.4% as at 31 December 2022.

Figure 21 Structure of the Company's equity and liabilities as at 31 December 2023 and 31 December 2022.

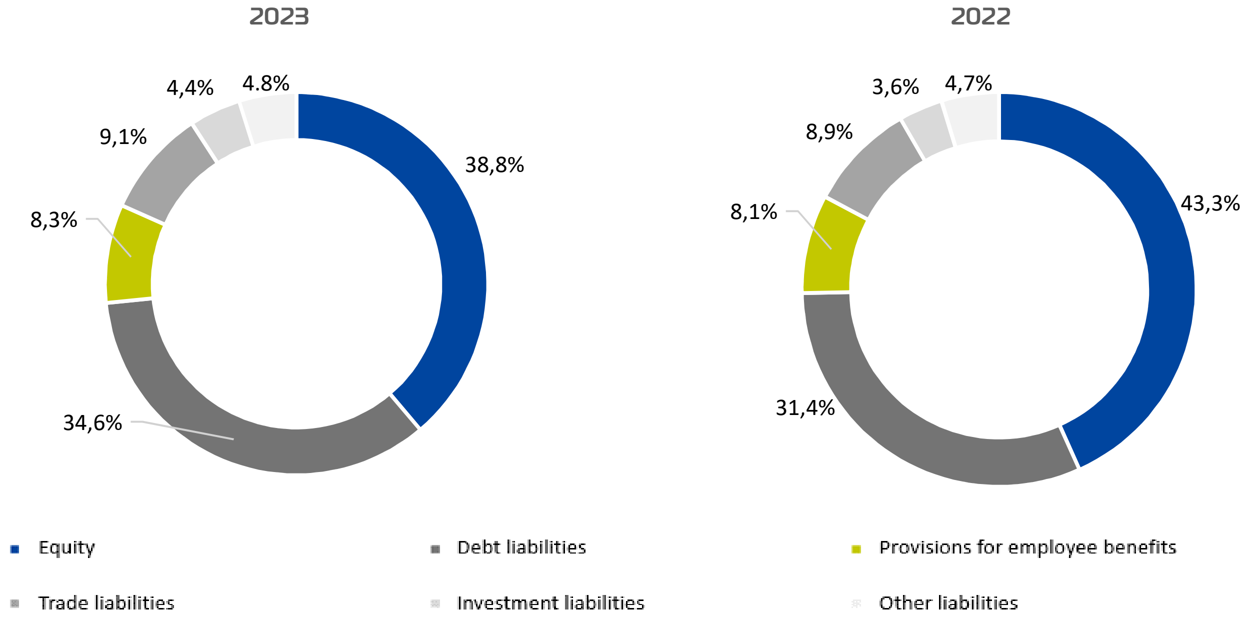
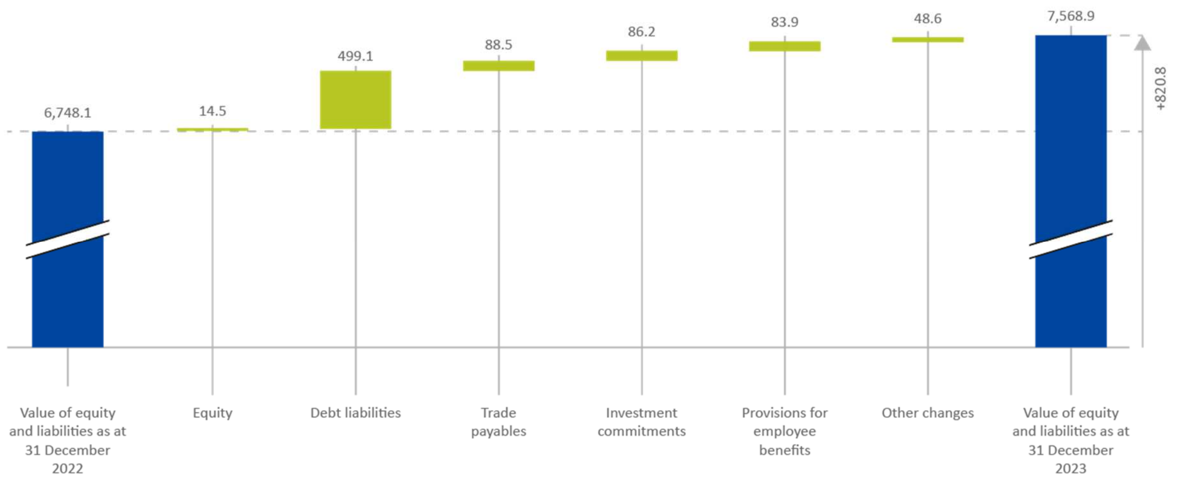


Figure 22 Movement in the Company's equity and liabilities in the 12 months of 2023 (PLN million)



Source: Proprietary material.

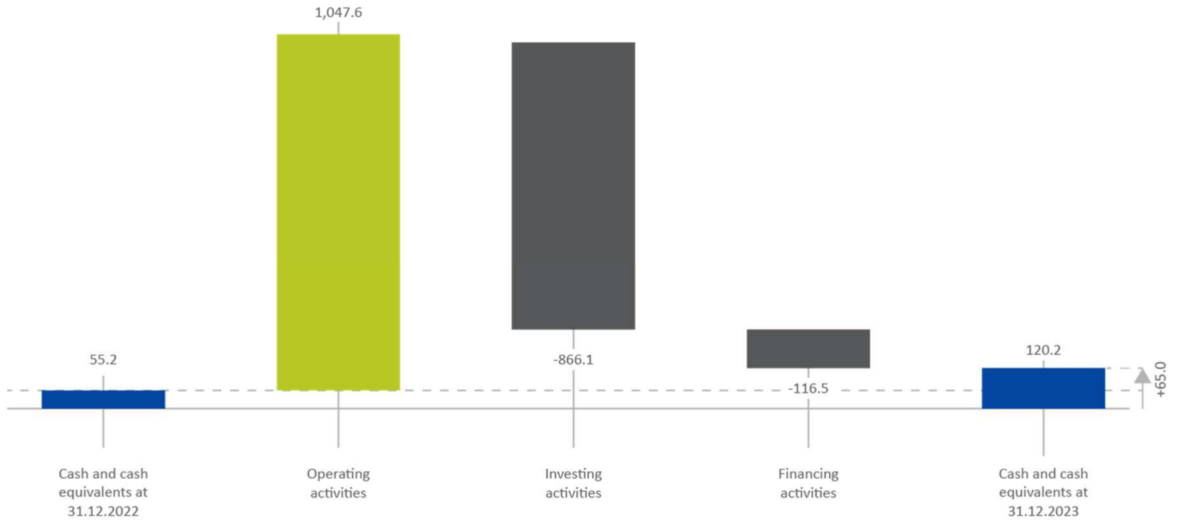
The most significant changes affecting the value of equity and liabilities as at 31 December 2023, as compared to 31 December 2022, are explained below:

- increase in the value of equity, chiefly as a result of the positive net financial result achieved by the Company for 2023 with a simultaneous decrease in the value of other items of equity (valuation of actuarial provisions for employee benefits and measurement of hedging instruments);
- increase in debt liabilities, resulting mainly from the investment policy of purchasing modern rolling stock and repairing the existing rolling stock;
- increase in trade payables, mainly due to the emergence of overdue liabilities and an increase in interest payables;
- increase in investment liabilities, resulting mainly from an increase in investment liabilities for rolling stock and the emergence of overdue investment liabilities;
- increase in provisions for employee benefits, chiefly as a result of a change in the discount rate from 6.8% as at 31 December 2022 to 5.3% (change made as at 31 December 2023) and a change in assumptions for payroll increases and the basis for calculating the allowance for the Company Social Benefits Fund;
- growth in the sub-group of other changes, resulting primarily from higher cash pool financial liabilities.

4.2.3 Cash flow statement of PKP CARGO S.A.

The value of cash and cash equivalents as at 31 December 2023 increased by PLN 65.0 million to PLN 120.2 million compared to 31 December 2022.

Figure 23 Cash flows in the Company in 2023 (PLN million)



Source: Proprietary material.

- cash flows from operating activities were a consequence of the profit before tax of PLN 57.2 million, depreciation and impairment allowances of PLN 676.4 million and movement in working capital of PLN 307.1 million;
- cash flows from investing activities resulted predominantly from expenses incurred on the purchase of non-financial non-current assets in the amount of PLN 1,176.3 million, a PLN 20.0 million loan granted to a PKP CARGO Group company and PLN 31.5 million in expenditures on increasing the equity of subsidiaries, with simultaneous proceeds from the sale of non-financial non-current assets of PLN 316.8 million and proceeds from dividends received from subsidiaries in the amount of PLN 38.4 million;
- cash flow on financial activities resulted chiefly from the repayment of loans and leases with interest in the amount of PLN 596.1 million, offset by PLN 342.7 million under new loans, PLN 97.0 million under subsidies and PLN 41.6 million under cash pool.

4.2.4 Selected financial and operating ratios of PKP CARGO S.A.

The table below presents PKP CARGO S.A.'s key financial and operating ratios in the period of 2019-2023. To present the Company's financial standing in a comprehensive way, alternative performance measures (APMs) have been applied. The Company presents below selected APMs – basic financial indicators such as: EBITDA margin, net profit margin, ROA, ROE, and the following basic operational indicators: average daily mileage and average daily running time of locomotives, average train weight per locomotive (resulting indirectly from the freight volume and the degree of utilization of traction vehicles), as well as the average freight turnover per employee – because the Company believes that they are the source of additional valuable information (apart from the data presented in financial statements) on financial and operational standing and they also facilitate analysis and assessment of the financial performance achieved by the Company in the years 2019-2023.

The selected ratios presented by the Company constitute standard measures and ratios commonly applied in financial analysis. Their selection was preceded by analysis of their appropriateness with regard to providing investors with useful information on financial standing, cash flows and financial effectiveness and, in the Company's opinion, this allows for optimal assessment of achieved financial performance.

The APMs applied by the Company should be analyzed only as additional information and reviewed in conjunction with the Company's financial statements.

The APMs presented by the Company were calculated in accordance with the formulas referred to below.

Table 15 Selected financial and operating ratios of PKP CARGO S.A. in 2019-2023

Description	2023	2022	2021	2020	2019	Change	Rate of change
						2023 - 2022	2023 - 2022
EBITDA margin[1]	20.4%	21.0%	11.0%	13.1%	17.3%	-0.6 p.p.	-3.0%
Net profit margin[2] (ROS)	1.1%	2.5%	-7.1%	-5.7%	-0.2%	-1.4 p.p.	-
ROA[3]	0.6%	1.5%	-3.3%	-2.6%	-0.1%	-0.9 p.p.	-
ROE[4]	1.5%	3.5%	-7.9%	-5.9%	-0.3%	-2.0 p.p.	-
Average distance covered per locomotive (km per day)[5]	216.1	224.9	223.0	230.2	234.3	-8.8	-3.9%
Average gross train tonnage per operating locomotive (tons)[6]	1,562.0	1,571.0	1,501.0	1,462.0	1,469.0	-9.0	-0.6%
Average running time of train locomotives (hours per day)[7]	13.3	14.6	15.1	14.7	15.0	-1.3	-8.9%
Freight turnover per employee (thousands tkm/employee)[8]	1,464.5	1,697.3	1,481.9	1,308.9	1,459.2	232.8	-13.7%

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 quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO S.A.'s vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given 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 given period).
7. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO S.A.'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 quotient of the Company's freight turnover to the average headcount (in FTEs) in PKP CARGO S.A. in the given period.

The drivers of the key changes to the above ratios for 2023 as compared to 2022 are described below:

- in the period of 12 months of 2023, the key profitability ratios, i.e. EBITDA margin, net result margin, ROA, ROE were significantly worse compared to the corresponding period in 2022, mainly because of a decrease in profitability of operating activity conducted in 2023. The Company takes a number of investing activities (including the purchase of modern rolling stock and computerization of the transport process) and operating activities to improve key performance indicators of the business activity. Detailed information on the reasons for movement in EBITDA of the PKP CARGO Group is presented in section *4.4. Key economic and financial figures of the PKP CARGO Group.*
- it was found that the average distance covered per locomotive declined as a result of decreasing amount of freight turnover;
- the decline in the average gross train tonnage per locomotive was caused by the fact that the transport process was performed in the period of very numerous closures and operating difficulties on the PKP PLK grid;
- there was a decrease in the average running time of train locomotives per day as a result of the performance of freight turnover coupled with an increase in commercial velocity;
- the decrease in the freight turnover per employee ratio was a consequence of a drop in freight turnover by 16.1% yoy coupled with a decrease in the average headcount in FTEs by 2.7% yoy.

4.2.5 Time series of PKP CARGO S.A.'s financial data

The table below presents time series of the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows.

Table 16 Time series of the statement of profit or loss and other comprehensive income of PKP CARGO S.A. in 2019-2023

	in PLN million				
	2023	2022	2021	2020	2019
Revenues from contracts with customers	4,225.5	4,003.6	3,085.3	2,936.6	3,572.0
Consumption of electricity and traction fuel	-746.9	-686.5	-500.1	-446.9	-527.8
Infrastructure access services	-462.6	-550.6	-521.0	-516.2	-576.9
Other services	-373.5	-408.1	-357.9	-289.5	-322.0
Employee benefits	-1,475.9	-1,286.3	-1,209.6	-1,239.6	-1,339.0
Other expenses	-234.9	-214.9	-171.3	-147.7	-182.9
Other income and operating expenses	-63.1	-6.7	19.7	103.8	0.6
Operating profit before depreciation and amortization (EBITDA)	**868.6**	**850.5**	**345.1**	**400.5**	**624.0**
Depreciation, amortization and impairment allowances	-676.4	-608.3	-580.8	-615.1	-583.8
Profit/loss on operating activities (EBIT)	**192.2**	**242.2**	**-235.7**	**-214.6**	**40.2**
Financial income and expenses	-135.0	-115.3	-32.7	-6.9	-21.0
Profit / loss before tax	**57.2**	**126.9**	**-268.4**	**-221.5**	**19.2**
Income tax	-12.0	-24.2	45.1	47.6	-27.5
NET PROFIT/LOSS	**45.2**	**102.7**	**-223.3**	**-173.9**	**-8.3**
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	44.0	-6.8	9.0	-49.8	9.4
Income tax	-8.4	1.3	-1.7	9.6	-1.8
Total other comprehensive income subject to reclassification to profit or loss	**35.6**	-5.5	**7.3**	**-40.2**	**7.6**
Actuarial gains / (losses) on employee benefits	-86.6	16.5	86.3	-45.4	-46.2
Income tax	16.5	-3.1	-16.4	8.6	8.8
Measurement of equity instruments at fair value	3.8	0.0	0.0	-0.7	0.7
Total other comprehensive income not subject to reclassification to profit or loss	**-66.3**	**13.4**	**69.9**	**-37.5**	**-36.7**
Total other comprehensive income	**-30.7**	**7.9**	**77.2**	**-77.7**	**-29.1**
TOTAL COMPREHENSIVE INCOME	**14.5**	**110.6**	**-146.1**	**-251.6**	**-37.4**
Earnings/losses per share (PLN per share)					
Weighted average number of common shares	44,786,917	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	44,786,917
Earnings/losses per share	1.01	2.29	-4.99	-3.88	-0.19
Diluted earnings/losses per share	1.01	2.29	-4.99	-3.88	-0.19

Source: Proprietary material.

Table 17 Time series of the statement of balance sheet situation of PKP CARGO S.A. in 2019-2023

	in PLN million				
	31.12.2023	31.12.2022	31.12.2021	31.12.2020	31.12.2019
ASSETS					
Rolling stock	4,078.1	3,778.1	3,827.5	3,809.2	3,892.3
Other property, plant and equipment	411.1	459.5	481.7	474.7	492.9
Right-of-use assets	1,162.4	653.1	666.9	641.5	704.0
Investments in related parties	897.1	858.0	840.0	840.0	807.0
Lease receivables	29.6	22.1	23.4	24.4	19.7
Financial assets	23.4	4.9	4.9	4.9	7.4
Other assets	31.6	36.6	28.1	22.6	39.9
Deferred tax assets	135.6	135.7	158.7	131.6	67.3
Total non-current assets	**6,768.9**	**5,948.0**	**6,031.2**	**5,948.9**	**6,030.5**
Inventories	92.3	97.7	87.3	95.0	79.2
Trade receivables	468.0	532.7	380.5	366.5	391.4
Lease receivables	2.9	1.5	1.5	2.8	1.2
Financial assets	4.6	-	-	2.3	4.8
Other assets	112.0	112.9	71.0	58.3	133.2
Cash and cash equivalents	120.2	55.2	141.0	180.5	380.0
Total current assets	**800.0**	**800.0**	**681.3**	**705.4**	**989.8**
Non-current assets classified as held for sale	-	0.1	14.9	12.7	-
TOTAL ASSETS	**7,568.9**	**6,748.1**	**6,727.4**	**6,667.0**	**7,020.3**
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	738.4	635.7	744.7	744.7	744.7
Other items of equity	-85.1	-54.4	-62.3	-139.5	-61.8
Retained earnings / Accumulated losses	45.2	102.7	-109.0	114.3	288.2
Total equity	**2,937.8**	**2,923.3**	**2,812.7**	**2,958.8**	**3,210.4**
Debt liabilities	1,908.5	1,519.6	1,872.2	1,897.6	1,920.0
Investment commitments	15.6	46.1	110.1	143.0	153.6
Provisions for employee benefits	493.0	419.7	459.9	606.1	585.4
Other provisions	0.4	0.5	0.7	-	-
Total non-current liabilities	**2,417.5**	**1,985.9**	**2,442.9**	**2,646.7**	**2,659.0**
Debt liabilities	709.0	598.8	393.9	353.7	336.5
Trade payables	687.1	598.6	446.1	215.6	233.5
Investment commitments	314.6	197.9	297.7	141.3	249.5
Provisions for employee benefits	136.1	125.5	99.9	93.7	100.1
Other provisions	8.5	7.2	17.7	13.0	33.4
Current tax liabilities	-	2.3	-	-	-
Other financial liabilities	140.5	92.6	42.6	2.7	2.2
Other liabilities	217.8	216.0	173.9	241.5	195.7
Total current liabilities	**2,213.6**	**1,838.9**	**1,471.8**	**1,061.5**	**1,150.9**
Total liabilities	**4,631.1**	**3,824.8**	**3,914.7**	**3,708.2**	**3,809.9**
TOTAL EQUITY AND LIABILITIES	**7,568.9**	**6,748.1**	**6,727.4**	**6,667.0**	**7,020.3**

Source: Proprietary material.

Table 18 Time series of the statement of cash flows of PKP CARGO S.A. in 2019-2023

	in PLN million				
	2023	2022	2021	2020	2019
Net cash from operating activities	**1,047.6**	**815.5**	**500.5**	**417.1**	**649.4**
Net cash from investing activities	**-866.1**	**-698.9**	**-558.9**	**-559.1**	**-693.4**
Net cash from financing activities	**-116.5**	**-202.4**	**18.9**	**-57.5**	**201.6**
Net increase/decrease in cash and cash equivalents	65.0	-85.8	-39.5	-199.5	157.6
Cash and cash equivalents at the beginning of the reporting period	55.2	141.0	180.5	380.0	222.4
Cash and cash equivalents at the end of the reporting period	**120.2**	**55.2**	**141.0**	**180.5**	**380.0**

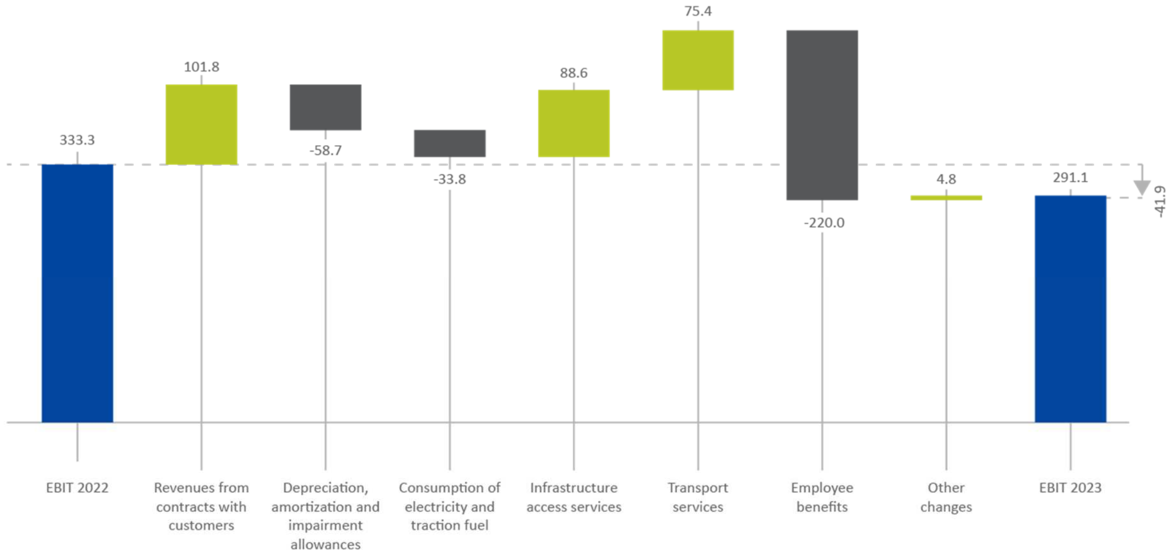
Source: Proprietary material.

4.3. Key economic and financial figures of PKP CARGO Group

4.3.1 Statement of comprehensive income of the PKP CARGO Group

During the 12 months of 2023, EBIT reached PLN 291.4 million, down by PLN 41.9 million compared to the corresponding period of 2022.

Figure 24 EBIT in the 12 months of 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 12 months of 2023 as compared to the 12 months of 2022:

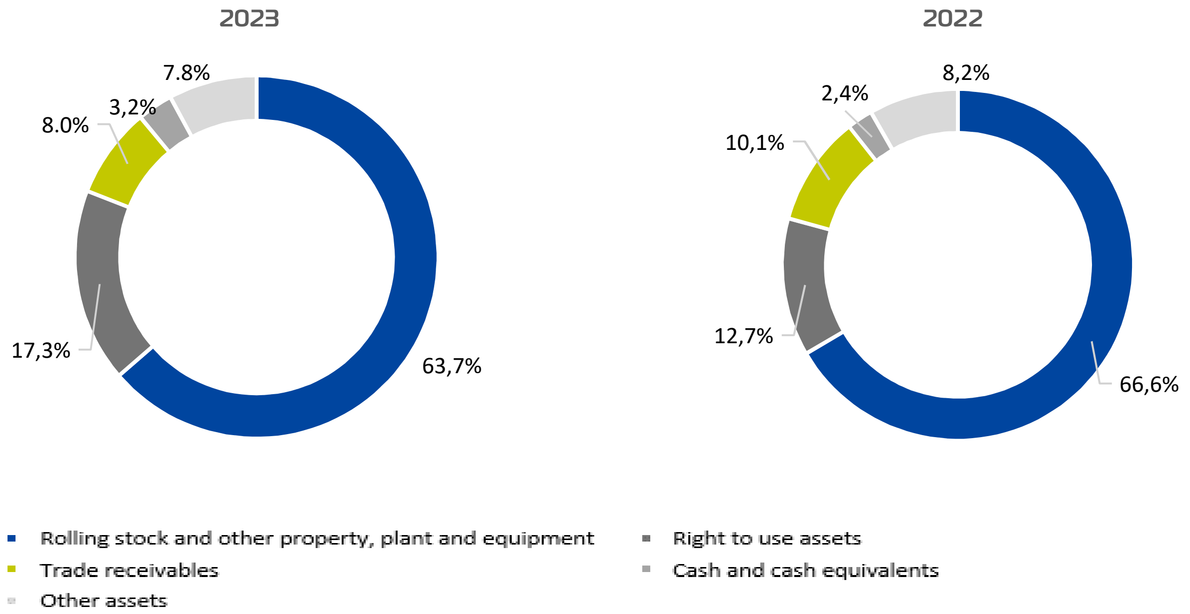
- increase in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services) as a direct consequence of the increase in unit freight rates. The details pertaining to the PKP CARGO Group's transport services are described in section *3.2.5 PKP CARGO Group's rail transport business;*
- increase in depreciation costs and impairment allowances resulting for the most part from intensification of investment activities in 2023 to satisfy the needs of transport logistics and to build the Group's future economic value;
- 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), with a concurrent decrease in freight turnover. A decrease was also recorded in traction fuel costs resulting from the decline in freight turnover;
- decrease in the costs of access services to the infrastructure in connection with the decline in freight turnover;
- decrease in the costs of transport services (including, in particular, freight forwarding) correlated with lower freight turnover;
- increase in the costs of employee benefits, including in connection with the signing of an agreement on wage increases as of June 2022 and January 2023 (mostly for PKP CARGO S.A.) and a one-time award for employees in July 2023 (mostly for PKP CARGO S.A.), with a concurrent decline in the total number of employees; detailed information on the changes in headcount is presented in section *3.4 Headcount;*

4.3.2 Description of the structure of assets and equity and liabilities of the PKP CARGO Group

ASSETS

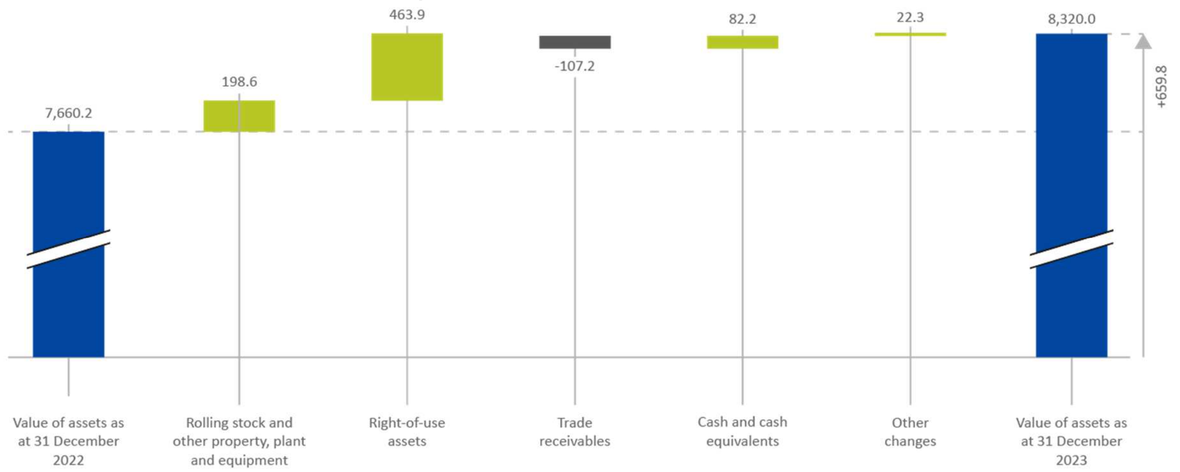
The biggest share in the PKP CARGO Group's asset structure as at 31 December 2023 was held by rolling stock and other property, plant and equipment, which in aggregate accounted for 63.7% of total assets, compared to 66.6% as at 31 December 2022. At the same time, the largest share in the structure of current assets was attributable to trade receivables.

Figure 25 Structure of the Group's assets – as at 31 December 2023 and 31 December 2022



Source: Proprietary material

Figure 26 Movement in the PKP CARGO Group's assets in the 12 months of 2023 (PLN million)



Source: Proprietary material.

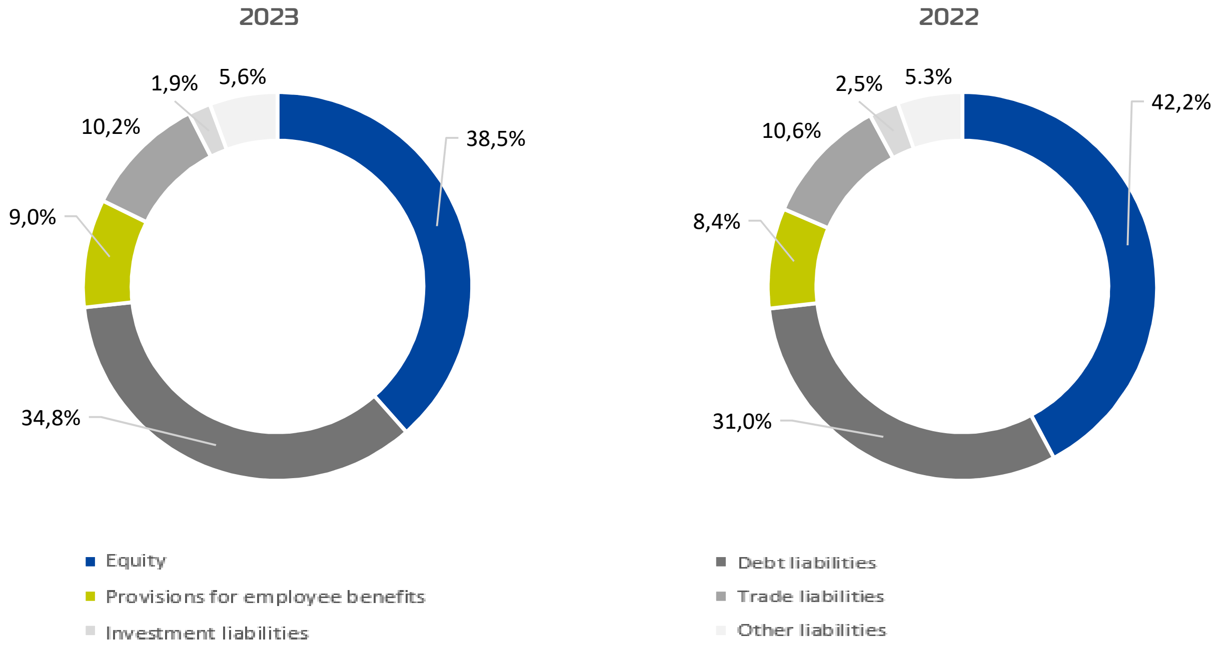
The most significant changes affecting the value of assets as at 31 December 2023, as compared to 31 December 2022, are explained below:

- increase in the value of rolling stock and other property, plant and equipment, mainly reflecting the effect of investment activities;
- increase in right-of-use assets due to the signing of new lease agreements and leasebacks largely related to rolling stock;
- decrease in the value of trade receivables related to the decrease in sales in the last two months of 2023;
- increase in the value of cash, largely as a result of proceeds from operating activities of PLN 1,211.0 million, proceeds from borrowings of PLN 392.2 million, proceeds from the disposal of non-financial non-current assets of PLN 357.0 million and grants received of PLN 139.0 million, with concurrent expenses on the acquisition of non-financial non-current assets of PLN 1,359.0 million and repayment of loans and expenses on leases with interest of PLN 675.9 million;
- increase in other changes, primarily due to an increase in deferred tax assets largely caused by an increase in provisions for employee benefits.

EQUITY AND LIABILITIES

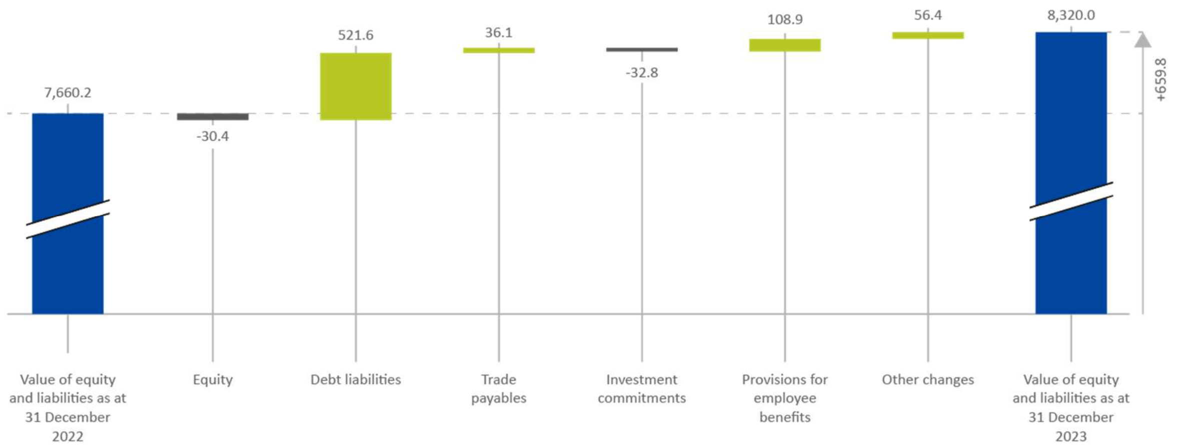
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 31 December 2023 was attributable to equity, which accounted for 38.5% of total equity and liabilities, compared to 42.2% as at 31 December 2022. In the period, debt liabilities accounted for 34.8% of total equity and liabilities, compared to 31.0% as at 31 December 2022.

Figure 27 Structure of the Group's equity and liabilities as at 31 December 2023 and 31 December 2022



Source: Proprietary material.

Figure 28 Change in the Group's equity and liabilities in the 12 months of 2023 (PLN million)



Source: Proprietary material.

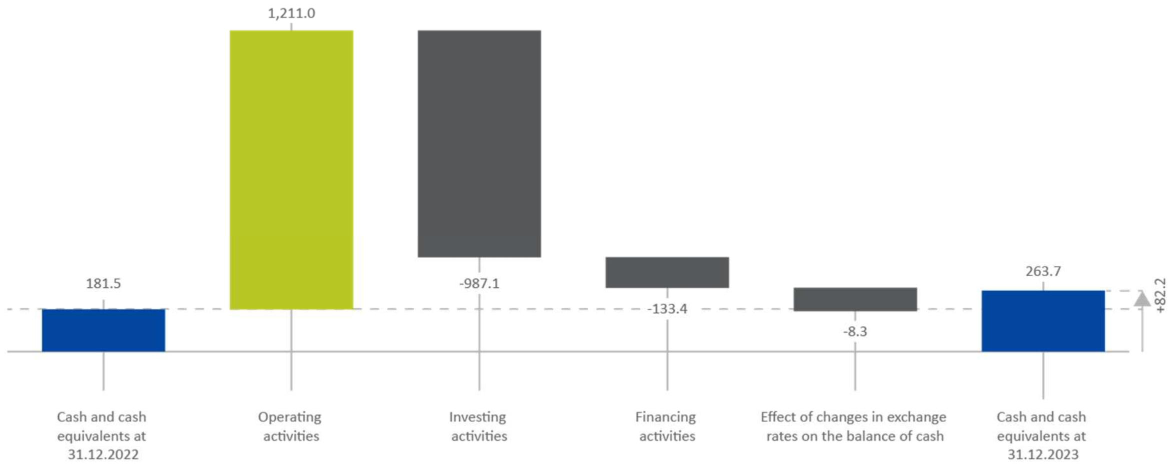
The most significant drivers of changes affecting the value of the PKP CARGO Group's equity and liabilities as at 31 December 2023 as compared to 31 December 2022 are discussed below:

- decrease in the value of equity, primarily due to the negative effect of the exchange differences resulting from conversion of financial statements of foreign operations and the effect of a decrease in the value of other items of equity (valuation of actuarial provisions for employee benefits and measurement of hedging instruments),
- increase in debt liabilities, resulting mainly from the investment policy of purchasing modern rolling stock and repairing the existing rolling stock,
- increase in trade payables mainly as a result of active working capital management,
- decrease in investment liabilities, resulting mainly from a decline in investment liabilities for real estate and rolling stock,
- increase in provisions for employee benefits, chiefly as a result of a change in the discount rate from 6.8% as at 31 December 2022 to 5.3% (change made as at 31 December 2023) and a change in assumptions for payroll increases and the basis for calculating the allowance for the Company Social Benefits Fund,
- increase in the value of other changes, largely caused by increases in public liabilities, income tax liabilities and other settlements.

4.3.3 Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 December 2023 increased by PLN 82.2 million compared to 31 December 2022.

Figure 29 Cash flows in the PKP CARGO Group in 2023 (PLN million)



Source: Proprietary material.

- positive cash flows from operating activities were generated, among others, with recognized gross profit of PLN 119.0 million and depreciation and impairment allowances of PLN 791.7 million and positive changes in working capital of PLN 313 million;
- negative cash flows from investing activities resulted mainly from the expenses incurred on the purchase of non-financial non-current assets in the amount of PLN 1,359.0 million (including investments into rolling stock), with simultaneous proceeds from the sale of non-financial non-current assets of PLN 357.0 million;
- negative cash flow on financial activities were a consequence of repayment of loans and leases with interests in the amount of PLN 675.9 million, offset by inflows of PLN 392.2 million from new loans and PLN 139.0 million from new subsidies.

DESCRIPTION OF THE STRUCTURE OF ASSETS AND LIABILITIES OF THE CONSOLIDATED BALANCE SHEET, INCLUDING FROM THE STANDPOINT OF THE PKP CARGO GROUP'S LIQUIDITY

In 2023, the Group generated positive cash flows from operating activities, which were not covered by cash flows from investing activities.

The value of cash and cash equivalents as at 31 December 2023 increased by PLN 82.2 million compared to 31 December 2022. Also, taking into account the level of other presented positive cash flows on operating activities and the amount of current assets, it may be concluded that the Group ensures the Company's operational continuity.

4.3.4 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the key financial and operating ratios of the PKP CARGO Group in the period of 2019-2023. To present the Group's financial standing in a comprehensive way, alternative performance measures (APMs) have been applied. The Group presents below selected APMs – basic financial indicators such as: EBITDA margin, net profit margin, ROA, ROE, and the following basic operational indicators: average daily mileage and average daily running time of locomotives, average train weight per locomotive (resulting indirectly from the freight volume and the degree of utilization of traction vehicles), as well as the average freight turnover per employee – because the Group believes that they are the source of additional valuable information (apart from the data presented in financial statements) on financial and operational standing and they also facilitate analysis and assessment of the financial performance achieved by the Company in the years 2019-2023.

The selected ratios presented by the Group constitute standard measures and ratios commonly applied in financial analysis. Their selection was preceded by analysis of their appropriateness with regard to providing investors with useful information on financial standing, cash flows and financial effectiveness and, in the Group's opinion, this allows for optimal assessment of achieved financial performance.

The APMs applied by the Company should be analyzed only as additional information and reviewed in conjunction with the Group's financial statements.

The APMs presented by the Company were calculated in accordance with the formulas referred to below.

Table 19 Selected financial and operating ratios of the PKP CARGO Group in 2019-2023

Description	2023	2022	2021	2020	2019	Change	Rate of change
						2023 - 2022	2023 - 2022
EBITDA margin[1]	19.5%	19.6%	11.9%	13.7%	17.7%	-0.1 p.p.	-0.3%
Net profit margin (ROS)[2]	1.5%	2.7%	-5.2%	-5.3%	0.7%	-1.2 p.p.	-
ROA[3]	1.0%	1.9%	-3.0%	-3.0%	0.5%	-0.9 p.p.	-
ROE[4]	2.6%	4.6%	-7.4%	-7.1%	1.1%	-2.0 p.p.	-
Average distance covered per locomotive (km per day)[5]	198.5	212.2	209.8	216.8	222.3	-13.7	-6.5%
Average gross train tonnage per operating locomotive (tons)[6]	1,531.0	1,546.0	1474.0	1434.0	1,447.0	-15.0	-1.0%
Average running time of train locomotives (hours per day)[7]	12.6	14.0	14.5	14.2	14.6	-1.4	-10.0%
Freight turnover per employee (thousands tkm/employee)[8]	1,122.3	1,337.3	1,206.5	1061.5	1,135.8	-215.0	-16.1%

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 given 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 drivers of the key changes to the above ratios for 2023 as compared to 2022 are described below:

- in the period of 12 months of 2023, the key profitability ratios, i.e. EBITDA margin, net result margin, ROA, ROE were significantly worse compared to the corresponding period in 2022, mainly because of a decrease in profitability of operating activity conducted in 2023. The Group takes a number of investing activities (including the purchase of modern rolling stock and computerization of the transport process) and operating activities to improve key performance indicators of the business activity. Detailed information on the reasons for movement in EBITDA of the PKP CARGO Group is presented in section *4.3. Key economic and financial figures of the PKP CARGO Group;*
- it was found that the average distance covered per locomotive declined as a result of decreasing amount of freight turnover;
- the decline in the average gross train tonnage per locomotive was caused by the fact that the transport process was performed in the period of very numerous closures and operating difficulties on the PKP PLK grid;
- there was a decrease in the average running time of train locomotives per day as a result of the performance of freight turnover coupled with an increase in commercial velocity;
- the decrease in the freight turnover per employee ratio was a consequence of a decrease in freight turnover by 17.5% yoy with a simultaneous decrease in the average headcount in FTEs by 1.7% yoy.

4.3.5 Time series of the PKP CARGO Group's financial data

The table below presents time series of the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows.

Table 20 Time series of the statement of profit or loss and other comprehensive income of the PKP CARGO Group in 2019-2023

	in PLN million				
	2023	2022	2021	2020	2019
Revenues from contracts with customers	5,491.9	5,390.1	4,266.5	4,075.6	4,781.6
Consumption of electricity and traction fuel	-796.3	-762.5	-550.2	-492.7	-583.8
Infrastructure access services	-473.9	-562.5	-530.0	-517.3	-572.6
Transport services	-285.9	-361.3	-350.7	-340.5	-363.3
Other services	-477.0	-537.9	-413.9	-365.8	-408.6
Employee benefits	-1,958.4	-1,738.4	-1,622.0	-1,638.1	-1,737.3
Other expenses	-372.4	-359.5	-309.1	-264.6	-292.8
Other income and operating expenses	-44.9	-1.7	22.6	123.6	36.7
Operating profit before depreciation and amortization (EBITDA)	**1,083.1**	**1,066.3**	**513.2**	**580.2**	**859.9**
Depreciation, amortization and impairment allowances	-791.7	-733.0	-722.0	-766.6	-716.5
Profit/loss on operating activities (EBIT)	**291.4**	**333.3**	**-208.8**	**-184.4**	**143.4**
Financial income and expenses	-181.5	-150.6	-60.3	-82.2	-71.6
Share in the profit / loss of entities accounted for under the equity method	9.1	9.1	4.7	1.7	1.7
Profit / loss before tax	**119.0**	**191.8**	**-264.4**	**-266.9**	**73.5**
Income tax	-36.9	-43.8	39.1	42.6	-37.5
NET PROFIT/LOSS	**82.1**	**148.0**	**-225.3**	**-224.3**	**36.0**
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	41.5	-6.7	13.2	-50.8	9.9
Income tax	-7.9	1.3	-2.5	9.7	-1.9
FX differences from translation of financial statements	-67.3	34.4	37.7	27.3	1.7
Other comprehensive income subject to reclassification to profit or loss, total	**-33.7**	**29.0**	**48.4**	**-13.8**	**9.7**
Actuarial gains / (losses) on employee benefits	-102.0	18.9	91.0	-50.2	-52.2
Income tax	19.4	-3.6	-17.3	9.5	10.0
Measurement of equity instruments at fair value	3.8	-	-	-0.7	0.7
Other comprehensive income not subject to reclassification to profit or loss, total	**-78.8**	**15.3**	**73.7**	**-41.4**	**-41.5**
Total other comprehensive income	**-112.5**	**44.3**	**122.1**	**-55.2**	**-31.8**
TOTAL COMPREHENSIVE INCOME	**-30.4**	**192.3**	**-103.2**	**-279.5**	**4.2**
Net profit / loss attributable:					
Net profit/loss attributable to the owners of the parent company	82.1	148.0	-225.3	-224.3	36.0
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the parent company	-30.4	192.3	-103.2	-279.5	4.2
Earnings/losses per share (PLN per share)					
Weighted average number of common shares	44,786,917	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	44,786,917
Earnings/losses per share	1.83	3.31	-5.03	-5.01	0.80
Diluted earnings/losses per share	1.83	3.31	-5.03	-5.01	0.80

Source: Proprietary material.

Table 21 Time series of the statement of financial position the PKP CARGO Group in 2019-2023

	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019
ASSETS					
Rolling stock	4,440.3	4,208.3	4,241.6	4,245.0	4,329.6
Other property, plant and equipment	857.7	891.1	893.4	875.6	872.4
Right-of-use assets	1,436.1	972.2	1,030.7	1,008.6	1,078.8
Investments in entities accounted for under the equity method	42.7	41.8	36.7	42.0	40.4
Trade receivables	1.2	7.3	4.2	3.0	3.0
Lease receivables	8.9	8.7	8.5	10.3	10.9
Other assets	52.4	48.6	40.5	35.1	55.0
Deferred tax assets	191.3	176.1	203.1	177.8	113.7
Total non-current assets	**7,030.6**	**6,354.1**	**6,458.7**	**6,397.4**	**6,503.8**
Inventories	200.2	200.8	164.6	165.8	161.0
Trade receivables	668.3	769.4	611.7	585.8	591.3
Lease receivables	0.9	0.6	0.6	0.7	0.7
Income tax receivables	10.1	1.6	4.5	2.9	51.4
Other assets	146.2	151.9	103.1	88.1	132.7
Cash and cash equivalents	263.7	181.5	254.5	306.0	550.4
Total current assets	**1,289.4**	**1,305.8**	**1,139.0**	**1,149.3**	**1,487.5**
Non-current assets classified as held for sale	-	**0.3**	**15.7**	**12.7**	-
TOTAL ASSETS	**8,320.0**	**7,660.2**	**7,613.4**	**7,559.4**	**7,991.3**
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	797.1	678.0	771.7	782.4	781.4
Other items of equity	-111.1	-65.9	-75.8	-160.2	-77.7
Exchange differences resulting from conversion of financial statements of foreign operations	109.6	176.9	142.5	104.8	77.5
Retained earnings	167.6	204.6	-37.1	177.5	402.8
Total equity	**3,202.5**	**3,232.9**	**3,040.6**	**3,143.8**	**3,423.3**
Debt liabilities	2,089.7	1,711.5	2,090.3	2,101.8	2,201.4
Trade payables	3.4	7.9	2.3	1.5	2.7
Investment commitments	15.6	46.7	111.8	145.5	157.0
Provisions for employee benefits	578.9	483.5	529.1	684.3	657.1
Other provisions	3.6	0.5	7.0	5.7	5.4
Deferred tax liability	93.0	94.5	93.3	90.7	92.3
Total non-current liabilities	**2,784.2**	**2,344.6**	**2,833.8**	**3,029.5**	**3,115.9**
Debt liabilities	804.1	660.7	473.9	478.5	421.3
Trade payables	844.4	803.8	639.0	347.5	412.2
Investment commitments	141.3	143.0	221.4	133.5	181.5
Provisions for employee benefits	170.2	156.7	127.3	116.	127.1
Other provisions	17.7	21.4	23.3	24.1	45.6
Other liabilities	355.6	297.1	254.1	286.2	264.4
Total current liabilities	**2,333.3**	**2,082.7**	**1,739.0**	**1,386.1**	**1,452.1**
Total liabilities	**5,117.5**	**4,427.3**	**4,572.8**	**4,415.6**	**4,568.0**
TOTAL EQUITY AND LIABILITIES	**8,320.0**	**7,660.2**	**7,613.4**	**7,559.4**	**7,991.3**

Source: Proprietary material.

Table 22 Time series of the statement of cash flows of the PKP CARGO Group in 2019-2023

	in PLN million				
	2023	2022	2021	2020	2019
Net cash from operating activities	**1,211.0**	**1,018.4**	**699.8**	**553.1**	**806.5**
Net cash from investing activities	**-987.1**	**-772.9**	**-645.6**	**-655.1**	**-814.8**
Net cash from financing activities	**-133.4**	**-319.5**	**-106.4**	**-145.9**	**111.4**
Net increase/decrease in cash and cash equivalents	**90.5**	-74.0	-52.2	-247.9	103.1
Cash and cash equivalents at the beginning of the reporting period	**181.5**	254.5	306.0	550.4	447.3
Impact exerted by FX rate movements on the cash balance in foreign currencies	**-8.3**	1.0	0.7	3.5	-
Cash and cash equivalents at the end of the reporting period	**263.7**	**181.5**	**254.5**	**306.0**	**550.4**

Source: Proprietary material

4.4. A description and evaluation of factors and unusual events affecting the result recorded by the Company and the PKP CARGO Group

Impact of war in Ukraine

One of the main factors that affecting the PKP CARGO Group companies' performance is the war in Ukraine and its numerous economic consequences. One consequence of the war is breaking off or loosening previously existing economic relations, with a simultaneous establishment of new ones. Severe limitation or elimination of a significant part of trade with Russia and Belarus (as a result of, among others, the sanctions imposed by the European Union and the Polish Parliament) affect also many Polish entities which had specialized in trading with countries across the Polish eastern border and, consequently, causes an observable reduction in the scale of transports of goods by rail.

The successive packages of sanctions imposed by the European Union included in the scope of limitation a number of goods often selected for rail transport, such as, among others, ores, metal products and metals, cement and timber. The twelfth package of sanctions additionally introduced an import ban on LPG from Russia (2/3 of the imports used to be to Poland). On the other hand, restrictions with the greatest consequences for the global markets and Russia are those affecting oil and petroleum products (December 2022 and February 2023), which in spite of some room for evasion considerably reduce the budget income of the Russian Federation. It should be emphasized that the Group companies which provided numerous services alongside the Eastern direction suffer the adverse effects of the conflict (directions to Russia and Belarus). To limit these negative consequences, the Group took adaptative measures. On the other hand, there was an intensification of trade with Ukraine, despite many problems with throughput capacity of the borders. It is noticeable that prices of energy resources and food continue to become normal, but a possible escalation of operations, problems in supply chains or blocking trade routes may again effectively cause considerable increases in prices of energy resources and food. Fuel prices increased significantly compared to historical averages and especially energy prices have a very strong impact on the costs and results of companies from the PKP CARGO Group.

Poland is dependent on imports by sea and the importance of deliveries from this direction continues to rise (as much as of Polish ports on the Baltic Sea). In 2024, the imports should clearly increase because of expected economic recovery, which should potentially contribute to higher freight turnover of rail carriers (including companies from the PKP CARGO Group). In that regard, overriding importance is attached to energy resources. A further intensification of deliveries of fossil fuels to sea ports is expected to occur. Relatively attractive sea freight prices (resulting from growing supply of services of specialized high-sea vessels) and also lower attractiveness of the "New Silk Road" adversely affect nevertheless PKP CARGO Group's freight transport. Some goods reach countries in the south, east and west of Europe, without intermediation of Poland, through, among others, ports in Italy, Slovenia or Croatia.

More intense economic relations between Poland and Ukraine are continued and not only those following from the still raging aggression but also in many other areas (which may become a seed for growing relations for next years, also after the war). This process can be observed, among others, in the activities of PKP CARGO CONNECT and other PKP CARGO Group companies. The Group companies carry out transports and freight forwarding of many cargo categories of key importance to Ukraine, including exports and transit shipments of fuels so vital to the operation of the state, imports and transits of metals, transit shipments of cereals and a whole range of products in container transports. To date, unfortunately, no real action (from either side) has been taken to expand the rail infrastructure actively in the border area, which would allow for a considerable increase in the throughput capacity of the borders, resulting in an increase in transports and a significant reduction in the time of delivery. In individual cargo categories, Poland is recording significant increases in trade of up to several dozen percent, but with infrastructural constraints this process may slow down or even reverse.

The PKP CARGO Group companies constantly monitor factual and legal developments regarding the performance of transports. To date, the most severe consequences of the military operations affected the border terminals in northeastern Poland and entities largely specialized in freight forwarding services in a given area. Russia's war with Ukraine and support provided by Belarus for the aggressor's hostilities make it impossible to exploit most of the potential for trading and building commercial relations in the east, therefore it becomes more and more important to diversify directions and acquire new competences and databases of customers in this highly uncertain region in terms of business activities. At the same time, it is also important to prepare some capabilities which at the moment opening these directions would allow for significant exploitation of opportunities which will emerge in the potentially growing and reopening markets.

After the adverse impact of the macroeconomic environment on the activity of the Group companies in 2023, the year 2024 seems to appear as the time of a long-awaited recovery, which will result from growing consumption in Poland (as a consequence of lower but still high inflation rate and a decrease in costs of capital, with a still high level of stimulation by the state). A key factor for the acceleration of growth will be a scale of GDP growth in the most important economic partners in western Europe, where the scale of the slowdown (which manifested itself in 2023 by exerting a highly adverse influence on, among other things, a significant reduction in industrial production) is the aftermath and effect of the energy crisis, which continues to leave its mark on business activity. The growth in Polish GDP, due to the stabilization and gradual increase in international trade, will allow for a gradual increase in the volume of rail freight and, at the same time, in the demand for freight forwarding or terminal services. However, the still relatively high level of inflation will consistently have a negative impact on the activity of institutional entities and individuals (and the rate of decline may be significantly slowed compared to the dynamic disinflation process of the previous year). After a period of weak GDP results (negative values recorded in selected quarters last year), a rebound should be visible, especially due to the low base effect of the previous year. What is going to remain a problem and a challenge is the increased cost of capital, as well as the low level of private sector investments.

At present, PKP CARGO Group Companies do not signal significant risks for conducting operating activities as a consequence of war in Ukraine and changes in the macroeconomic environment. The situation continues to be highly variable, which makes it necessary to observe it regularly and analyze any relevant developments.

Impact of traction fuel and scrap metal price levels

In 2023, the key factors impacting levels of fuel prices, including traction fuel, continued to be foreign exchange rate fluctuations and the unstable geopolitical situation (war in Ukraine, conflicts in the Near East, obstacles in supply chains).

The traction fuel price level in 2023 was observed to be variable – in Q1, the average price level of the fuel acquired by PKP CARGO S.A. was PLN 5,744.06 per m^3, in H1 2023, the average price was PLN 5,326.45 per m^3, and in Q3 2023, the average purchase price of 1 m^3 of diesel fuel (traction fuel) was PLN 4,861.15. In each month of Q4, the price for cubic meter of traction fuel was at the level of PLN 4,557.83, PLN 4,966.17 and PLN 5,038.78 in October, November and December respectively.

Prices obtained for selling scrap in 2023 were variable, like in previous years. In Q1, net prices of steel scrap were at the average level of approx. PLN 1,500 per ton. In Q2, the prices rose by about PLN 200 per ton. On the other hand, in Q3 and Q4, they decreased by approx. PLN 100-200 per ton. It should be noted that the high price of the raw material in Q2 actually translated into increased prices of sheet metal for repairing rolling stock. In general, scrap prices are heavily dependent on the geopolitical situation in the world.

Rail infrastructure access charges

Infrastructure in Poland

Under the Rail Transport Act of 28 March 2023 (consolidated version: Journal of Laws of 2023, Item 602) and the Regulation of the Minister of Infrastructure and Construction of 7 April 2017 on the Provision of Rail Infrastructure (Journal of Laws of 2017, Item 755, as amended) all infrastructure managers must abide by the pertinent regulations regarding the acquisition of rights to order/refuse timetables, the charging of fees for related line access and the provision of service infrastructure facilities.

On the domestic infrastructure, in the timetable for 2022/2023, changes were made to the price lists from previous timetables with regard to access to the PKP PLK S.A. infrastructure, mostly in the unit rate of the basic and shunting fee and removal of an additional component of the unit rate of the basic fee related to the type of transport. In their price lists, private rail infrastructure operators apply rates applicable to earlier timetables or higher ones.

The amount of network rate for minimum access to freight trains in accordance with the price list of PKP PLK S.A. for 2023-2024 is PLN 12.77 per train-km. On the other hand, electronic toll rates (e-TOLL) for 1 km of national road for motor vehicles having gross vehicle mass of at least 12 t depending on the EURO standard of a vehicle are as follows: EURO 2 – PLN 0.73, EURO 3 – PLN 0.63, EURO 4 – PLN 0.51, EURO 5 – PLN 0.38. Without taking major steps, there is a threat of continued dominance of road transport, which is inconsistent with the goals of the EU climate policy.

Infrastructural investments mainly directed to the development of roads and motorways and the way of financing the infrastructure have a considerable influence on the regular upward trend for road transport. Roads are usually financed from public funds with a small contribution of fees paid by haulers, while the maintenance and modernization of rail infrastructure is financed mainly from fees paid by rail operators with a small contribution of public funds.

International infrastructure

In 2023, PKP CARGO S.A. also had rail infrastructure access agreements with administrators of the following foreign rail networks:

- DB Netz/ DB InfraGO AG: - the administrator of the German public rail network,
- ProRail B.V. – the administrator of the Dutch public rail network,
- SŽ – the administrator of the state rail network of the Czech Republic,
- ŽSR – the administrator of the state rail network of the Slovak Republic,
- ÖBB Infrastruktur – the administrator of the Austrian state rail infrastructure,
- LTG Infra – the administrator of the state rail infrastructure of the Republic of Lithuania.

In all the countries, in accordance with EU requirements, price lists and settlement rules are public information and are available on the websites of infrastructure managers.

In 2023, the most important activities of foreign managers included the continued operation of the program for co-financing the use of freight train routes administered by the German public infrastructure manager DB Netz, which changed its name to DB InfraGO AG as of 27 December 2023. Because of the Federal Government reduced funds for that purpose, from 16 December 2023, the level of subsidies for infrastructure went down from 61.4% to 19.5%.

In Austria, starting from 1 January 2023, reimbursements for access to infrastructure (previously granted automatically by the Infrastructure Administrator due to COVID-19) took the form of subsidies to Rail Infrastructure Access Charges from Schig (a body appointed by the Federal Ministry of Climate Protection, the Environment, Energy and Mobility in Austria) with the requirement to submit a pertinent application and join the subsidy program, including by the signing of a contract (from January to the end of March, 50% reimbursement of infrastructure fees to rail operators for the passage of loaded and empty trains; after signing an annex with Schig, from April to December 2023, 100% reimbursement, as above).

Investments in rail infrastructure

Infrastructural investments in the area of the PKP PLK Network performed by the Infrastructure Administrator, i.e. PKP PLK, in 2023, related to the modernization of rail infrastructure under the National Railway Program and plans for maintenance and repairs, constituted one of the significant factors influencing the PKP CARGO S.A.'s freight activity. The greatest transport difficulties were caused by track closures connected with, among others, continued modernization of the port infrastructure within the loading zones of the ports in Gdańsk / Gdynia / Szczecin / Świnoujście, and on sections of the access lines, which hindered efficient operation of key sidings.

In addition to the port areas, the investments in the Upper Silesia region caused particular difficulties for transport due to the ongoing modernization of the Czechowice-Dziedzice, Oświęcim, Bytom, Katowice Muchowiec, Katowice Szopienice, Lubliniec junctions. Apart from the above, what was continued were alterations of the following junctions: Warsaw, Łódź, the area of the Tczew and Stargard Szczeciński stations and modernization of the Kraków junction at the final stage. Additional obstacles for transport were connected with the modernization of sections of lines no. 131 (the so called 'main coal line'), 61, 93 and sections of lines no. 351, 6, 3, 8, 25, 26.

The additional obstacles for transports were caused by repair works of the track infrastructure in the vicinity of border crossings: Medyka/Mostiska, Muszyna/Plavec, Zebrzydowice – Cieszyn, Międzylesie/Lichkov.

In 2024, the line capacity limitation levels and the disruptions related to infrastructural and maintenance and repair investments are expected to be close to the 2023 level, due in part to delays in the implementation of the National Railway Program and extension of its projects until 2027.

Changes in the legal environment

In 2023, many significant amendments were introduced to the labor laws. An increase in the minimum wage for work as of 1 January 2023 and another as of 1 July 2023 contributed to the increasing cost of employment, including a higher burden of social security contributions under current legislation. In addition, regulating remote work as well as prolonging parental leave, promoting paternity leave and raising maternity benefit have all entailed a number of changes in procedures and internal regulations.

Changes have also been made to safeguarding employees who are subject to special protection. In this case, the legislator has introduced a special regulation for labor law cases where an employee subject to special protection against termination of employment with or without notice is pursuing a claim for declaring termination of employment ineffective or for reinstatement. In such cases, the employee's claim may be secured by ordering the employer to continue employing the employee until the proceedings end with a final court judgment. The obligation to employ an employee until a final court judgment generates costs of maintaining jobs scheduled for reduction.

In 2023, occupational health and safety regulations were amended for workplaces equipped with display screens by allowing employees to obtain an additional display screen and also requires the employer to provide contact lenses to employees in accordance with a doctor's recommendation if the results of an ophthalmological examination carried out as part of preventive health care show the need for using such lenses while working with a display screen. The introduced amendments may increase the Company's financial expenses.

An amendment to the Labor Code, which came into force on 21 February 2023, has made it possible to introduce preventive inspections of employees for the presence of alcohol in their bodies. An inspection shall be carried out if it is necessary to ensure the protection of life and health of employees or other persons, or the protection of property. At PKP CARGO S.A., the provisions about the rules of carrying out inspections of the sobriety of the Company's employees were introduced to the Labor Bylaws of the PKP CARGO S.A. Head Office and Labor Bylaws of the Units of PKP CARGO S.A

2023 was another year of war waged by the Russian Federation in Ukraine. As a result, the European Union maintained the package of economic and financial sanctions imposed against Russia and Belarus, and also the sanctions were extended with further restrictions.

On 27 January 2023, the Council of the EU decided to prolong the sanctions targeting specific economic sectors of the Russian Federation by 6 months – until 31 July 2023. The sanctions included restrictions on trade, finance, technology and dual-use goods, industry, transport and luxury goods, among others. The sanctions also included a ban on the import or transfer of oil and certain petroleum products transported by sea from Russia to the EU, or the removal of several Russian banks from the SWIFT system. In a press release of 25 February 2023, the Council of EU announced the 10th package of sanctions. The EU has thus further banned the export of critical technologies and industrial products such as electronics, specialized vehicles, machine parts, spare parts for trucks and jet engines, and products for the construction sector that could be taken over by the Russian army, such as aerials or cranes. Further electronic components used in Russian weapons systems used on the battlefield, including drones, missiles and helicopters, as well as specific rare earth materials, electronic integrated circuits and thermal imaging cameras, have been added to the list of banned items that may contribute to a technological progress in Russia's defense and security sectors. Dual-use goods have also been sanctioned. The Council's decision extended the list of entities directly supporting in the aggressor's war the Russian military and industrial complex with further 96 items, imposing on the entities stricter export restrictions. The Council also resolved to ban transits of goods and dual-use technologies exported from the EU through Russia so as to prevent circumventing sanctions. Further sanctions covered also imports of goods which are sources of very high profits for Russia, such as asphalt and synthetic rubber.

On 15 April 2023, a regulation issued by the Minister of Development and Technology came into force, introducing a ban on importing agricultural produce from Ukraine (Journal of Laws, Item 717) and specifying a list of agricultural produce subject to the ban on imports from Ukraine to the territory of the Republic of Poland. The import ban covered also certain cereals, sugar or dried fodder and fruit and vegetables.

The above regulation was repealed by the Regulation issued by the Minister of Development and Technology on 21 April 2023 on the ban on imports of agricultural produce from Ukraine (Journal of Laws, Item 751, as amended), which established a ban on imports of agricultural produce listed in the Annex to the Regulation originating in or imported from the territory of Ukraine into the territory of the Republic of Poland, excluding: 1) external transit as referred to in Article 226 of Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code (OJ L 269, 10.10.2013, p. 1, as amended), 2) the common transit procedure based on the Convention on a common transit procedure drawn up in Interlaken on 20 May 1987 (OJ L 226, 13.08.1987, p. 2, as amended – OJ EU, Polish special edition, Chapter 2, Vol. 2, p. 291, as amended), provided that the transit is to end at seaports in Gdańsk, Gdynia, Świnoujście, Szczecin or Kołobrzeg or outside the territory of the Republic of Poland. The regulation was amended by the Regulations issued by the Minister of Development and Technology on 27 April 2023, amending the regulation on a ban on importing agricultural produce from Ukraine (Journal of Laws, Item 812) and then repealed by the Regulation of the Minister of Development and Technology issued on 2 May 2023 and repealing the regulation on a ban on importing agricultural produce from Ukraine (Journal of Laws, Item 840).

On 2 May 2023, the European Commission adopted temporary preventive measures about imports of cereals from Ukraine. Commission Implementing Regulation (EU) 2023/903 of 2 May 2023 introducing preventive measures concerning certain products originating in Ukraine (OJ UE L 114 of 2.05.2023) covered four agricultural products. In accordance with the regulation, wheat, corn (maize), rapeseed (agrimony) and sunflower seeds originating in Ukraine could be released for free circulation or placed under the customs warehousing, free zone or inward processing procedures in Member States other than Bulgaria, Hungary, Poland, Romania or Slovakia. At first, the ban was in force until 5 June 2023, and then, pursuant to Commission Implementing Regulation (EU) 2023/1100 of 5 June 2023 introducing preventive measures concerning certain products originating in Ukraine (OJ EU L of 2023, Item 144, as amended) was extended until 15 September 2023.

In connection with the fact that the European Commission did not prolong the embargo for Ukrainian cereals for five countries, including Poland, the Minister of Development and Technology, on 15 September 2023, issued a Regulation on the ban on imports of agricultural produce from Ukraine (Journal of Laws, Item 1898), which entered into force on 16 September 2023 and is still in force. Pursuant to § 1 of this regulation, a ban was imposed on imports of specific agricultural products into the territory of the Republic of Poland originating in Ukraine. The banned products included wheat, corn (maize), wheat flour, rapeseed and sunflower seeds. The regulation provided for exceptions from the general ban on importing agricultural produce from Ukraine. The ban does is not applicable in two cases, i.e. to external transit as referred to in Article 226 of Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code, and to the common transit procedure based on the Convention on a common transit procedure drawn up in Interlaken on 20 May 1987. In order to apply the exception, however, transit must end in seaports in Gdańsk, Gdynia, Świnoujście, Szczecin or Kołobrzeg or outside the territory of Poland.

Since the date of the first embargo regulation on food products imported from Ukraine, the structure of transports of such goods has changed significantly. Before the restrictions, already after the outbreak of the military conflict with Russia, what PKP CARGO S.A. transported from Ukraine was mainly conventional cargo in imports by land, where transports ended in the territory of Poland. The introduction of the restrictions caused a huge increase in transit shipments, especially in sea transit to ports as well as a growth in containerization of cereals and agricultural produce, which took place at the cost of transports in imports by land.

The intensity of amendments to legal regulations regarding imports of certain agricultural goods which were introduced in principle without *vacatio legis* caused a short-term information chaos and problems in the implementation of the regulations by exporters/importers/haulers/rail operators. Complications also arose with regard to completing waybills and accompanying documents attached to them, necessary for the Polish customs and revenue authorities for clear identification and qualification in order to initiate procedures for admitting or not admitting goods to the customs territory of the Republic of Poland (UE).

Furthermore, as the newly adopted legal regulations did not provide any clear guidelines to define a model of handling shipments which were already being dispatched, there occurred excessively prolonged periods of busy tracks on border stations and access roads to border stations which continued until the status and final qualification of shipments are resolved by customs and revenue authorities of the Republic of Poland.

Divergent interpretations of embargo regulations on food products imported from Ukraine by Polish district customs and revenue authorities caused rejections or delays at particular border crossings of PKP-Ukrainian Railways “UZ”. In addition, the amendments to laws described above contributed to less frequent operation of Polish transshipment terminals, which was beneficial for Ukrainian terminals.

On 23 June 2023, the Council of the European Union adopted the 11th package of economic and individual sanctions, including a ban on transit of a higher number of goods and technologies over the territory of Russia. Stricter export restrictions were imposed on further entities with regard to dual use goods and technologies.

The twelfth package of economic and individual sanctions in connection with the Russian war of aggression against Ukraine was introduced on 18 December 2023. A ban has been introduced on the sale, supply, transfer or export, directly or indirectly, of goods which could contribute in particular to increasing industrial capacities of Russia, irrespective of whether the goods come from the European Union.

Also, the Act of 13 April 2022 on Special Solutions to Counteract Aggression against Ukraine and to Protect National Security (consolidated version: Journal of Laws of 2023, Item 1497, as amended) (hereinafter referred to as the “Act”) remains in force. Article 8 of the Act, with regard goods with codes 2701 and 2704 in the Combined Nomenclature (CN) originating in the territory of the Russian Federation or Belarus, prohibited their introduction into the territory of the Republic of Poland and transfer between two countries through the territory of Poland which starts and ends outside the territory, as well as from the territory of a Member State of the European Union, other than Poland, to the territory of Poland. Russia’s operations and measures taken by the European Union aiming to weaken Russia’s economy and military potential have also an impact on the situation of the Company’s transports. In connection with the restrictions, PKP CARGO S.A. is not allowed, among others, to transport coal originating in Russia and Belarus.

Social dialog

The following events took place in 2023:

1. Signing an Agreement of 24 January 2023, which ended the collective dispute initiated by the address of Trade Union Organizations which are parties to the Company Bargaining Agreement of 1 March 2022, demanding systemic implementation of an increase in salaries and wages. In accordance with what was agreed between the Management Board and the Trade Unions, as of 1 January 2023, PKP CARGO S.A. employees will be granted an increase of basic remuneration: for employees remunerated in accordance with the Company-Level Collective Bargaining Agreement (CBA) in the average gross amount of PLN 415.00 per employee (on an FTE basis) and for employees remunerated based on Resolution No. 498/2012 (as amended) of the PKP CARGO S.A. Management Board in the average gross amount of PLN 764.00 per employee (on an FTE basis). Giving employees of PKP CARGO S.A. a one-time award in the amount of PLN 450.00 disbursed with the remuneration for July 2023 in connection with the Company’s employees’ efforts and involvement in everyday work (the prize resulted from requests made by the Trade Union Organizations to reward contribution to the performance of tasks in the form of financial benefits). The Company allocated PLN 7.6 million for this purpose.
2. Implementing the provisions of the Arrangement of 6 October 2023 executed between the Management Board of PKP CARGO with the Trade Unions (Professional Section of NSZZ “Solidarity” of the PKP CARGO Group, the Federation of Trade Unions of Railway Workers, the National Secretariat of Railway Workers NSZZ “Solidarity”-80) – payment of additional one-time award to employees in the gross amount of PLN 800.00 to employees of PKP CARGO S.A. who on 1 November 2023 were employed and had been railway workers for at least one year. The Company allocated PLN 12.7 million for this purpose.

At the end of 2023, the Trade Unions started once more talks on increasing remuneration. What was agreed between the Parties during the meeting of the Management Board with the Trade Union Organizations that are Parties to the CBA on 1 December 2023 within social dialog:

- signing an Arrangement with three Trade Union Organizations that are parties to the CBA (Professional Section of NSZZ “Solidarity” of the PKP CARGO Group, the Federation of Trade Unions of Railway Workers, and NSZZ “Solidarity”-80). The Management Board and the Trade Unions agreed that as of 1 January 2024, funds will be allocated for the increase of basic remuneration of PKP CARGO S.A. employees remunerated in accordance with CBA in the average amount of

PLN 430.00 per employee and for the employees remunerated based on Resolution No. 498/2012 (as amended) of the Management Board of PKP CARGO S.A. for monthly remuneration increase in the amount of 0.19 times the average monthly salary in the business sector excluding profit-sharing rewards in Q4 2015 in the average amount of PLN 813.27 per employee.

- signing a statement of differences of opinion, in which eight Trade Union Organizations that are parties to the CBA (the Train Drivers Trade Union in Poland, the Federation of Trade Unions of Train Drivers, the Intercompany Trade Union of Rolling Stock Inspectors, the Trade Union of Workshop Workers, the Trade Union of PKP Traffic Orderlies, the Trade Union of PKP Train Dispatchers, the Trade Union of PKP Administration, the Intercompany Commission of Trade Union "Kontra") upheld their postulate of implementation of remuneration increase as of 1 October 2023 in the average amount of PLN 400.00 for employees remunerated in accordance with the CBA and respectively for employees remunerated on the basis of the ratio.

In view of the refusal of PKP CARGO S.A. to accept the demand, a collective dispute was initiated as of 1 December 2023 with the eight Trade Union Organizations that are parties to the CBA. The Parties started talks within a mediation procedure in order to reconcile their positions and reach an agreement.

Cyber attacks

In the reporting period, a number of attempts to scan the Company's IT infrastructure and various types of attacks were recorded. The cybersecurity solutions implemented in the Company and the adopted procedures made it possible to mitigate the attacks with no impact on the continuity of operations. It is estimated that for now, the organizational and technical solutions adopted in the Company meet the expectations held about them satisfactorily. However, given the current geopolitical situation and the associated escalation of cybercriminal activities, we need to be ready for the persistence of a high number of cyber threats with an unpredictable scope and volume, and thus a possible negative impact on the Company's cybersecurity.

4.5. Information about production assets

4.5.1 Rolling stock

The PKP CARGO Group's rolling stock is maintained by repair shops operating within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences 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.

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale of rolling stock, leasing, return after lease term or purchase of rolling stock.

In 2023, the downward trend in the number of locomotives and wagons in the Group continued. The PKP CARGO Group purchases new rolling stock and at the same time carries out the process of disposing of its oldest rolling stock. A total of 3 further electric 6-axle series ET43 locomotives are planned for delivery in 2024.

The most modern part of our fleet is 47 multi-system locomotives (series ET43 – 21 locomotives, series EU46 – 25 locomotives and series EU45 – 1 locomotive), powered by DC or AC voltage, which can cross European country borders without stopping to allow change of the power system (which, among others, gives electricity savings), and 10 modern six-axle electric Dragon locomotives (ET25 series) – 3 units – and 7 units of Dragon 2 locomotives (ET26 series) equipped with combustion modules. Out of these locomotives, 41 are brand new, purchased in the past 4 years. In the Company's rail car fleet, 4,075 are intermodal platforms, out of which 278 were purchased in 2022.

Under the Co-Financing Agreement entered into on 13 October 2022 with the State Treasury – Center for EU Transport Projects, in 2023, the Company performed the Project "Modernization of freight wagons involving the replacement of cast-iron brake blocks to comply with Noise TSI" as part of Action 5.2. Development of rail transport outside of TEN-T Priority Axis V Development of rail transport in Poland Operational Program Infrastructure and Environment for 2014-2020, which assumed adjustment of 2200 of the Company's wagons to the requirements of Noise TSI by replacing tyred wheel sets with monoblock wheels and replacing cast iron brake blocks with composite ones. Deliveries of lubricated wheel sets for wagon cars were completed on the basis of agreements entered into by the Company with (I) the Consortium made up of: Skinest Rail Polska Sp. z o.o. with its registered office in Olsztyn, and Skinest Railway Services OÜ with its registered office in Tallinn (Estonia) and (II) Lucchini Poland Sp. z o.o with its registered office in Mińsk Mazowiecki. The net value of the above deliveries was PLN 229.76 million.

The tables below present the structure of the locomotives and wagons used in 2019-2023.

Table 23 Structure of locomotives used by the Group and PKP CARGO S.A., by traction type

Description	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	Change 2023-2022
diesel locomotives	708	731	850	1,103	1,261	-23
of which in PKP CARGO S.A.	*538*	*555*	*671*	*912*	*1,065*	*-17*
electric locomotives	841	816	969	968	1,079	25
of which in PKP CARGO S.A.	*822*	*796*	*946*	*949*	*1,059*	*26*
Total	**1,549**	**1,547**	**1,819**	**2,071**	**2,340**	**2**
of which in PKP CARGO S.A.	*1,360*	*1,351*	*1,617*	*1,861*	*2,124*	*9*

Source: Proprietary material.

Table 24 Structure of wagons used by the PKP CARGO Group and PKP CARGO S.A.

Description	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	Change 2023-2022
Wagons owned and leased	52,358	53,459	53,459	56,183	58,453	-1,101
of which in PKP CARGO S.A.	*48,397*	*49,312*	*49,312*	*51,533*	*53,619*	*-915*

Source: Proprietary material.

4.5.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. The majority of real estate held by the Group is used on the basis of long-term lease and rental agreements. The table below presents changes in real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2019-2023.

Table 25 Real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2019-2023

Description	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	Change 2023-2022
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,367	1,406	1,441	1,415	1,449	-39
of which in PKP CARGO S.A.	*520*	*550*	*550*	*520*	*517*	*-30*
Buildings – owned, leased and rented from other entities [m^2]	683,073	722,756	728,944	693,213	723,962	-39,683
of which in PKP CARGO S.A.	*523,336*	*570,956*	*571,841*	*535,910*	*539,554*	*-47,620*

Source: Proprietary material.

The decrease 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 scale and profile of conducted activity.

4.6. Key information about the financial standing of the Company and the PKP CARGO Group

4.6.1 Information on loan and borrowing agreements executed and terminated

On 2 January 2023, PKP CARGO S.A. entered into an investment loan agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. for PLN 100 million with a loan availability period until 29 December 2023.

On 17 March 2023, PKP CARGO S.A. executed an annex to an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. for up to a maximum of PLN 100 million, extending the loan availability period until 19 March 2024.

On 30 March 2023, PKP CARGO S.A. entered into a loan agreement with a PKP CARGO Group company for up to a maximum amount of PLN 20 million with an availability period until 31 October 2023.

On 24 May 2023, the Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to a maximum amount of PLN 100 million, extending the loan availability until 24 May 2024.

On 26 May 2023, the Company and a different PKP CARGO Group Company entered into an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to a maximum amount of PLN 50 million, to be available until 24 May 2024.

On 26 June 2023, PKP CARGO S.A. executed an annex to an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. for up to a maximum of PLN 100 million, extending the loan availability period until 27 June 2024.On 5 July 2023, PKP CARGO S.A. executed with ING Lease (Polska) sp. z o.o. the Master Lease Agreement for the total net price of the acquired leased assets up to PLN 200 million. The limit is available to PKP CARGO S.A. until 13 June 2024 and provided that an appropriate annex is executed for PKP CARGO Group companies.

On 28 July 2023, a PKP CARGO Group company entered into an agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. for current account overdraft up to the amount of PLN 10 million with the availability period until 27 July 2024.

On 26 September 2023, the Company entered into an investment loan agreement with the European Investment Bank for the maximum amount of EUR 80 million (EURIBOR or WIBOR + margin).

On 19 October 2023, the Company executed an annex to an overdraft facility agreement with Bank Gospodarstwa Krajowego for the maximum amount of up to PLN 100 million extending the loan availability until 29 February 2024.

On 27 October 2023, PKP CARGO S.A. signed a Master Lease Agreement with PKO Leasing S.A. up to the total net price of assets purchased for lease purposes not exceeding PLN 200 million. The loan is available for 12 months from the signing of the Master Lease Agreement.

On 29 February 2024, the Company executed an annex to an overdraft facility agreement with Bank Gospodarstwa Krajowego for the maximum amount of up to PLN 100 million extending the loan availability until 28 February 2025.

On 19 March 2024, PKP CARGO S.A. executed an annex to an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. from 19 December 2019, extending the loan availability period until 30 June 2024.

In 2023, no loan or borrowing agreement with the Company was terminated.

4.6.2 Information about granted loans

On 30 March 2023, the Company entered into a loan agreement with a PKP CARGO Group company for up to a maximum amount of PLN 20 million with an availability period until 31 October 2023. No other consolidated subsidiary granted any loans to related parties.

In 2023, no loan or borrowing agreement was terminated.

4.6.3 Information about granted and received sureties and guarantees

In 2023, PKP CARGO S.A. 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.

4.6.4 Issues, redemptions and repayments of debt securities and equity securities

In the analyzed period, in PKP CARGO S.A. there were no issues, redemptions and repayments of debt securities and equity securities.

4.6.5 Assessment of management of financial resources

The PKP CARGO Group efficiently manages its cash flow cycle in order to hedge any risks related to cash shortages in the short term. This is done mostly by matching the maturity of receivables and liabilities.

Internal financial risk management policy, allowing for optimization of the maturities and types of investment instruments and the liquidity reserve level, is an element supporting efficient management of the Company’s and the Group’s finances. Excess cash generated by the Group was invested in fixed rate bank deposits which were concluded with time horizons depending on the Group’s liquidity needs. Decisions made with regard to bank deposits are based on maximizing the rate of return and current assessment of the financial standing of the banks.

The finance management system in PKP CARGO Group companies is efficiently supplemented by the cash pooling mechanism, which makes it possible to reduce the costs incurred in connection with the use of short-term external financing sources and maximize the financial revenues in connection with available cash surpluses.

4.6.6 Description of the structure of key equity investments or key investments made within the Company and the PKP CARGO Group

In 2023, neither PKP CARGO S.A. nor its subsidiaries invested in any bank deposits or equity investments.

4.6.7 Current and forecasted financial standing of the Company and the PKP CARGO Group

In 2023, the financial standing of the PKP CARGO Group was stable and ensured operational and transportation continuity of its business activities. As at 31 December 2023, there were no negative events causing a significant deterioration of the financial standing of the PKP CARGO Group or posing a threat to its status as a going concern.

An update of the risks accompanying the war in Ukraine and its consequences or an unfavorable situation in the industrial sector may affect the Group's financial position in subsequent reporting periods.

4.7. Information about the financial statements

4.7.1 Description of unusual items in the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group

No such items can be found in the Standalone Financial Statements and Consolidated Financial Statements in 2023.

4.7.2 Description of significant off-balance sheet items

Off-balance sheet items include, for the most part, contractual liabilities for the purchase and repair of rolling stock and other property, plant and equipment as well as contingent liabilities arising from guarantees issued at the request of the Company and the Group and from claims made against the Company and the Group in court proceedings in the case of which the probability of cash outflow is assessed as low and claims for which it is impossible to provide a reliable estimate of the payment amount to be made by the Company and the Group in the future.

Significant off-balance sheet items are described in Notes 7.2 and 7.3 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2023.

4.7.3 Rules for preparing annual financial statements

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2023 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect in 2023.

The Standalone Financial Statements PKP CARGO S.A. for the financial year ended 31 December 2023 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2023 have been prepared based on the assumption that both PKP CARGO S.A. 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.A.'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 Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2023 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2023 have been prepared in accordance with the historic cost principle except for derivative financial instruments and investments in equity instruments carried at fair value.

4.7.4 Information about the agreement entered into with the audit firm

By Resolution No. 2/2020 of the Extraordinary Shareholder Meeting of PKP CARGO S.A of 16 November 2020, amended (in respect to § 1 sec. 1) by Resolution No. 28/2021 of the Ordinary Shareholder Meeting of 28 June 2021, the following consortium of audit firms was selected:

Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k. (as of 1 December 2022, transformed and operating under the business name: Grant Thornton Frąckowiak Prosta spółka akcyjna) with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, registered under file no. 3654 as an entity authorized to audit financial statements, and Grant Thornton Polska spółka z ograniczoną odpowiedzialnością sp.k. (as of 1 December 2022, transformed and operating under the business name: Grant Thornton Polska Prosta spółka akcyjna) with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, registered under file no. 4055 as an entity authorized to audit financial statements (hereinafter jointly referred to as "Grant Thornton").

The agreement with Grant Thornton was signed on 5 July 2021 and covers:

- audit of the standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2021-2025,

- review of the interim standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2021-2025,
- verification of the reporting package prepared for the purposes of consolidation with PKP S.A.,
- conduct of agreed procedures aimed at confirming the correct calculation of the annual ratios defined in the loan agreements.

On 19 December 2023, the Company entered into Annex 1 to the Agreement with Grant Thornton, introducing, among other provisions, an indexation clause for the fees payable for services rendered thereunder. The indexation clause is applicable starting from the fee for services rendered for 2022.

By resolution No. 2/2024 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. of 18 April 2024, the Extraordinary Shareholder Meeting agreed to retain Grant Thornton Polska P.S.A. as an audit firm for the purpose of auditing and reviewing the standalone and consolidated financial statements of PKP CARGO S.A., in lieu of existing consortium of the companies: Grant Thornton Polska P.S.A. and Grant Thornton Frąckowiak P.S.A. On 19 April 2024, the annex No.2 to the contract in question was signed .

The audit firm’s fees for 2023 and 2022 are presented below.

Table 26 Net fee charged by the audit firm (PLN)

Description	Network fee		Including audit firm Grant Thornton Polska P.S.A.	
	2023*	2022**	2023*	2022**
Audit of annual financial statements of the Parent Company including:	148 877,55	137 977,34	148 877,55	137 977,34
Audit of annual standalone financial statement of the Parent Company	*112 821,27*	*104 560,96*	*112 821,27*	*104 560,96*
Audit of annual consolidated financial statement of the Parent Company	*36 056,28*	*33 416,39*	*36 056,28*	*33 416,39*
Audit of annual financial statements of the subsidiary companies	396 412,60	414 682,08	84 965,36	78 744,55
Review of financial statements of Parent Company and subsidiaries	168 168,52	165 099,30	107 296,52	99 440,70
Other assurance services	34 392,36	36 467,69	8 000,00	8 000,00
Related services	9 692,55	8 982,90	9 692,55	8 982,90
Total	**757 543,59**	**763 209,32**	**358 831,99**	**333 145,49**

Source: Proprietary material.
**The fees for the services include valid indexation entries and are calculated at the NBP exchange rate as of 29.12.2023*
*** The fees for the services include valid indexation entries and are calculated at the NBP exchange rate as of 30.12.2022*

5. Other key events and information about the activity of the Company and the PKP CARGO Group

5.1. Key information and events

- 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 sp. z o.o. (a fully-owned subsidiary of PKP CARGO).
- On 30 January 2023, the Company’s subsidiary, PKP CARGOTABOR Sp. z o.o. 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.
- On 30 January 2023, PKP CARGO announced and published the PKP CARGO Group Strategy Revision for 2019-2023. The revision reaffirmed the PKP CARGO Group’s vision and mission and modified its strategic goals. The PKP CARGO Group is to become number 1 in the area of the “Three Seas Initiative” and on the “New Silk Road” routes in the EU measured

by freight turnover and freight volume by 2023 and strengthen its position in 2023–2038, and to acquire 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 Sp. z o.o. 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 22 March 2023, PKP CARGO accepted twelve Dragon 2 electric locomotives manufactured by NEWAG S.A.
- In performance of the agreement entered into with NEWAG S.A. and NEWAG LEASE spółka z ograniczoną odpowiedzialnością S.K.A. for the purchase of locomotives, 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. with NEWAG LEASE spółka z ograniczoną odpowiedzialnością S.K.A. and PKO LEASING S.A. with Pekao Leasing sp. z o.o. on the financing of locomotive deliveries. As at 31 December 2023, under the arrangements and framework lease agreements signed, a total of 16 lease agreements were executed for a total value of PLN 270.4 million.
- On 26 September 2023, PKP CARGO entered into an investment loan agreement with the European Investment Bank up to the maximum amount of EUR 80 million.
- On 26 September 2023, PKP CARGOTABOR USŁUGI sp. z o.o. signed a sale agreement for State defense and security purposes, selling assets of the former Fabryka Wagonów Gniewczyna S.A. in Gniewczyna Łańcucka to the State Treasury, the Regional Board of Infrastructure in Lublin, i.e. to an entity organizationally subordinated to the Minister of National Defense.
- On 21 November 2023, PKP CARGO S.A. received two interest notes from one of its contractors for the total amount of PLN 23.4 million on account of late payments. Having analyzed these notes, PKP CARGO S.A. decided to recognize the amount of interest accrued during the period ended 30 September 2023 in the amount of PLN 20.9 million in the financial statements for Q3 2023.

  Receivables arising from purchase contracts affected by delays in payment were subjected to factoring arrangements between the supplier and the factor, and all payments for the performance of the contracts were made to the factor. In the Company's opinion, the right to charge interest on overdue receivables in this case is undisputed, as delays in payment actually occurred. However, the Company challenges the jurisdiction of the entity that made the claim to the Company. After reviewing the case, the Company's Management Board decided to recognize interest on delayed payments in full due to the existence of a legal title to make a claim to the Company for payment of the interest due and the likelihood exists of a cash outflow associated with the need to settle this claim. Assessment of the estimates may change in subsequent periods as a result of future events.
- The Company completed the project entitled: "Construction of a multimodal terminal in Zduńska Wola-Karsznice" with a total final value of tangible and intangible assets approved at PLN 110.22 million (including the value of eligible costs covered by a subsidy of PLN 103.44 million). Construction work was completed on 27 October 2023. Fixed assets and intangible assets were accepted for entry in the records on 1 December 2023. The terminal was put into operation. For the investment, the Company was granted a subsidy of PLN 51.7 million.
- On 1 February 2024, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 132/VIII/2024 to suspend Mr. Dariusz Seliga in the discharge of the duties of President of the PKP CARGO S.A. Management Board.
- On 1 February 2024, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 133/VIII/2024 to suspend Mr. Marek Olkiewicz in the discharge of the duties of PKP CARGO S.A. Management Board Member in charge of Operations.
- On 1 February 2024, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 134/VIII/2024 to entrust the performance of the duties of President of the PKP CARGO S.A. Management Board to Mr. Maciej Jankiewicz, PKP CARGO S.A. Management Board Member in charge of Finance.
- On 29 February 2024, the PKP CARGO signed an annex to the Overdraft Agreement with Bank Gospodarstwa Krajowego (amounting to PLN 100.000.000,00) concerning extending the loan availability period until 28 February 2025.
- On 19 March 2024, PKP CARGO signed an annex to the Overdraft Agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. (amounting to PLN 100.000.000,00) concerning extending the loan availability period until 30 June 2024.
- On 19 April 2024 the shareholder of the Company- PKP S.A. made following changes to the Supervisory Board of PKP CARGO S.A. : Mr. Andrzej Grzegorz Leszczyński, Mr. Jarosław Piotr Stawiarski and Mr. Marek Robert Ryszka were dismissed and Mr. Paweł Miłek, Mrs. Monika Stawiarska and Mr. Marcin Wojewódka were appointed.
- On 22 April 2024 the PKP CARGO S.A. Supervisory Board adopted Resolution No. 148/VIII/2024 to dismiss Mr. Jacek Rutkowski, PKP CARGO S.A. Management Board Member in charge of Commerce.

5.2. Information on contracts of significance for the Company and the PKP CARGO Group.

Execution of a contract with PKP PLK S.A.

On 6 December 2023, an agreement was entered into by PKP CARGO S.A. with PKP PLK S.A. on the use of throughput capacity for the transportation of goods in the 2023/2024 train timetable. The agreement will be in effect from 10 December 2023 to 14 December 2024.

Under the agreement, PKP PLK provides the Company with access to rail infrastructure to utilize the throughput capacity for cargo transport in accordance with the 2023/2024 timetable. The expected value of the agreement in its validity term in total amounts to PLN 471.8 million net (PLN 580.3 million gross). The agreement is of key importance for the pursuit of the Company's core business. This is a regular agreement concluded by the Company on an annual basis.

Agreements with PGE Group companies

The Company entered into four transport agreements with PGE Group companies, namely PGE Górnictwo i Energetyka Konwencjonalna S.A. with its registered office in Bełchatów and PGE Energia Ciepła S.A. with its registered office in Warsaw to provide these companies with rail transport services of hard coal and calcium sorbents with the total maximum weight of 18.26 million tons. The agreements will be in effect from 6 September 2023 to 5 March 2026. The estimated maximum net value of the agreements throughout their term is PLN 986.38 million (PLN 1,213.24 million with VAT).

Agreement with CMC Poland Sp. z o.o.

At the beginning of 2024, an agreement was entered into by and between PKP CARGO and CMC Poland Sp. z o.o. The subject matter of the Agreement is for the Company to provide scrap metal and metal products transport services to CMC Poland Sp. z o.o. The transport services will be provided on domestic, export and import routes and the agreement will be in effect from January 2024 to December 2026. The expected total estimated net value of the agreement will be PLN 192,014,521 million (PLN 236,177,860 million with VAT).

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

PKP CARGO S.A. S.A. has not published any financial forecasts for 2023.

6. Company's and PKP CARGO Group's development policy

6.1. Key risk factors and threats

6.1.1 Description of the key threats and risks

Risks arising from macroeconomic conditions, related to the economic and market environment

- High volatility of the market facing numerous problems, including inflation, declining demand and persistently high energy prices;
- Significant reduction in business activity of commercial undertakings (counterparties or potential counterparties of the Group) resulting from the slowdown of the global economy;
- Elevated uncertainty in commodity markets;
- Significantly greater cost of capital than in previous years;
- Increased costs of energy carriers, fuels and energy coupled with a very unfavorable energy mix in Poland (due to, among other factors, the high cost of CO_2 emissions and the large share of fossil fuels), expected to hit domestic manufacturers and hinder the future growth of output capacity;
- Weak demand for raw materials of key significance for the PKP CARGO Group's transport services, i.e. bulk freight, including, in particular, coal and aggregates as well as coke, ores and metals, chemicals and chemical products, and liquid fuels (in industries of crucial significance to the Polish economy, such as the power sector, construction and metallurgy), strongly suppressing demand for rail transport services and consequently also the transport and financial performance of PKP CARGO Group companies.
- Slowdown in China that may contribute to a further loosening of economic ties between the "world's largest producer" and Western countries;
- Risk of Poland's economic imbalance – a high deficit of public finance, growing debt, persistently high inflation, significant funds allocated to defense and substantial social spending capable of stifling the growth rate of the Polish economy and consequently weighing on the rate and scale of growth in subsequent years;
- Rapid pace of climate change-related transition, generating high transition costs which will force an active role of the state and the resulting growing debt (and consequently also deepening macroeconomic imbalances);

Risks arising from geopolitical conditions – including those related to the armed conflict in Ukraine

- Geopolitical risks stemming from the progressive gradual reduction in the importance and influence of the United States in global supply chains, the ongoing trade war between the United States and China, the ongoing war in Ukraine and the decreasing scale of aid to Poland's eastern neighbor may lead to an extremely unfavorable resolution of the conflict for Poland with a concurrent reorientation of numerous economic ties;
- War in Ukraine, further escalation of geopolitical tensions and outbreak of new regional conflicts (including those of supra-regional significance) strongly hampering the recovery of the global economy;
- Entities (including foreign ones) have become accustomed to the war in Ukraine, resulting in an appreciation of the Polish currency and an increase in the scale of foreign investment. The conflict, while still of key significance, already played a lesser role in the economic domain than in the previous year, although the effects of decisions made during the conflict continue to generate a significant number of problems in the economic environment to this day. Moreover, all these phenomena were compounded by problems with the lingering relatively high inflation (and the increased cost of capital), which, combined, translated into a decline in rail freight and a reduction in international business activity (due to the weak demand from foreign counterparties, among other factors).
- Severe turbulences in supply chains (due to numerous restrictions on maritime, land and air transport) may affect the pace at which the global economy recovers from the economic downturn and may cause a significant remodeling of global economic ties;
- The sanctions against Russia and Belarus imposed at the European Union level and at the national levels significantly reduce the volume of economic exchange with these countries (although in many areas international trade continues

without major restrictions). However, many countries (including EU members) are helping to circumvent these restrictions, which generally reduces their effectiveness and contributes to an extension of the conflict;

- The conflict in Ukraine is still far from being resolved, and the consequences of the decisions made in its course are strongly disadvantageous to various sectors of the Polish economy (including, in particular, the transport market). Economic exchange with Russia and Belarus has been significantly reduced, additionally diminishing the importance of the "New Silk Road," which is crucial for transporting cargo containers from the Far East. Despite this, trade with Ukraine increased perceptibly, to the benefit of the Polish economy (where a high positive balance of trade was recorded), which calls for the intensification of efforts to normalize exchange and maintain good dynamics in this area, which, to a certain degree, would offset the decreases in trade with other countries of the region.

Risk associated with the rail freight sector

- Rapidly growing market coupled with a steady increase in the number of rail freight operators: according to data presented by the Office of Rail Transport (UTK), there are currently 126 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 (as at 12 January 2024).[48] Among these companies are also three members of the PKP CARGO Group: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s.[49] In the corresponding period of 2022, there were 116 rail operators, meaning that as many as 10 new ones entered the market over the course of a single year (despite the noticeable slowdown in the economy and the decline in demand for rail freight transport services) and that the market has been growing steadily.
- According to the Office of Rail Transport's data, in 2023, as many as 30 rail carriers conducted transport operations whose market share in terms of transported freight volume exceeded the 0.5% threshold (in 2022, the corresponding figure was 27 rail operators). These included two Companies of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO Service Sp. z o.o.
- The highly competitive and still rapidly growing market of rail intermodal transport, where during the first 9 months of 2023 (no data for the whole year 2023), despite a number of factors significantly weakening the intermodal segment (such as the deterioration of the global economy, the slump in demand suppressing freight exchanges and the ongoing war in Ukraine relentlessly curtailing transport operations along the East-West route), the market continued to grow quickly in terms of the number of active market players, with 26 licensed operators carrying out rail intermodal transport operations (in 2022 there were 23 operators and back in 2015 there were as few as 11 operators)[50];
- The number of locomotives and wagons declined as a result of the decommissioning of the oldest and most inefficient units. Replacement of the rolling stock is a time-consuming and cost-intensive process. Also, there is a limited number of manufacturers and production capacity in this area, which effectively forces rail operators to optimize the structure of their locomotives and wagons in the context of current market demand and future freight streams. Environmental requirements (including those pertaining to noise) and requirements arising from the competitive environment and technological progress in the market are steadily increasing (which translates into the need to install composite inserts and automatic couplings and put into use new traffic control systems). Financing the very costly processes of rolling stock upgrade and replacement, caused by its age, often running into several decades, remains a problem;
- Risk of an increase in diesel fuel prices due to the possible, and expected, global economic recovery and turbulences in supply chains (numerous conflicts in regions important for the extraction and transportation of crude oil);
- Increasing scale of operations by market players and capability of building comprehensive services within corporate groups: the PKP CARGO Group's rail competitors offer the full range of transport and transport-related services (including whole-train carriage of coal and coke, aggregates and other construction materials, metallurgical products and chemicals), increasing the scope and scale of additional services each year. However, only some entities perform dispersed transport services and extraordinary transport services (including goods crossing the gauge or requiring railcars with a recessed floor);
- The main competitors of the PKP CARGO Group in the Czech market are ČD CARGO (the national carrier and the leader of the country's transport market), Metrans Rail (an international logistics operator specializing in the intermodal transport segment in the countries included in the Three Seas Initiative), ORLEN Unipetrol Doprava (operator specialized in fuel transportation, a company of the PKN Orlen Group), LOKORAIL, Rail Cargo Carrier – Czech Republic (a subsidiary of the international carrier Rail Cargo) and IDS CARGO.[51] In line with the trend, in an increasingly competitive market (like in Poland), the other operators provide services covering all segments of the rail freight market, including key segments such as solid fuels, construction materials, liquid fuels and chemical products, and

[48] Office of Rail Transport (updated as at 12 January 2024), 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.
[49] Office of Rail Transport – List of entities holding a rail operator license issued by the President of the Office of Rail Transport.
[50] Office of Rail Transport – intermodal transport data for 9M 2023
[51] SŽDC – Podíl dopravců na výkonech sítě Správy železnic

intermodal transport services. In the Czech Republic, too, a trend is noticeable of a gradual decentralization of the freight market, with a growing number of small operators competing effectively in selected market niches;[52]

- In view of the increasing (in both the Polish market and the Czech market) intensity of competition in rail freight, PKP CARGO Group companies are making a number of changes with the intention of improving the quality of services and expanding their range in order to come up with a comprehensive package of freight services. These activities include: construction and reconstruction of logistics centers, purchase of specialized rolling stock, creation of operator trains, cooperation with complementary operators (including those active in road transport) and the development of international cooperation (especially in the Three Seas Initiative area).

Risks associated with operations

Risk associated with the rail infrastructure

- In both Poland and the Czech Republic, the repair, modernization and construction of rail infrastructure temporarily severely restricts the capacity of many key routes, which generates the need to provide transport services over extended routes and consequently increases costs and downgrades the quality of service. Railroad infrastructure shutdowns affect the throughput of routes, which, in the case of upgrades and renovations of major corridors and routes, poses a significant risk of extension in rail transport times or the need to run detour routes.
- Poland has recently experienced an accumulation of work projects in strategic places of rail infrastructure (including at the interface with port infrastructure). Also, due to investments from the EU Reconstruction Fund, projects from the new budget framework of the European Union may overlap. Because of the limited number of companies carrying out such projects, another risk comes from possible extensions of the work carried out by contractors, which will reduce the capacity of the line, and at the same time make rail transport uncompetitive with, for instance, road transport (which will not be affected by such restrictions in parallel). Also relevant in this context is the prolonged wait to obtain new freight routes or new freight dates.
- The imbalance in the rail market, including the growing significance of passenger transport, which, along with the expansion of services, creates an increasing demand for freight slots (due to the increase in the frequency of passenger transport services), may lead to blocking and pushing freight transport out of the rail market;
- The growing risk of increasing freight volumes on a relatively stable number of rail lines (even after the completion of repairs) will generate problems associated with the competitiveness of rail against other forms of transport. This already poses a significant risk for cargo requiring on-time or very fast delivery.

Risk associated with road transport, which constitutes increasing competition for the PKP CARGO Group

- Road transport as the most flexible branch of this market poses a crucial threat to the growth of rail transport. The diminishing role of rail transport is due to the much greater flexibility of road operators. Also, they are able to adapt much more rapidly to new market criteria, which, despite certain areas of advantage for rail, will not permit rail operators to significantly expand the scale of their business;
- In the case of UA-PL transport services, road freight competes with rail freight, because 60% of grain is delivered, after reloading, by road transport.
- Continued upward trend in the market share of road transport at the expense of declining shares of other modes of transport;[53]
- The highly unsustainable transport system hindering growth of the volume of loads transported by rail (including the limited number of rail lines separating local and interregional transport, the absence of construction of new lines, or upgrades that do not result in a corresponding increase in line throughput or reduced travel time);
- The increase in significance of road transport results from objectively existing and deepening competitive advantages compared to rail transport, such as in particular:
  - relatively low barriers to entry;
  - persistently high disparities in the prices of energy sources for rail (electricity) and road (diesel fuel) transportation;
  - imbalance in the level of fees for the use of rail infrastructure and public road infrastructure (especially in terms of the fee per unit of distance traveled);
  - highly developed road network in Poland and the Czech Republic;
  - low cost of access to road infrastructure in Poland (the road network where the toll applies is relatively small in relation to the whole road network in Poland);
  - rapid adaptation of road freight operators to changing freight volumes;

[52] SŽDC – Podíl dopravců na výkonech sítě Správy železnic
[53] Statistics Poland, Czech Statistical Office

- significantly greater average speed of this mode of transport relative to rail transport coupled with the fundamental advantage of being able to provide direct door-to-door transport services;
- risk of limited involvement of rail operators in the energy transition.

The ability of transporting large cargos by truck has so far been limited, the result being that bulk goods have been transported by rail. Given today's market conditions, it is possible to transport almost any type of commodity using road transport. To date, bulk cargo has served as the backbone of rail transport (coal, ores, coke, aggregates) with their economic advantages providing rail operators with the opportunity to compete with road transport. The most endangered area in this situation is the transport of those cargo categories whose share in the total road and rail transport volumes is comparable – these include: metal ores and other mining and quarrying products including stones, sand, gravel and clays, metals and finished metal products, and chemical products. The carriage of these commodities accounts for approx. 33% of the share in overall rail freight.

Risk of a high dependence of the client base on a limited number of industries and business entities operating therein and their suppliers.

- A significant number of contracts signed with customers by the PKP CARGO Group are characterized by their long-term nature and cyclicality (renewability). This is a consequence of the need on the part of customers to transport large volumes of bulk goods, including coal, aggregates, metals, ores and chemical products. This requires the rail operator to ensure and appropriately prepare resources, including rolling stock and an appropriate number of employees capable of providing the services in a proper and timely manner. Any modification of the most significant provisions of such agreements, including the directions of transport routes, changes in the volume of transported goods or changes in material requirements concerning the manner of service adversely affect the capacity and at the same time the degree of performance of the agreements;
- Increasing the scale of transport by specialized companies (conducting transport operations for their parent company) and their acquisition of transport orders from outside their target segment (especially among capital-related entities) effectively reduces the volume of freight transport services available for acquisition on the competitive market (including by the PKP CARGO Group),
- Due to the specific nature of rail freight operations, a significant risk is associated with the possibility of limited availability of freight for many groups of potential customers who may permanently, going forward, treat rail freight (despite the increase in the scale of operations) as a branch of transport selected as the last option on their list.

Risk associated with changes in legal regulations

The frequently amended legal regulations on the import and transit of grain from Ukraine, put in place without any appropriate *vacatio legis*, caused information chaos and difficulties in the application of such regulations by exporters, importers and operators. Within a very short period, the following legal acts were signed into law (without a transition period):

- Guidelines of the Chief Veterinarian on tightening 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).

Unfavorable consequences

The tightening of quality control by the veterinary services of the Republic of Poland resulted in the lengthening of train stops on the tracks at the border station from approx. 1 day to 4-5 days per train set, which exerted a particularly adverse impact on the processing capacity of the Dorohusk (PKP) – Yahodyn (UZ) crossing as the main "grain" crossing point at the interface with the Ukrainian Railways (where PKP CARGO S.A handles more than 50% of the freight stream).

- Regulation of the Minister of Development and Technology of 15 April 2023 on the ban on importing agricultural produce from Ukraine (Journal of Laws of 2023, item 717) – repealed.
- Regulation of the Minister of Development and Technology of 21 April 2023 on the ban on importing agricultural produce from Ukraine (Journal of Laws of 2023, item 751) – repealed.
- Commission Implementing Regulation (EU) 2023/903 of 2 May 2023 introducing preventive measures concerning certain products originating in Ukraine – expired on 5 June 2023.
- Commission Implementing Regulation (EU) 2023/1100 of 5 June 2023 introducing preventive measures concerning certain products originating in Ukraine – applicable until 15 September 2023.

The frequent regulatory amendments introduced over a short period of time, regarding the rules of importation of certain goods of agricultural origin and applicable practically without any *vacatio legis*, caused short-term information chaos and difficulties in their application by exporters, importers and operators, also in terms of the completion of waybills and accompanying documents necessary for the customs and tax authorities of the Republic of Poland to clearly identify and qualify cargo in the context of procedures for the admission or non-admission of goods to the customs territory of the Republic of Poland (EU).

The absence of unambiguous guidelines as to what to do with consignments which at the time of the regulatory amendments were already on the way or at the border crossing itself resulted in prolonged traffic jams at border stations and on approaches, pending clarification of their status and final qualification by Polish customs and tax authorities.

Diversity of interpretation of the said regulations by Poland's customs and tax administration's regional offices at the border crossings handled by PKP and UZ.

Risk of collective disputes and strike

On 10 January 2024, within the framework of the collective dispute with the following trade union organizations: the Train Drivers Trade Union in Poland, the Federation of Trade Unions of Train Drivers, the Intercompany Trade Union of Rolling Stock Inspectors, the Trade Union of Workshop Workers, the Trade Union of PKP Traffic Orderlies, the Trade Union of PKP Train Dispatchers, the Trade Union of PKP Administration, the Intercompany Commission of Trade Union "Kontra" (hereinafter: "Trade Union Organizations"), no agreement has been reached, and as a consequence, pursuant to the provisions of Article 9 of the Act of 23 May 1991 on Collective Dispute Resolution (consolidated text: Journal of Laws of 2020, Item 123) ("Act"), a statement of differences of opinion was drafted. The statement of differences of opinion depicts the stances of both parties on the postulate put forward by the Trade Union Organizations regarding the implementation as of 1 October 2023 of the salary increase through negotiations in a collective dispute.

The signing of this statement of differences of opinion terminates the negotiations, whereby the collective dispute moves into the stage of mediation in accordance with the regulations of the Act. From 5 to 19 February 2024, the Trade Union Organizations that initiated the collective dispute in December 2023 held a referendum among the Company's employees asking them whether to go on a strike in the event of failure to reach an agreement on the implementation as of 1 October 2023 of a wage increase by PLN 400 for employees paid according to the Company-Level Collective Bargaining Agreement and a pro-rata increase for employees paid according to the wage index. During the referendum, the Trade Union Organizations held a one-time, two-hour warning strike on 7 February. Mediation meetings with representatives of the Trade Unions are continuing, but there is a risk that the ongoing talks may end in a strike.

Risk of increase of salaries

The Management Board is conducting the negotiations with the aim of ensuring stability, enabling the pursuit of the Company's statutory tasks in a peaceful atmosphere. However, due to the ongoing collective dispute on wage increases and the unknown date for reaching an agreement, it is currently impossible to evaluate the risk of the impact of the dispute on PKP CARGO S.A.'s situation. Due account should also be taken of the obligations arising from §5(1) of the Employee Guarantee Package regarding annual wage increases, which depend on the Company's financial performance and standing.

Risk associated with a shortage of trained personnel

Actions are taken with a view to ensuring appropriate number of employees with required skills so as to support the proper pursuit of business objectives.

In 2023, the adaptation program was carried out in a stationary form or remotely (online) – in accordance with the needs and expectations of various groups of positions: administrative employees, non-administrative employees working in the Company's facilities and managerial staff. A carefully selected professional training program was aimed at ensuring that new employees are integrated into the organization and familiarized with their duties as soon as possible and to help them adapt to the working environment, which influenced the effectiveness of the performed works and minimized the risk of employee fluctuation. The rail transport industry, and in particular positions associated with rail transport safety, require an ongoing update of knowledge and acquisition of skills. This objective has been achieved through obligatory training courses delivered in the form of e.g. periodic knowledge updates, tutorials and examinations. The effect of the continuous training process was the obtaining of licenses and improvement of qualifications by the personnel. In 2023, the Company organized traditional training and e-learning. The training platform enables a quick and safe distribution of knowledge to selected groups of participants and to any number of employees.

Moreover, in 2023, a series of training events to develop competences in building relationships and team communication as well as develop skills in using MS Office was continued. These events took place in face-to-face and remote formats. The "Leader Academy" pilot program for the development of managerial staff, aimed at developing managerial competencies and leadership skills, was also launched. The program consisted of several workshop modules (preceded by training material placed on an e-learning platform), covering some of the most important managerial competencies: team building, motivation, team communication and delegation of tasks. The workshops were attended by middle management.

Risk related to the inability to recruit appropriate staff

As a result of identification of the risk of difficulties in attracting appropriate personnel to perform the Company's operating tasks, selected activities supporting the recruitment of new staff were intensified in 2023. The Company actively cooperates with 32 trade schools and rail technical secondary schools, supporting the learning process by organizing apprenticeships. This provides students with the opportunity to confront their own knowledge and skills with the requirements of their future employer, and the Company has the opportunity to present itself to the students as an attractive future employer. In 2023, as part of the endeavors to promote its employer image, the Company participated in the Education and Career Day at the TRAKO International Railway Fair. The event provided an opportunity for direct contact between employers and potential employees as well as discussing mutual expectations and terms of possible cooperation. During the Education and Career Day, PKP CARGO S.A. was a co-organizer of the PKP Group competition "Train driver – a profession with a future".

Apart from the abovementioned actions for new employee attraction ongoing recruitment processes were carried out in accordance with the needs reported by the Company's business units. Employees had an opportunity to receive training from scratch in order to prepare themselves for working as a train driver, rolling stock auditor or switchman.

In summary, thanks to the Company's actions taken so far in order to manage this area the risk associated with shortage of trained personnel has been minimized.

Financial risks

Liquidity risk

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

Information on credit facilities undrawn as at 31 December 2023 is presented in Note 4.1 to the Consolidated Financial Statements of the PKP CARGO Group for 2023.

Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2023, 9 Group companies.

Market risk - FX risk

The Group 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. The Parent Company manages the market risk 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 through assigned 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 2023, the Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group'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.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions.

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. These transactions were effected by the Parent Company.

Interest rate risk

The Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. In 2023, interest on lease 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 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 was executed through revaluation of loan installments in monthly, quarterly and semi-annual periods.

Credit risk

The Group 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, the Group 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. When receivables become overdue, collection activities are carried out. In special cases, a temporary or permanent suspension of services and deliveries to the debtor may be imposed.

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. Also, to reduce the risk of problems with the recovery of trade receivables, the Company accepts security interests from its customers in the form of bank/insurance guarantees, assignment of contracts, security deposits, promissory notes, limited rights in rem, etc.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group 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 the Group (in the form of bank/insurance guarantees, guarantee deposits, etc.).

6.1.2 Information on financial instruments with respect to risk, and financial risk management objectives and methods adopted by the Company and the PKP CARGO Group

The principles of market risk management are implemented through assigned organizational units under the supervision of the PKP CARGO S.A. Management Board.

In 2023, the Company applied cash flow hedge accounting using financial instruments, mainly investment loans in EUR. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly likely cash flow denominated in EUR.

6.1.3 Information on financial instruments with respect to the risk: price changes, credit risk, risk of significant cash flow disruptions and risk of loss of financial liquidity that the Company is exposed to

As at 31 December 2023, the liquidity position of the PKP CARGO Group was stable and ensured operational and transportation continuity of its business activities.

To secure ongoing liquidity, the Group undertakes measures aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the medium term (current account overdraft and cash pool agreements). In the course of managing the liquidity position, the levels of trade receivables and payables are monitored on an ongoing basis.

6.2. Description of external and internal factors of relevance for the development of the Company and the PKP CARGO Group

The rapid investment processes in terminal infrastructure on the Ukrainian side, the growing number of rail freight companies operating on the 1,435 mm gauge with which the Ukrainian Railways (hereinafter also: "UZ") enters into "border contracts" for handling traffic on the 1,435 mm gauge (transshipments on the Ukrainian side) and the operational and organizational aspects of customs and border preferences for traffic on the 1,435 mm gauge generate a steadily growing increase in the freight stream handled at PKP-UZ railroad border crossings on the 1,435 mm gauge, with a simultaneous decline in traffic on the 1,520 mm gauge (loss of transshipments at Polish terminals) which, with the paucity of the 1,435 mm track infrastructure of the Dorohusk-Yahodyn crossing, historically designed for the opposite proportion of traffic, causes permanent lines of 1,435 mm trains to be transferred to the Ukrainian side.

The rapid development of border transshipment infrastructure on the Ukrainian side will bring about unfavorable consequences for PKP CARGO Group companies, logistics companies and transshipment terminals located on the Polish side in the area of the Polish-Ukrainian border crossings of Medyka-Mostyska and Dorohusk-Yahodyn. Transshipment operations, loading, sorting, storage, etc., will be transferred to the side of the "delivering rail operator," that is UZ, where the contact of elements of the UZ 1,520 mm gauge network and the 1,435 mm gauge network will take place (prior to the outbreak of war, these operations were carried out, in accordance with the SMGS rules, on the side of the receiving – that is Polish – rail operator). There is a tangible risk of the emergence of additional competition in the form of new rail operators (e.g. Ukrainian ones) carrying out operations in Central/Western Europe. The rapid expansion of terminals on the Ukrainian side (supported by German and Dutch funds) will result in rail operators from Germany and the Netherlands being able to arrange the whole logistics chain using their own resources, meaning that Poland will lose transit freight fees, whereas the transshipment terminals and cargo points operating on the Polish side, both those owned by the PKP CARGO Group and those owned by non-public entities, will lose their economic viability and their employees will be laid off. Consignments are already delivered by UZ on the 1,520 mm gauge to terminals located on the Ukrainian side, where they are reloaded to 1,435 mm wagons or put on 1,435 mm gauge wheelsets.

It is a common occurrence that the capacity allocated to PKP CARGO S.A. is reduced disproportionately to the freight stream handled in connection with the growing volume of passenger traffic and the number of third-party 1,435 mm gauge rail freight companies operating on the Ukrainian direction.

The conflict associated with the war in Ukraine has generated a number of consequences, such as the loss of traffic from services provided on the interface with Russian Railways (RZD) – mainly for coal and metals, Belarusian Railways (BC) and on the so-called New Silk Road intermodal traffic.

Armed conflict in Ukraine

The armed conflict in Ukraine has directly affected global supply chains. PKP CARGO, as a national rail freight operator, has focused its attention on adapting to rapidly changing market challenges. The situation in Ukraine has become an element of the strategy, with the Group actively participating in the handling of cargo between Poland and Ukraine. The Group has become involved in handling the movement of products for which transport routes have been disrupted as a result of the conflict initiated by Russia. EU sanctions against Russia and Belarus have resulted in a decrease in freight volumes along the New Silk Road and have prompted PKP CARGO to intensify its activity in the Three Seas Initiative area. Investments in modern rolling stock and the expansion of the multimodal terminal in Zduńska Wola – Karsznice have become a step towards taking advantage of greater intermodal freight potential in the years to come, especially in the context of the dwindling transport volumes along the New Silk Road. Moreover, PKP CARGO adjusted its operations to the change in the direction of coal consignments, as after the imposition of sanctions imports from Russia were replaced by imports from other continents to Polish and foreign ports. This resulted in an increased volume of coal freight from ports to domestic customers.

Despite the adverse impact of the armed conflict in Ukraine, the PKP CARGO Group is constantly monitoring and taking corrective actions in terms of the services it offers. Due to the uncertain date of the end of the war in Ukraine, the possibilities for planning operations in the eastern direction are limited. Currently, trade exchange between Poland and Ukraine must be arranged in the context the ongoing conflict. The emergence of North-South transportation routes linking the East with Western Europe through the Three Seas Initiative countries may reduce the economic distance between these regions.

Situation in Poland's key industries in 2023

In 2023, the poor and deteriorating economy, both domestically and in major trading partners, was the crucial factor for rail freight and for industrial output in the country. In 2023, the following significant factors affected the volume of freight and growth of the PKP CARGO Group:

Mining industry

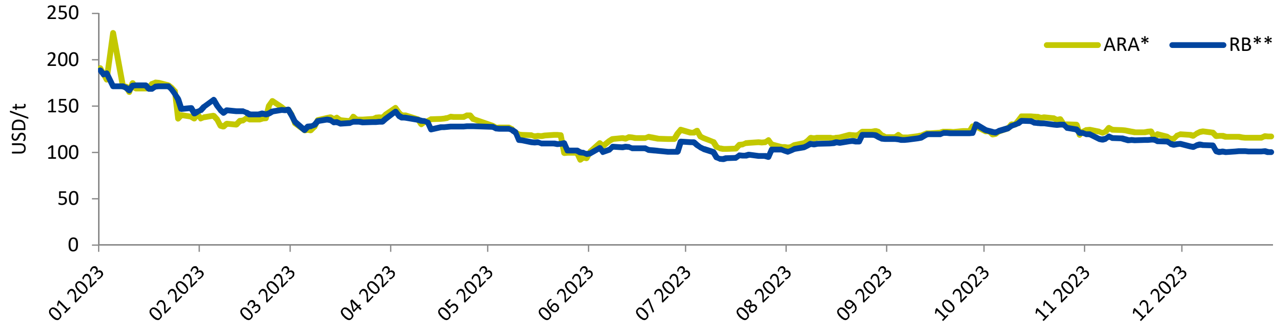
In 2023, the domestic coal market was in the midst of a period of structural transition, with the coal distribution network and the directions of supply of this commodity to Poland also undergoing some fundamental changes. The mining sector's increasing operating expenses significantly drove up the price per ton of coal in the domestic market, denting its competitiveness vis-à-vis foreign commodities.

- The coal sector, as a key factor in PKP CARGO S.A.'s freight performance, remains under pressure from increasing expenses and decreasing prices on the global market, coupled with a growing risk of an accelerated shift away from coal, which may cause disruptions in the energy market that may specifically hit distinct mining-related entities. Problems on the coal market take a significant toll on the volume of PKP CARGO S.A.'s transport services.
- decline in hard coal output in 2023 to 48.4 million tons (-4.5 million tons, or -8.5% yoy), signifying another marked reduction in domestic coal production.
- sharp decline in domestic hard coal sales in 2023 to 46.1 million tons (-6.3 million tons yoy, or -12.1% yoy). At the same time, in the period under analysis, sales of hard coal turned out to be lower than its output by -2.3 million tons.
- increase in the volume of coal inventories in mine storage yards: 4.2 million tons as at the end of December 2023 (up by +2.0 million tons, or +91.6% yoy). From month to month, inventories grew from 1.8 million tons in January, to 3.3 million tons in the middle of the year, to 4.2 million tons in November.
- decrease in hard coal imports, which, according to Eurostat data, declined by -16.2% yoy to 16.9 million tons in 2023 (with a major diversification of supply directions). Colombia was the new main supply source of this commodity (+98.1% yoy, from 2.6 million tons to 5.2 million tons, which translated into a 30.4% market share). The second largest exporter of coal to Poland was Kazakhstan (4.5 million tons, +50.2% yoy and a share of 26.6%), followed by Australia (1.5 million tons, -50.2% yoy, with a share of 9.1%). Then came Indonesia (1.2 million tons, -31.0% yoy with a 7.1% share) and South Africa (nearly 1.2 million tons, -58.6% yoy and a 7.0% share). Russia has not been exporting any coal to Poland since

June 2022 (due to the embargo imposed by Poland in April 2022 on raw material imports from the Russian Federation). In 2023, the top five suppliers accounted for nearly 80.3% of Poland's coal imports (up from 65.9% in 2022), with a significant fragmentation of other supply sources.

- decrease in hard coal imports, which, according to Eurostat data, declined by -7.1% yoy to 16.2 million tons during the first 11 months of 2023 (with a major diversification of supply directions). Colombia was the new main supply source of this commodity (+130.3% yoy, from 2.1 million tons to 4.9 million tons, which translated into a 29.9% market share). The second largest exporter of coal to Poland was Kazakhstan (4.3 million tons, +66.7% yoy and a share of 26.4%), followed by Australia (1.5 million tons, -46.2% yoy, with a share of 9.5%). Then came Indonesia (1.2 million tons, -11.7% yoy with a 7.4% share) and South Africa (nearly 1.2 million tons, -47.8% yoy and a 7.3% share). Russia has not been exporting any coal to Poland since June 2022 (due to the embargo imposed by Poland in April 2022 on raw material imports from the Russian Federation). In 2023, the top five suppliers accounted for over 80.6% of Poland's coal imports (up from 64.1% in 2022), with a significant fragmentation of other supply sources.[54]
- decrease and stabilization of global coal prices coupled with stronger international demand: despite further increases in demand for the commodity from major Asian economies (which, despite an increase in their own production, required significant coal imports), and because the gas market stabilized in 2023, the market saw a perceptible decline and stabilization of coal prices. Coal prices at ARA ports have remained practically unchanged since September 2023, yet they were down by as much as -52.4% yoy in December 2023. Market prices started to stabilize (with some periodic fluctuations) already in March of last year; after reaching USD 229 per ton at the beginning of the year, they gradually decreased as the year went by to drop below USD 120 per ton at the end of the year due to the contractually secured supplies to Europe for the winter (and full gas storage facilities). At the end of the year, coal inventories at the ARA hub reached 5.5 million tons, down by 800 thousand tons from the beginning of 2023.[55]

Figure 30 Current and historical values of coal price indices on the European ARA* vs. RB** markets

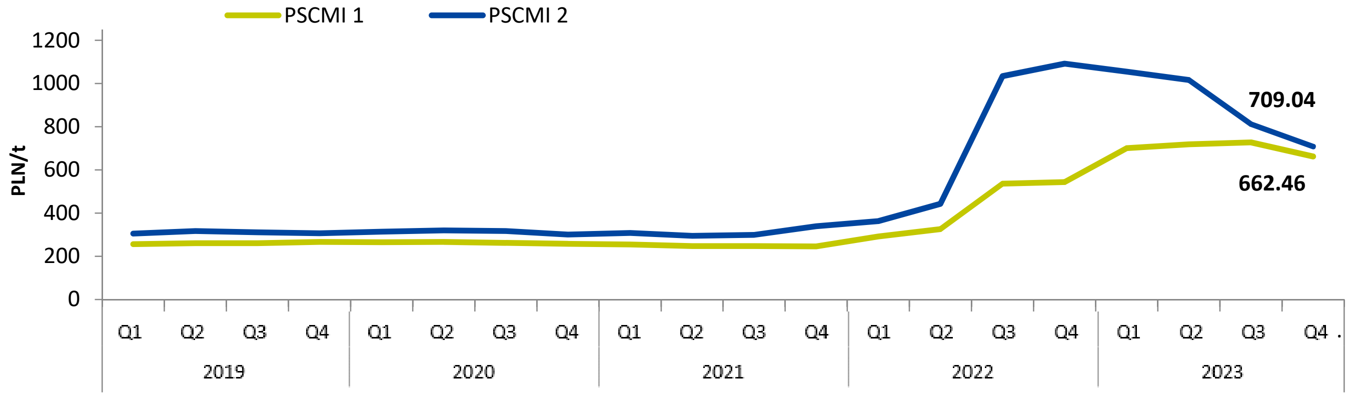


** ARA – Amsterdam, Rotterdam and Antwerp;*
*** RB – Richards Bay (South Africa)*
Source: Proprietary material based on Virtual New Industry data.

- stabilization of prices on the Polish coal market at new higher levels (with a marked reduction in prices in H2 2023). In 2023, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 699.62 per ton. PSCMI 2 in this period was PLN 895.71 per ton. The significant increase in the annual index value takes into account the increase in commodity prices in 2022 caused by the renegotiation of previously executed coal supply contracts by mining companies with counterparties, which resulted from a significant jump in prices on global markets, but at the same time led to a sizeable long-term increase in the cost of domestic energy generation.[56]

[54] Eurostat – data for the first 11 months of 2023
[55] WNP – coal price quotations (monthly contracts)
[56] Industrial Development Agency – Announcements – Domestic coal indices – December 2023 quotation (adjusted)

Figure 31 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.

- decrease in electricity consumption in Poland in 2023 by -3.4% yoy to 167.5 TWh.[57]
- decrease in electricity output by -6.6% yoy to 163.6 TWh from January to December 2023. In parallel, the volume of electricity generated by hard coal-fired commercial power plants decreased by -12.7% yoy (to 76.6 TWh) and, at the same time, for lignite-fired power plants by -26.4% yoy (to 34.6 TWh). In the same period, gas-fired power generation increased by +36.5% yoy, while wind power generation improved by +20.2% yoy.[58]
- gradual decline in the significance of hard coal in the national energy mix: decrease in the share of hard coal in total energy output to 46.8% (-3.3 p.p. yoy, following a drop to 50.1% in 2022, or -3.5 p.p. yoy).[59]
- the ban on the import/transit of coal and coke from the Russian Federation and Belarus that has been in force in Poland since April 2022 was imposed as part of the fifth package of European Union sanctions covering the Community (effective as of 10 August 2022) and has been effectively preventing imports of Russian coal to Poland.[60]
- significant decrease in thermal coal consumption in both Poland and the Czech Republic;[61] the "Program for the hard coal mining industry in Poland" calls for a gradual reduction in hard coal consumption and a relatively slow transition away from coal over the next decades. However, the tightening of climate policy by the EU and numerous investments in lower-emission sources in the domestic market may suggest an accelerated phasing out of coal in Poland;[62]
- the historically high price of CO_2 emission allowances translates into a significant burden on the production process and reduces the profitability of coal use;
- changes in the plan to shut down the hard coal mining industry in the Czech Republic (which assumed that hard coal mining operations will cease by the end of 2022 at the latest) and the extension of mining operations until at least 2025 do not fundamentally change the situation in the Czech mining industry;

Construction industry

- Increase in construction and assembly output by +5.0% yoy (compared to +6.2% yoy in 2022).[63] Increased performance was recorded in the sections of construction and assembly output dealing with specialized construction work (+2.7% yoy) and civil engineering construction (+11.3% yoy). Large infrastructural programs continued to drive growth, which resulted to a certain extent from the need to settle funds from the 2014-2020 EU budget framework nearing completion. A slight decline was posted by companies engaged in building construction (-1.3% yoy), which was due to a weak start of last year in housing construction and a significant increase in activity in the second half of last year (owing to a drop in interest rates, a noticeable increase in the creditworthiness of Poles and the "Safe 2% loan" program).[64]
- Decrease in cement production in Poland by -11.9% yoy to 16.6 million tons with a concurrent decline in cement clinker output by -13.3% yoy to 12.7 million tons.[65]

[57] Polskie Sieci Elektroenergetyczne – Monthly reports on the operation of the Polish Power System and the Balancing Market
[58] Polskie Sieci Elektroenergetyczne – Monthly reports on the operation of the Polish Power System and the Balancing Market
[59] Polskie Sieci Elektroenergetyczne – Monthly reports on the operation of the Polish Power System and the Balancing Market
[60] Gov.pl – Act of 13 April 2022 on Special Solutions to Counteract Aggression against Ukraine and to Protect National Security, and Consilium.europa.eu (EU sanctions against Russia)
[61] Gov.pl – Poland's Energy Policy until 2040, Program for the hard coal mining industry in Poland
[62] WNP – Power sector, Mining
[63] Statistics Poland, in construction companies, including enterprises with up to 9 staff – The country's socio-economic situation in 2023
[64] Statistics Poland – The country's socio-economic situation in 2023
[65] Statistics Poland – Production of major industrial products in December 2023 – tables.

- The ban on cement imports from Belarus (as of 4 June 2022, in connection with the sanctions imposed by the European Union) redirected customers to other markets, including the Ukrainian one, eager to fill in the supply gap. In 2016-2021, the volume of cement imported from Belarus increased from 119 thousand tons to 538 thousand tons (a similar scale of imports from Ukraine is possible, which might trigger protests by Polish manufacturers).[66]
- In 2023, the General Directorate for National Roads and Motorways (GDDKiA) commissioned 19 new road sections with a total length of nearly 267 km (which translated into an extension of the road network to 5,115.6 km of expressways, of which 1,849.2 km are motorways and 3,266.4 km are expressways). 103 projects with a total length of 1,298.6 km remain in progress. There are currently 34 projects at the stage of tender procedure with a total length of 435.2 km under the National Road Construction Program (NRCP) and 9 ring roads under the governmental Program for the Construction of 100 Ring Roads for 2020-2030 (PB100) with a total length of 72 km. During the year, a tender was announced for the construction of 42 sections of new roads with a total length of 530.6 km. At the same time, GDDKiA signed 16 contracts for projects with a total length of 216 km.[67]
- The government's National Road Construction Program until 2030 (with an outlook until 2033), prepared in December 2022, assumes the financing of projects within a total limit of PLN 294.4 billion – the government's plan is to complete the construction of a consistent core road network in Poland to ensure the efficient operation of transport (especially in the context of reduced funding from the European Union for this purpose in the upcoming budget frameworks due to the redirection of funding to energy transition and other goals).[68]
- The estimated value of rail investment projects in Poland is growing – within the EU budget framework for 2021-2027, approx. PLN 80 billion has been allocated for this purpose (funds to be used substantially until the end of 2030, with an option to extend selected programs until 2032); in 2023, for the most part, funds were used from the 2014-2020 EU budget framework (which provided for total funds of approx. PLN 79 billion, and a significant percentage of this amount was spent last year), while starting in 2024 funds will be available under the gradually released funds from the National Recovery Facility (with PLN 11 billion scheduled to be spent). In parallel, last November, the Government updated the National Railway Program (by aligning, among other things, the scope of the Program with the increased available pool of funds from the EU and by recapitalizing PKP PLK S.A.).[69]
- Relatively high cost of capital and the absence of reasonable prospects for its rapid decline, with the prices for energy, energy commodities and construction materials remaining at their record high levels, coupled with the expected continued weakness in private investment;
- The high cost of coal of the proper quality and parameters for cement plants, the lingering significant share of high-carbon sources in Poland's electricity production, the significant contribution of energy to the cost of cement production and the expected prolonged high electricity prices (way above the multi-year average)[70] may effectively limit current cement output.[71]
- The cement sector depends heavily on commodity prices and emission costs. The already high and likely to become higher in the coming years costs of CO_2 emission allowances and, at the same time, the perceptible increase in expenses associated with the purchase of raw materials and energy compared to previous years, and the introduction of the CBAM mechanism in the European Union, will drive up cement prices even further,[72] while economic recovery may trigger a significant increase in costs, which will seriously hit businesses operating in Poland and may exert an unfavorable impact on the risk of weak growth in this segment, and therefore limited demand for transport in this area.

Steel industry

- Decisive impact of the unfavorable economic situation on the conditions prevailing in the steel market and on the performance of the steel sector as a whole – a significant cooling of the market for steel and steel products. The high energy prices and the cost of CO_2 emission allowances continue to hinder the restoration of the industry's full potential. The reduced output capacity (caused by months of shutdowns, upgrades and overhaul work), especially due to weak demand from core customers (construction and automotive) and relatively lower prices compared to previous years (with competitive prices of imported goods) are pushing away the prospect of the sector returning to operating at full speed.
- Growing risk of unprofitable production in Europe – the lingering high prices of commodities, energy and CO_2 emission allowances are suppressing production in Europe.[73] The steel industry is under strong pressure from increasing energy costs and the high prices of energy carriers, which ramps up the risk of withdrawal of a significant portion of production capacity away from Europe. Members of leading producer groups may reduce their output in Poland and the Czech

[66] Consilium.europa.eu (EU sanctions against Russia), money.pl (business and economy), WNP (construction sector)
[67] General Directorate for National Roads and Motorways – Summary of 2023
[68] General Directorate for National Roads and Motorways and gov.pl – National Road Construction Program until 2030 (with an outlook until 2033)
[69] Gov.pl – Infrastructure – National Railway Program (KPK)
[70] Polskicement.pl – News
[71] WNP – Construction sector, construction materials
[72] WNP – Construction sector, construction materials
[73] WNP – Large increases in CO2 prices are only several years ahead

Republic, thereby potentially further suppressing transport volumes of finished goods and necessary raw materials (or semi-finished products);

- The key sectors for the growth of the steel market in the European Union are the construction industry (consuming some 35% of steel) and the automobile sector (about 18% of consumption),[74] which are industries that strongly depend on business fluctuations and the economic situation of consumers and commercial undertakings (at the same time generating more than 50% of steel consumption);
- Stabilization of global crude steel output: according to Worldsteel data, production stood at 1,849.7 million tons (-0.1% yoy).[75]
- Decline in steel output in the European Union: production stood at 126.3 million tons (-7.4% yoy).[76]
- Stabilization of steel output in Asia (including Oceania): production totaled 1,367.2 million tons (+0.7% yoy), of which China produced 1,019.1 million tons of steel (no change yoy), with an approximately 54% share in the global market. India follows with production of 140.2 million tons of steel (+11.8% yoy).[77]
- Decrease in steel production in Poland: by -13.3% yoy to 6.5 million tons.[78]
- Decline in the output of steel products in Poland: production of hot-rolled products decreased by -2.6% yoy to 7.5 million tons, cold-rolled sheets by -8.5% yoy to 1.1 million tons, bars and flat bars by -10.3% yoy to 3.1 million tons, and hot-rolled bars and rods by -19.0% yoy to 1.1 million tons. At the same time, the output of thin sheets increased slightly (by +5.7% yoy to 1.0 million tons).[79]
- Decrease in coke output in Poland: by -6.5% yoy to 7.9 million tons,[80] caused by a decrease in demand for steel in Europe, suppressed by, for the most part, the strong economic slowdown and persistently high energy costs coinciding with relatively low coke prices and reduced profitability of coke production.[81]
- Russia's invasion of Ukraine has resulted in disrupted or broken supply chains (largely due to sanctions on Russian producers and reduced production capacity in Ukraine).[82]

Chemical industry

- Strong dependence of the liquid fuels and chemicals sector on the changes in economic trends (the growth rate is correlated with the GDP growth rate). The downturn in activity in the Polish economy has led to a noticeable reduction and significant fluctuations in output in the chemical sector (with a decline experienced by counterparties in Europe coupled with the strong increase in the prices of energy and raw materials used in production), whose production capacity supports other industries and largely depends on the demand they generate.
- The chemical sector remains under strong pressure from high energy costs and relatively low prices of finished goods, which generates an increased risk of suppressed capacity utilization.
- The elevated uncertainty caused by the war in Ukraine, the high energy prices (reflecting the energy crisis in Europe) and the high inflation rates are driving further price increases for numerous components (with product prices falling in parallel).
- Decline in the output of fertilizers in Poland: including nitrogenous fertilizers (-12.5% yoy to 1.5 million tons), potassic fertilizers (-22.4% yoy to 0.2 million tons) and phosphorous fertilizers (-35.7% yoy to 0.2 million tons).[83] Another difficult year in the fertilizer market (following the sharp declines in 2022). Low margins in H1 2023 effectively curtailed the sector's output. Market conditions improved in Q3, when fertilizer prices on the global market increased, while relatively lower gas prices (due to a high level of inventories of this commodity in European storage facilities) supported production. In Q4, conditions deteriorated slightly. Fertilizer imports from outside the European Union (especially from Russia) remain a problem, as does the slow normalization of gas prices, which account for a significant share of production costs (up to several dozen percent).[84]
- Declines in the domestic output of chemical products: plastics (-16.6% yoy to 2.9 million tons), sulfuric acid (-16.5% yoy to 1.2 million tons), ammonia (-14.6% yoy to 1.8 million tons) and nitric acid (-5.5% yoy to 1.9 million tons).[85] Increased domestic output of diesel fuel (+7.9% yoy to 15.4 million tons) and motor gasoline (+18.2% yoy to 5.1 million tons).[86] Slight increase in oil imports during the first 11 months of 2023 by +0.8% yoy to 23.2 million tons (by 0.2 million tons).[87]
- In the first three quarters of 2023, domestic consumption of liquid fuels increased by +6.2% yoy (as reported by the Polish Industry and Trade Organization), resulting largely from the importance of Poland as a transit country and a key

[74] Eurofer – Economic and market outlook
[75] Worldsteel.org (output of Worldsteel member producer countries, which accounts for some 98% of global production) – crude steel production.
[76] Worldsteel.org – crude steel production
[77] Worldsteel.org – crude steel production
[78] Statistics Poland – Production of major industrial products in December 2023 – tables.
[79] Statistics Poland – Production of major industrial products in December 2023 – tables.
[80] Statistics Poland – Production of major industrial products in December 2023 – tables.
[81] WNP – Steel mills
[82] WNP, Rzeczpospolita – news on the impact of sanctions on trade exchange
[83] Statistics Poland – Production of major industrial products in December 2023 – tables.
[84] strefaagro.pl – market forecasts and analysis of last year's situation
[85] Statistics Poland – Production of major industrial products in December 2023 – tables.
[86] Statistics Poland – Production of major industrial products in December 2023 – tables.
[87] Statistics Poland – Statistical Bulletin – December 2023

country for delivering supplies to fighting Ukraine, the drop in prices relative to 2022, the pricing policies of the largest operators and the withered rate of growth of the Polish economy. In the case of three key liquid fuels (motor gasoline, diesel fuel, LPG), the increase was +6.3% yoy and consumption was 26.7 million cubic meters.[88] Sustained price increases and strong fluctuations in the commodities markets (gas, oil and others).

- The tough situation of fertilizer producers results from elevated gas prices coupled with rising production costs due to high prices of CO_2 emission allowances (gas prices account for a several dozen percent share in the cost of nitrogen fertilizer production).
- The expansion of the pipeline network (including a second line from Gdańsk to Płock) along with connections with other countries in the region and the potential launch of local hydrogen production in line with a clear path to move away from fossil fuels in transportation are likely to suppress demand for transporting liquid fuels by rail.[89]

Automotive sector

- Increase in car production in Poland by +17.3% yoy and reversal of the previous downward trend. A total of 299.3 thousand passenger cars were manufactured in Poland in 2023 (compared to 255.1 thousand in 2022, 260.8 thousand in 2021 and 278.9 thousand in 2020). The increase resulted largely from the normalization of supply chains, investments in production capacity in recent years, production backlogs from previous years and a decline in the cost of capital. However, these numbers are still way below the production level of 2018-2019 (when Polish factories were manufacturing over 400,000 vehicles annually).[90]
- Domestic output of trucks and tractors increased significantly – from 223.7 thousand in 2022 to 308.5 thousand in 2023 (+37.9% yoy). Production figures also significantly exceeded the results of 2017-2021, when output was shy of 208.0 thousand vehicles annually. Production of buses also increased somewhat (by +1.3% yoy to 5.1 thousand);[91]
- Motor vehicle engine production increased to nearly 2.4 million (by +20.9% yoy, following a +23.0% yoy increase in 2022). Significant changes in recent years were caused by increased investments and a substantial shift in the scale of production (in 2017-2018, just over 1.3 million engines were manufactured annually; in 2019-2021, the threshold of 1.6 million pieces per year was not exceeded). In 2023, nearly 87% of all engines manufactured in Polish plants were compression-ignition (diesel) engines;[92]
- A complete remodeling of the industry is in progress, with production methods being altered rapidly (establishment of separate lines and plants for electric cars, construction of large-scale battery factories, etc.). If European automotive manufacturers are too slow with their changes, this may significantly affect production capacity and offset the favorable effect of a gradual rebound from high inflation, which poses a major risk due to strong competition from the United States and Chinese players, among others. Production growth in Poland should be rather moderate and is unlikely to translate into a significant increase in the sector's transportation needs.

Intermodal segment

- Decrease in the share of intermodal transport in the structure of rail transport. According to data published by the Office of Rail Transport, in Q3 2023, the share of intermodal transport in total rail freight decreased to 10.26% (-0.42 p.p. yoy) in terms of freight volume and to 13.03% (-1.26 p.p. yoy) in terms of freight turnover.
- Decline in key parameters in intermodal transport during Q3 2023. Freight volume of 17.7 million tons was transported and freight turnover stood at 6.0 billion tkm. The volume of freight carried decreased by -2.3 million tons, or -11.4% yoy. At the same time, realized freight turnover decreased by -0.6 billion tkm, or -9.5% yoy. The withering global economy continued to put a brake on the exchange of goods. The number of cargo units also declined (-13.3% yoy) with a simultaneous decline in TEU shipments (-17.8% yoy).[93]
- The ongoing war in Ukraine continues to considerably constrain the volume of East-West shipments and exerts a tangible impact on the weakening of the intermodal segment. The Russian Federation's aggression against Ukraine has to a great extent remodeled the logistics of freight operations carried out previously over rail transport routes connecting Asia with the European Union (Poland's position as a transit country for shipments from the Far East has been considerably undermined – the declines reach up to several dozen percent). The uncertain geopolitical situation and the economic slowdown in China, coupled with a significant increase in the cost of insurance for goods imported along the New Silk Road have prompted a search for alternative supply routes, especially in light of the relatively low prices of sea freight and the growing potential in this area. Accordingly, a significant portion of goods are imported to Europe by sea, bypassing the transit routes passing through Poland.

[88] Polish Organization of Oil Industry and Trade – "Consumption of liquid fuels after 3 quarters of 2023"
[89] WNP, Money.pl, BiznesAlert.pl – current information on the development of the national transmission network
[90] Polish Automotive Industry Association – Automotive market
[91] Polish Automotive Industry Association – Automotive market
[92] Polish Automotive Industry Association – Automotive market
[93] Office of Rail Transport – Intermodal transport (operating data)

- The development of efficient intermodal transport is curtailed by the very low velocity of rail freight operations in Poland contrasted with the efficiency of road freight operators;[94]
- The projected economic recovery should offset the risks associated with dampened freight activity in this area, although owing to the shift in freight directions and the competitive nature of ocean freight, freight volumes will continue to stay way below multi-year forecasts.

Situation in key industries in the Czech Republic in 2023

Czech coal sector

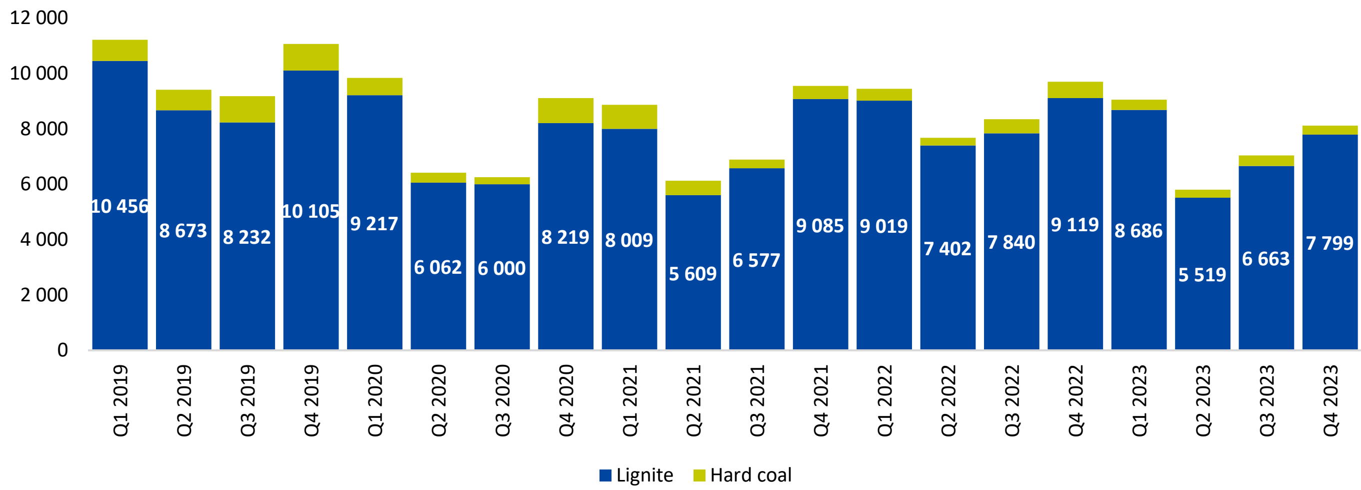
Decline in Czech coal output in 2023. Production stood at nearly 1.4 million tons (0.5 million tons of coking coal and 0.9 million tons of steam coal). The decline by -24.3% yoy in the volume of coal mined was largely caused by weaker demand for this commodity generated by customers and the gradually implemented plan to move away from coal in the coming years.

Still significant for the Czech economy is the mining of lignite (as this commodity accounts for a major portion of all fuels consumed by the Czech conventional power sector), which, however, due to the economic downturn and limitations on the part of customers, decreased by -14.1% yoy (from 33.4 million tons to 28.7 million tons).[95]

Decrease in hard coal output in Q4 2023: the volume of hard coal mined was nearly 0.4 million tons (-25.9 yoy), which included 0.05 million tons of coking coal (-65.8 % yoy) and nearly 0.3 million tons of steam coal (-38.9% yoy). This was the fourth consecutive quarter with hard coal output below 0.4 million tons.[96]

Extension of coal mining in CSM in Stonava (the last active hard coal mine in the Czech Republic). Following the extension of permissible mining operations until mid-2026 (mining must be extinguished thereafter), the mine produces approx. 1 million tons annually (given that the importance of hard coal in the Czech Republic declining, lignite remains crucial to the country's energy system).[97]

Figure 32 Quarterly output of hard coal and lignite in the Czech Republic in 2019-2023 (in thousands of tons)



Source: Proprietary material based on data from the Czech Ministry of Industry and Trade.

Czech metallurgical sector

Drop in coke output. In 2023, coke production in the Czech Republic was 1.9 million tons (-19.3% yoy). This is due to restrictions imposed on the operation the metallurgical industry in the Czech Republic and Europe (including due to the decline in market demand and prices with a concurrent maintenance of high energy costs necessary for production) as well as related sectors (including the construction sector).[98]

Significant decline in Czech crude steel output, which reached 3.4 million tons (-21.1% yoy).[99] On 29 November 2023, LIBERTY Ostrava was granted a special moratorium on "preventive restructuring" (under Czech Act No. 284/2023, which came into force on 23 September 2023 and permits Czech companies in distress to undergo a restructuring procedure outside of formal

[94] portalsamorzadowy.pl, WNP – News from the logistics sector
[95] Czech Ministry of Industry and Trade – Power sector (statistics)
[96] Czech Ministry of Industry and Trade – Power sector (statistics)
[97] glos.live – "Stonava: the mine will not live to see its 60th birthday"
[98] Czech Ministry of Industry and Trade – Power sector (statistics)
[99] Worldsteel.org – crude steel production

bankruptcy proceedings), which includes the suspension of the obligation to provide services to the main energy supplier and aims to secure energy at more competitive prices (after the doubling of its share in total production costs).[100]

Czech automotive sector

Growth in the output of the automotive industry: a total of 1.41 million motor vehicles of various types (passenger cars, trucks, buses and motorcycles) were produced in the Czech Republic, representing an increase by +14.6% yoy.[101] In 2023, nearly 1.40 million passenger cars were produced, up by +14.8% yoy. Last year, the output of trucks also increased (by +6.3% yoy, to 1.43 thousand), while the production of buses declined slightly (by -1.3% yoy, to over 5.25 thousand), accompanied by a major slump in the production of motorcycles (-53.5% yoy, to just under 0.76 thousand).[102] The industry's performance should be supported by a gradual recovery in demand both domestically and internationally (stemming from a normalization of fuel and energy prices, a slow recovery in global markets and improved consumer sentiment, driven by a gradual decline in the inflation rate and interest rate cuts).

Czech chemical sector

The chemical industry is one of the Czech economy's leading industries in terms of its contribution to the country's GDP, in addition to being a highly export-oriented industry (strongly intertwined with a major trading partner, namely Germany) and ensuring support for the growth of other sectors of the national economy. Entities operating in this sector are involved in the manufacture of chemicals and chemical products, pharmaceuticals, rubber and plastic products (they act as key sub-suppliers to the automotive industry, which is the Czech Republic's primary export industry). Approximately 10% of revenue is generated through business dealings with Polish companies (due to significant economic and capital ties between the two countries, including the Orlen Unipetrol Group's operations).[103] Due to falling prices and the market downturn, a number of manufacturers reduced the scale of output in an effort to retain their production potential and sufficient margin levels (in a situation of limited revenue).

The ORLEN Unipetrol Group (a member of the Orlen Group since 2005) is the largest refining and petrochemical company in the Czech Republic, processing crude oil and manufacturing, distributing and selling automotive fuels and petrochemical products (including plastics and fertilizers). The Group has its own rail component, which is being gradually developed (new locomotives are being purchased and investments in the ECTS system are being made). The operator is one of the significant rail freight forwarders in the Czech Republic, and in collaboration with its business partners it carries out shipments to neighboring countries, the Netherlands and the Balkans.[104]

Czech construction sector

The construction market in the Czech Republic in 2022 was valued at USD 51.5 billion (up from USD 48 billion in 2021). Globaldata analysts predict that the market will grow by roughly +3% yoy between 2024 and 2027, driven by an increase in investment in residential construction (which will be spurred by a gradual decline in inflation and interest rates), electricity distribution systems and continued development of transport infrastructure.[105]

In September 2023, the European Commission approved a modified National Recovery and Resilience Plan (NRRP) worth EUR 9.2 billion. According to the NRRP, a significant portion of the funds (43%) will be allocated to green transition (including energy efficiency improvements in buildings).[106]

Last October, the European Investment Bank signed a EUR 992 million loan agreement with the Czech Ministry of Finance to support the modernization and safety improvement of Czech railroads (the largest-ever EIB loan to the Czech Republic), which covers, among other areas, investment in the development of TEN-T lines and installation of modern signaling equipment (ERTMS).[107]

Rail infrastructure

For years, infrastructural projects have been carried out to improve the quality of infrastructure, especially on key rail lines crucial for PKP CARGO S.A.'s operations. In 2024, the degree of line capacity constraints and the inconvenience of ongoing infrastructural investments, maintenance and repairs are expected to remain at a level similar to 2023, largely due to delays in the implementation of the National Railway Program and the extension of its projects until 2027. At the moment, no threats to the network are apparent that might arise from potential infrastructure constraints significantly affecting the scope of access to (any key elements of) infrastructure or unfavorable changes or regulations in this respect.

[100] Liberty Ostrava – Press Releases
[101] AutoSap – Manufacture and sale of vehicles
[102] AutoSap – Manufacture and sale of vehicles
[103] doingbusiness.cz – Czech Business and Trade
[104] orlenunipetroldoprava.cz – Press releases
[105] globaldata.com – Czech Republic Construction Market Size
[106] European Commission – Czechia's recovery and resilience plan
[107] EIB – "Czech Republic: EIB signs CZK 24 billion green funding for railway modernization"

The development of rail freight operations, including intermodal transport, is associated with the need for the line infrastructure manager to ensure appropriate parameters and accessibility of the rail network. In Poland, rail lines have not been codified following the example of neighboring countries and no significant facilitation exists for the ordering of routes and the provision of transport services. Moreover, the absence of information on the possibility of performing operational activities at transshipment points exerts a negative impact on the working time of traction crews and rolling stock circulation.

Technical regulations related to rolling stock

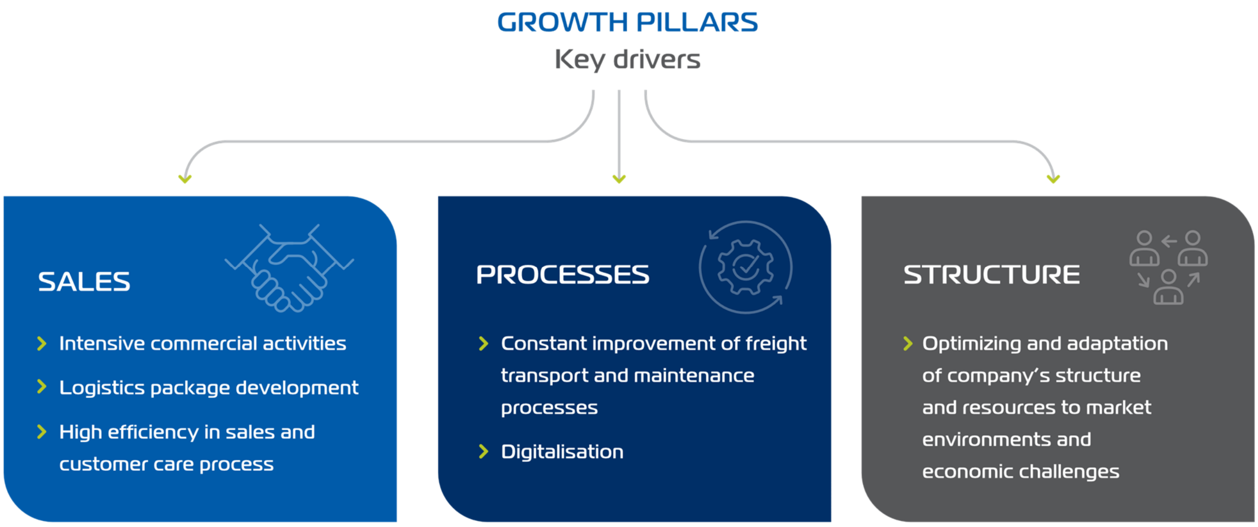
The rolling stock used in rail transport must meet appropriate technical standards and requirements, which determine the scale of the Group's modernization and repair activity. Investments in this area are directly related to the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. The number of periodic repairs and periodic overhauls performed in each period results from the cycles defined in Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport.

6.3. Description of the growth strategy and prospects and development policy of the Company and the PKP CARGO Group at least in the next financial year

PKP CARGO Group's Strategy for 2019-2023

On 30 January 2023, the Company adopted the "Revision of the PKP CARGO Group's strategy for 2019-2023" containing various adjustments to the Group's strategic objectives for 2023. These revised objectives were pursued during the reporting period in several key areas, with the Company focusing on improving organizational efficiency, including its operational and financial aspects. These endeavors included continued digitization and optimization of the use of rolling stock and own transshipment terminals. The Company also continued its previously adopted rolling stock strategy by carrying out assignments related to both the renewal of its existing rolling stock and the purchase of multi-system locomotives.

The graph below presents the Company's activities focused on the previously defined three pillars of growth.



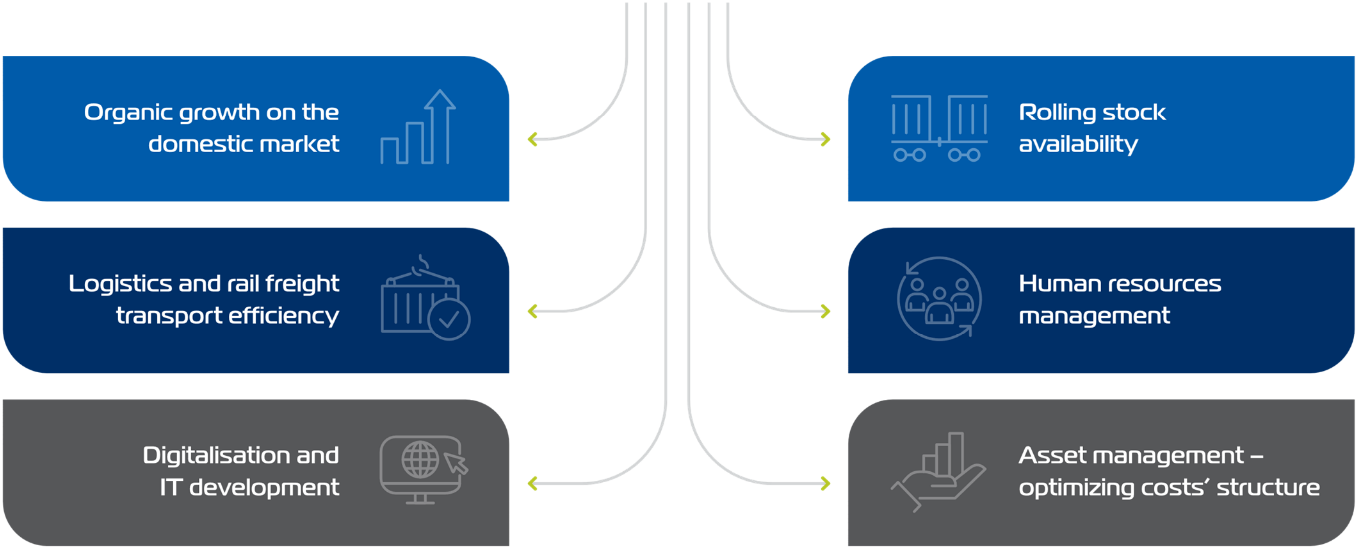
Following through on the provisions of the Company's revised strategy for 2023, the Company has also developed the PKP CARGO Group's Long-Term Growth Plan for 2024–2028. It will be presented in 2024.

In the next financial year, the Company will follow the growth path of building a wide range of logistics services including freight, terminal services, distribution, warehousing and support services, in line with the adopted ESG policy.

The graph presented below illustrates the Company's growth pillars, in terms of top priority strategic initiatives.

GROWTH PILLARS

Strategic initiatives of highest priority



The above strategic initiatives also represent a continuation and further development of some of the activities already underway. These initiatives are aimed at a strong internal strengthening of the PKP CARGO Group enabling the Company to regain its share in the domestic market and develop efficient logistics operations in the rapidly growing market of the Three Seas Initiative countries.

The strategic objectives have been achieved through the pursuit of initiatives establishing functional strategies for the PKP CARGO Group's key areas of activity. These endeavors are aimed at developing a broad range of logistics services, including freight, terminal services, distribution, warehousing and support services. It is necessary to intensify digitization to tap into additional opportunities arising from the provision of comprehensive services and to reach customers. An important element of this operating model is the ability to use the Group's own transshipment terminals. Also, freight-related processes are being improved in terms of planned changes in the organization as well as the implementation of IT solutions. A systematic modernization and profiling for the planned development of owned rolling stock, including multi-system locomotives, will be an important factor ensuring the efficiency of transport. Within the framework of the Group's organic growth, an ambitious goal of regaining the domestic market share by 2027 has been adopted.

PKP CARGO Group's ESG Strategy for 2024-2028

Rail transport is already a means to reducing the carbon footprint of freight operations and cutting down on emissions of dusts and other pollutants. Accordingly, the PKP CARGO Group's core line of business – rail freight – serves as the essence of sustainability.

To meet stakeholder expectations, the PKP CARGO Group developed and announced its first ESG strategy in December 2023. It was assumed to be in place for 5 years and to address the ESG area in a comprehensive manner, covering pertinent environmental, social and governance issues. The ESG Strategy is rooted in its strategic objective.

Strategic objective:

The Company has adopted as its strategic objective the active shaping of the rail market as the most sustainable form of freight operations, through investment, innovation, market education and the pursuit of excellence in management.

Furthermore, the PKP CARGO Group has announced 8 specific objectives, which are measured and described in detail in the Sustainability Report.

8 objectives of the ESG Strategy

1. We will include ESG criteria into the process of modernization and purchase of rolling stock. The criteria shall encompass decarbonisation needs in key business activities of the Group
2. We will implement the circular economy principles and reduce use of resources
3. We will strengthen human capital by new talent acquisition, creation of safe, comfortable and diverse workplace
4. We will strive towards change of energy model based on higher share of renewable energy sources, specific for rail cargo transport
5. We will build awareness of benefits arising from sustainable transformations both internally and within value chain
6. We will create sustainable product offer based on ESG activities
7. We will intensify the dialogue with stakeholders in order to better address their needs and to build partnerships
8. We will optimize and digitalize business processes and cargo transportations through ESG mindset

7. Other information and events

7.1. Information on PKP CARGO S.A. shares

7.1.1 Investor Relations

PKP CARGO S.A., as a public company listed on the Warsaw Stock Exchange since 2013, undertakes communication activities aimed at presenting the most reliable image of the Company. The overarching goal of communication activities carried out within the framework of maintaining investor relations is to present the Company's financial situation to investors and to provide equal access to information to all market participants in a way that it is clear and transparent to all.

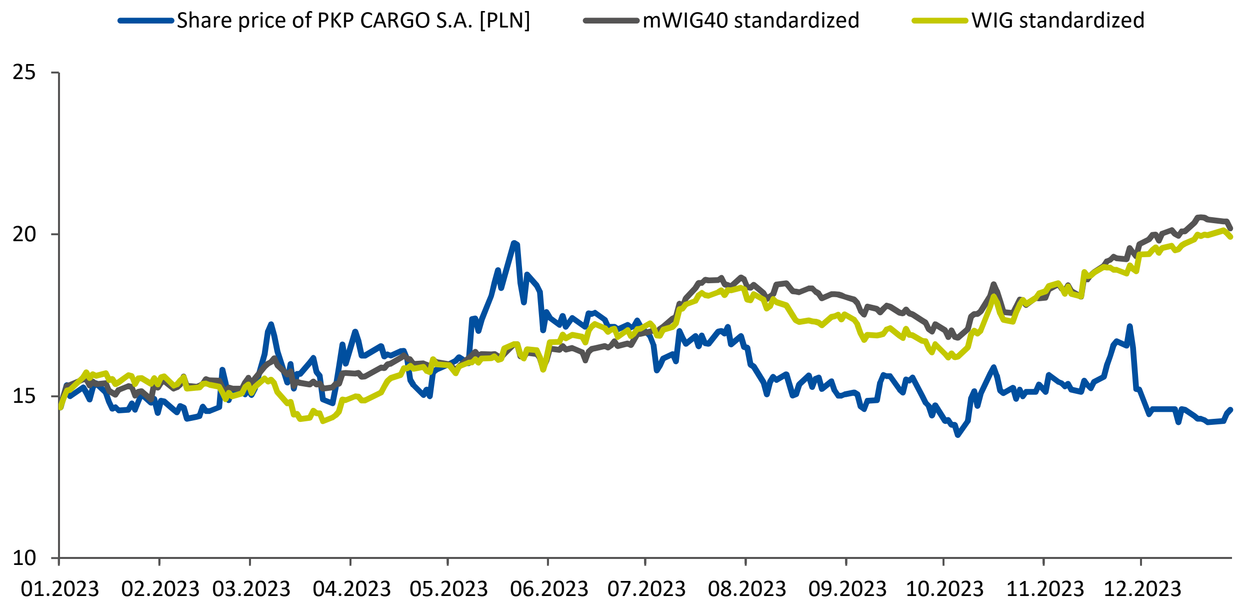
In H1 2023, the Company emphasized its market presence by participating in various major industry events, including the international Annual Investor Conference in Zurs in April 2023 held by Raiffeisen Bank International. Then, the Company's communication activities were expanded by meetings with retail investors through participation in the WallStreet 27 Conference in Karpacz. In H2 2023, PKP CARGO S.A. held an Investor's Day for representatives of the capital market to enable the market to learn the ins and outs of work at the Gdańsk seaport. PKP CARGO won an honorable mention in the Best Annual Report 2022 contest for the high quality of the Company's integrated report.

In 2023, a refreshed corporate website was made available to stakeholders, containing a professional investor relations page, maintained and updated in two languages, Polish and English, in order to disseminate information among both Polish and foreign market participants.

To ensure effective communication, the Company develops and provides additional materials, accessible on the Company's website in the section dedicated to investor relations and ESG. These include a fact sheet, investor presentations and basic financial and operational data on each quarter.

As part of the activities of the Investor Relations and ESG team scheduled for 2024, the Company continues to focus on extensive communication with the market and participation in domestic and international events. We are committed to transparent and open communication, with both domestic and foreign market participants.

Figure 33 Stock exchange quotes for PKP CARGO S.A. in 2023



Source: Proprietary material.

Table 27 Recommendations for PKP CARGO S.A. issued in 2023

Date of issue/update	Recommendation	Target price (PLN)	Price on the date of issue (PLN)	Institution
28 April 2023	Hold	16.10	15.74	Santander Biuro Maklerskie
30 May 2023	Sell	18.00	19.70	Santander Biuro Maklerskie

Source: Proprietary material.

In 2023, between 2 January and 29 December 2023, PKP CARGO's share price fell from PLN 14.65 to PLN 14.58 (-0.48%). The lowest share price was recorded on 6 October 2023 (PLN 13.8 PLN), and the highest on 22 May 2023 (PLN 19.74). In 2023, the WIG index and mWIG40 indices increased by 36.0% and 37.8%, respectively. Throughout the year, the price of PKP CARGO shares remained stable, with an upward trend in the first half of 2023 and a downward trend in the second half of 2023.

PKP CARGO S.A.'s stock is included in the most important indices for companies listed on the regulated market operated by the Warsaw Stock Exchange, namely WIG, mWIG40, WIG-Poland and WIG-ESG. Also, the Company's stock is taken into account in the STOXX® Total Market index.

Polskie Koleje Państwowe S.A., with a holding of 33.01%, remains the main shareholder of PKP CARGO S.A. PKP S.A.'s operations focus on two areas: asset management and supervision of PKP Group companies. In the area of control over companies, special attention is paid to effective supervision to ensure the highest quality of transport and logistics services for passengers and cargo. Polskie Koleje Państwowe S.A. is the parent company of the PKP Group, which has been operating as a holding company since 2022. The State Treasury, represented by the minister responsible for transportation, is the sole shareholder of PKP S.A. In 2022, PKP S.A. as a standalone entity reported a net profit of approx. PLN 75.3 million, up by PLN 1.5 million from the previous year.

7.1.2 Information about agreements which, in the future, may cause changes to the proportions of shares held by the current shareholders

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

7.1.3 Acquisition of treasury stock

In 2023, PKP CARGO S.A. did not effect any purchase or sale of its treasury stock.

7.1.4 Information on the employee share plan control system

Shares taken up by entitled employees in connection with the right granted under the Employee Guarantee Package were subject to contractual limitation of their disposal. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to liability for damages.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

7.1.5 Shares held by management board and supervisory board members

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board and Supervisory Board as at the delivery date of this report were as follows:

Table 28 PKP CARGO S.A. shares held by Management Board members as at the report delivery date

Name	Number of PKP CARGO S.A. shares held by Management Board member as at the delivery date of this report	Par value of shares as at the delivery date of this report [PLN]
Dariusz Seliga	0	0
Jacek Rutkowski	0	0
Marek Olkiewicz	0	0
Maciej Jankiewicz	0	0
Zenon Kozendra	46	2,300

Source: Proprietary material.

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board as at the date of submission of this report

Table 29 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by the Supervisory Board member as at the delivery date of this report	Par value of shares as at the delivery date of this report [PLN]
Władysław Szczepkowski	0	0
Andrzej Leszczyński	0	0
Henryk Grymel	70	3,500
Tomasz Pietrek	46	2,300
Marek Ryszka	0	0
Paweł Sosnowski	0	0
Jarosław Stawiarski	0	0
Jarosław Ślepaczuk	0	0
Michał Wnorowski	0	0
Izabela Wojtyczka	0	0
Grzegorz Dostatni	0	0

Source: Proprietary material.

According to the Company's knowledge, no members of the PKP CARGO S.A. Management Board or Supervisory Board, as at 31 December 2023 or as at the delivery date of this report, held any shares or ownership interests in PKP CARGO S.A.'s related parties.

7.1.6 Dividends paid or declared

On 29 June 2023, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 24/2023 on the distribution of profit shown in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2022, and decided to allocate the profit earned in full to the supplementary capital.

7.2. Information on transactions executed by the Company or its subsidiaries with related parties on non-market terms

No entity from the PKP CARGO Group entered into any transactions with related parties in 2023 on conditions other than arm's length terms. Detailed information on transactions with related parties is presented in Note 7.1 to the Standalone Financial Statements and Note 7.1 to the Consolidated Financial Statements.

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

PKP CARGO S.A. 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 S.A. or its subsidiaries, except for those disclosed in the Consolidated Financial Statements, in other provisions (Note 5.10 to the Consolidated Financial Statements) and contingent liabilities (Note 7.3 to the Consolidated Financial Statements).

7.4. Major achievements in research and development

In 2023, the PKP CARGO Group was not involved in any research and development activities.

7.5. Information about compensation system in effect

7.5.1 General information about the compensation system adopted by the Parent Company

In PKP CARGO S.A., compensation rules are established in accordance with the generally applicable laws and internal regulations in force in the Company. The compensation system is comprised of the following:
- The Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. (ZUZP),
- Bonus regulations of individual Units,
- Resolutions of corporate bodies of PKP CARGO S.A. to establish and introduce the rules for compensating key management, staff of the Company's Head Office, as well as employees in managerial and independent positions in the Company's standalone units.

A major portion of the Company's employees, approx. 82%, is remunerated in accordance with the provisions of the Company Collective Bargaining Agreement under which these employees are eligible for compensation components, benefits, performances and other entitlements that are not provided for in the generally applicable regulations or are regulated in a less favorable manner. These employees' compensation consists of fixed and variable components, while their type and level vary depending on the position held, competences of the employee and nature of the tasks performed. In addition, employees remunerated under the Company Collective Bargaining Agreement are eligible for monthly bonus paid according to the Units' bonus payment rules. The bonus fund includes a pool of funds earmarked for payment of bonuses for ongoing performance of tasks and for payment of bonuses for the employee's individual achievements.

Pursuant to the delegation contained in the Company Collective Bargaining Agreement, the employees of the Company's Head Office and the employees in managerial and independent positions in the Company's Units, who in 2023 represented approx. 18% of total number of employees, receive their compensation based on the principles defined in the relevant Resolution adopted by PKP CARGO S.A. Management Board, i.e. based on the individual wage coefficient assigned to a given job position and the average monthly salary in the enterprise sector published by Statistics Poland (GUS).

In addition, the compensation system includes other benefits and perks: jubilee award, disability or retirement severance pay, coal allowance in the form of cash equivalent, rights to transportation benefits, a benefit paid on the occasion of the Railway Employee Day, additional holidays awarded to employees in certain positions.

The PKP CARGO S.A.'s HR policy currently in effect includes a set of standards and best practices in human resource management. In addition to activities aimed at applying and improving practices in the area of recruitment, induction, and development of employees' competences, this Policy highlights the significance of an extensive employee compensation system based on stable internal regulations, ensuring additional rights and benefits specific to the rail sector, which has a favorable impact on the employees' sense of belonging in the Company and thus their work motivation.

In pursuit of the objectives formulated in the Company's strategy and taking into account the rapidly changing market environment, actions have been taken to implement legal and organizational solutions related to the employee compensation system.

As part of the non-compensation incentive system for employees, the program of additional fringe benefits in the form of discounts on cultural events, goods or services for all employees of PKP CARGO S.A. (launched in 2018) has been continued. The Company's offer of discounts and rebates on products and services is more attractive than the corresponding offering in the market at large. The Company seeks to ensure that its offer is available to the largest possible number of employees. Employees are informed about the offer through such communication channels as the Intranet, e-mail, and local messages.

Furthermore, all employees of the Company have access to a broad range of social welfare benefits under an offering defined in the social benefits bylaws. The social benefit offer is updated on a yearly basis, in consultation with the Social Partner, in order to meet employees' needs in this respect to the greatest extent possible.

The Company's employees also have the opportunity to benefit from co-financed medical packages and join a cost-attractive group insurance and ECS.

In addition, owing to the positions held or functions discharged in the organization, the employees may be granted, in accordance with the rules in force in the Company, the right to use a company car, a company payment card, tools and technical equipment necessary to discharge the duties.

7.5.2 Value of compensation and fringe benefits of Management Board and Supervisory Board members

Management Board

In accordance with the "Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board", the Company concludes management services contracts and non-competition agreements for the period of performance of a Management Board function.

The following individuals were appointed to the Management Board of the joint 8th term of office:

- Mr. Dariusz Seliga to the position of President of the PKP CARGO S.A. Management Board – by Resolution No. 33/VII/2022 of the PKP CARGO S.A. Supervisory Board of 13 April 2022 – as of 13 April 2022
- Mr. Marek Henryk Olkiewicz to the position of PKP CARGO S.A. Management Board Member in charge of Operations – by Resolution No. 6/VII/2022 of the Supervisory Board of 13 January 2022 – as of 3 February 2022
- Mr. Maciej Jankiewicz to the position of PKP CARGO S.A. Management Board Member in charge of Finance – by Resolution No. 39/VII/2022 of the PKP CARGO S.A. Supervisory Board of 22 April 2022 – as of 25 April 2022
- Mr. Jacek Rutkowski to the position of PKP CARGO S.A. Management Board Member in charge of Commerce – by Resolution No. 37/VII/2022 of the PKP CARGO S.A. Supervisory Board of 22 April 2022 – as of 25 April 2022
- Mr. Zenon Kozendra to the position of PKP CARGO S.A. Management Board Member – Employee Representative – by Resolution No. 35/VII/2022 of the Supervisory Board of 13 April 2022

On 22 April 2022, the PKP CARGO S.A. Supervisory Board adopted:

- Resolution No. 40/VII/2022 on concluding a management services and non-competition agreement with Mr. Dariusz Seliga appointed the President of the Management Board of PKP CARGO S.A.
- Resolution No. 41/VII/2022 on concluding a management services and non-competition agreement with Mr. Maciej Jankiewicz appointed the Management Board Member in charge of Finance of PKP CARGO S.A.
- Resolution No. 42/VII/2022 on concluding a management services and non-competition agreement with Mr. Jacek Rutkowski appointed the Management Board Member in charge of Commerce of PKP CARGO S.A.
- Resolution No. 43/VII/2022 on concluding a management services and non-competition agreement with Mr. Zenon Kozendra appointed the Management Board Member – Employee Representative of PKP CARGO S.A.
- Resolution No. 44/VII/2022 on concluding a management services and non-competition agreement with Mr. Marek Henryk Olkiewicz appointed the Management Board Member in charge of Operations of PKP CARGO S.A.

The basic terms and conditions of the management contracts and non-competition agreements are as follows:

- the Management Board Members provide management services involving personal management of the entrusted areas of the Company's operations; the contract is concluded for the duration of discharging the function in the Company's Management Board, and terminated at the end of that period;
- the Management Board Members are vested with the right to receive the remuneration consisting of a fixed part, constituting the monthly basic compensation ("Base Compensation"), and the variable part ("Bonus"), constituting the supplementary compensation for the financial year in connection with the Manager's achievement of the management objectives of particular importance to the Company and the Group;
- the Management Board Members undertake that during the term of validity of their contract they will not conduct any business competitive to that of the Company or of any member of the PKP CARGO Group;

- the non-compete clause continues to be binding for a period of six months after the termination of the contract and the expiration of the term of office of the Management Board Member. Due to the obligation to adhere to the extended non-compete clause by Management Board Members, the Company will pay them a base compensation for each month of validity of the extended non-compete clause applicable to the pertinent Management Board Member;

The amount of the Base Compensation, in consideration of the applicable laws, is set by the Supervisory Board, following the issue of a recommendation by the Nomination Committee, in an amount equal from eight to twelve times the average monthly wage in the enterprise sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland and based on an analysis of market rates of compensation for persons holding the position of Management Board Member, including in entities with a similar profile of business and a similar scope and scale of operations, taking into account the needs and capabilities of the Company as well as the individual qualifications and level of experience of the respective Management Board Member, in line with the management tasks assigned to such Management Board Member.

Management Board Members are entitled to a Bonus for the achievement of management objectives specified by the Supervisory Board. Such objectives should be determined no later than by the end of April of the financial year in which they are expected to be achieved.

The directions for the principles governing the disbursement of compensation to Members of the PKP CARGO S.A. Management Board and the rules for granting other benefits in a manner that ensures the pursuit of the adopted business strategy of PKP CARGO S.A. are described in the Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board adopted under Resolution No. 23/2020 of the Ordinary Shareholder Meeting of PKP CARGO S.A. of 29 June 2020, as amended.

The table below presents total compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2023.

Table 30 Compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2023 (gross amounts, PLN)

Name	Compensation	Bonuses	Severance pays, indemnities, non-competition	Other revenue subject to taxes and social security contributions	Subsidiaries	Total
Current Management Board members						
Dariusz Seliga	576,000.00	206,400.00	0	11,911.98	0	**794,311.98**
Maciej Jankiewicz	516,000.00	176,300.00	0	13,952.22	0	**706,252.22**
Marek Olkiewicz	516,000.00	233,633.33	0	1,018.66	0	**750,651.99**
Jacek Rutkowski	516,000.00	141,900.00	0	13,441.05	0	**671,341.05**
Zenon Kozendra	516,000.00	258,000.00	0	11,610.00	0	**785,610.00**

** A PKP CARGO S.A. Supervisory Board Member delegated to act temporarily in the capacity of President of the Management Board of PKP CARGO S.A.*
Source: Proprietary material.

Supervisory Board

In accordance with the Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board are not employed by the Company (except for Supervisory Board Members – representatives of employees who cannot be the Company's employees).

Compensation of Supervisory Board Members is established by the Shareholder Meeting. The amount of the monthly compensation for a Supervisory Board Member shall be equal to the product of the average monthly compensation in the corporate sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland, and the compensation multiplier (with the reservation that, in calculating the monthly compensation of the respective Supervisory Board Member, the generally applicable laws should be taken into consideration to the extent that they govern in a different manner the basis for the calculation referred to in Article 1(3)(11) of the Act of 9 June 2016 on the Rules for Setting the Compensation of Persons Managing Certain Companies) which is as follows:

- for a member discharging the function of Supervisory Board Chairperson – 2.75,
- for a member not discharging the function of Supervisory Board Chairperson – 2.37.

Compensations of the Supervisory Board Members do not constitute a significant item in the costs of the Company's operations and do not significantly affect its financial performance.

The table below presents total compensation and fringe benefits of the Company's Supervisory Board Members in 2023.

Table 31 Compensation and fringe benefits for PKP CARGO S.A. Supervisory Board Members in 2023 (gross amounts, PLN)

Name	Position	Compensation for discharging a function in the Supervisory Board PKP CARGO S.A.	Other compensation (PKP CARGO S.A.)	Subsidiaries
Current Supervisory Board Members				
Władysław Szczepkowski	Supervisory Board Chairman	147,504.72	0	0
Andrzej Leszczyński	Vice-Chairman of the Supervisory Board	125,243.52	0	0
Henryk Grymel	Supervisory Board Member	125,243.52	179,737.90	0
Tomasz Pietrek	Supervisory Board Member	137,426.12	170,724.55	0
Marek Ryszka	Supervisory Board Member	127,122.12	0	0
Paweł Sosnowski	Supervisory Board Member	126,262.18	0	0
Jarosław Stawiarski	Supervisory Board Member	125,243.52	0	0
Jarosław Ślepaczuk	Supervisory Board Member	130,342.12	165,366.26	0
Michał Wnorowski	Supervisory Board Member	127,122.12	0	0
Izabela Wojtyczka	Supervisory Board Member	127,984.23	0	0
Grzegorz Dostatni	Supervisory Board Member	127,122.12	0	0

Source: Proprietary material.

Information on liabilities resulting from old age pensions and benefits of a similar nature for former persons on managing and supervising functions and on any liabilities incurred in connection with these pensions, with a specification of the total amount for each category of authority

Other than the various forms of compensation specified in this Section, the Company does not grant any individual benefits to Management Board Members or Supervisory Board Members, in particular under early retirement plans, nor shall Management Board Members or Supervisory Board Members receive any shares, options or other rights to acquire shares or any payments based on changes in share prices.

The Company does not grant any individual benefits under old-age or disability pension plans to Management Board Members. Management and Supervisory Board Members may participate on a voluntary basis in the employee capital scheme established by the Company.

Terms of non-financial components of compensation for other key managers

Department Directors and Unit Directors

The Company's key managers may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card and the right to medical care.

The Company's key managers may be subject to a ban on conducting any business competitive to that of PKP CARGO S.A. after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. and other members of the PKP CARGO Group.

7.5.3 Indication of material changes introduced in the compensation policy in the last financial year or information on absence of such changes

No material changes in the Company's compensation policies were introduced in 2023.

7.5.4 Evaluation of the practical application of the compensation policy in the context of its goals, in particular the long-term increase of the Company's value for shareholders and stability of its operations

The "Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board" in effect from June 2020 enabled the Company to generate value for its shareholders in the following aspects:

- confirms compliance with applicable laws and the standards for WSE-listed companies,
- ensures the pursuit of the adopted business strategy of PKP CARGO S.A. while guaranteeing the Company's security,
- means that the compensation rules defined therein are not set on an ad hoc basis but are a set of permanent, transparent and independent compensation rules contributing to the stability of the enterprise.

8. Corporate governance statement

8.1. Indication of a set of corporate governance rules applicable to PKP CARGO S.A. and of the place where the wording of such rules is publicly available

The Company applies the corporate governance rules described in the document entitled "Best Practice of WSE Listed Companies 2021" (hereinafter referred to as the "Code of Best Practice 2021") adopted by the Board of the Warsaw Stock Exchange on 29 March 2021, which entered into force on 1 July 2021 and replaced the previous set of corporate governance rules. The wording of the "Code of Best Practice 2021" to which the Company has been subject since 1 July 2021 is available on the website of the Warsaw Stock Exchange at https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/DPSN21_BROSZURA.pdf).

The Company makes every effort to ensure that the principles contained in the Code of Best Practice 2021 are implemented. The last update of the Information on the application of principles by the Company was published on 2 August 2023 and is available on the Company's website in the ESG/Governance/Good Practice Principles tab.

8.2. Extent to which PKP CARGO S.A. failed to observe the provisions of the set of corporate governance rules, indication of such provisions and explanation of the reasons for the failure

The Company applies the recommendations and principles contained in the set of "Best Practice of WSE Listed Companies 2021", except for the following principles: 1.3.1., 1.3.2., 1.4.1., 1.4.2., 1.5., 2.1., 2.2., 2.11.1., 2.11.5., 2.11.6., 3.6., 3.10., 6.2., 6.4. With respect to the following sections:

1.3. Companies integrate ESG factors in their business strategy, including in particular:

1.3.1. environmental factors, including measures and risks relating to climate change and sustainable development;

This principle has not been applied.

Explanation: The Company has commenced work on the development of an ESG strategy that will be consistent with its newly adopted business strategy for 2024–2028.

1.3.2. social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations;

This principle has not been applied.

Explanation: The Company has commenced work on the development of an ESG strategy that will be consistent with its newly adopted business strategy for 2024–2028.

1.4. To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others:

This principle has been applied.

Explanation: Work is in progress in the Company on the development and implementation of the ESG Strategy.

1.4.1. explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;

This principle has not been applied.

Explanation: Work is in progress in the Company on the development and implementation of the ESG Strategy.

1.4.2. present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.

This principle has not been applied.

Explanation: Work is in progress in the Company on the development and implementation of the ESG Strategy.

1.5. Companies disclose at least on an annual basis the amounts expensed by the company and its group in support of culture, sports, charities, the media, social organizations, trade unions, etc. If the company or its group pay such expenses in the reporting year, the disclosure presents a list of such expenses.

This principle has not been applied.

Explanation: The Company publishes information on its sponsorship and charitable activity in its annual report, but it does not disclose its expenses on this account. Nevertheless, the provisions of the Articles of Association obligate the Management Board to present, at least once a year, an expense report to the Supervisory Board pertaining to its sponsoring, charitable, social communication and public relations activities.

2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

This principle has not been applied.

Explanation: The Company has not adopted a formal diversity policy applicable to the Company's authorities and there are no internal regulations that specify the minimum target participation of minority groups.

However, work is in progress in the Company on developing such a policy.

2.2. Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.

This principle has not been applied.

Explanation: The Company has not developed a formal diversity policy; however, all processes, especially recruitment (also relating to the Company's authorities), take into consideration such diversity aspects as gender, education, age and professional experience. There are no internal regulations that specify the minimum target participation of minority groups.

2.11. In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year.

Such report includes at least the following:

2.11.1. Information about the members of the supervisory board and its committees, including indication of those supervisory board members who fulfil the criteria of being independent referred to in the Act of 11 May 2017 on Auditors, Audit Firms and Public Supervision and those supervisory board members who have no actual and material relations with any shareholder who holds at least 5% of the total vote in the company, and information about the members of the supervisory board in the context of diversity;

This principle has not been applied.

Explanation: This principle has, for the most part, been adhered to by the Company, because in its report the Supervisory Board provides information about the members of the supervisory board and its committees, including indication of those supervisory board members who fulfil the criteria of being independent referred to in the Act of 11 May 2017 on Auditors, Audit Firms and Public Supervision and those supervisory board members who have no actual and material relations with any shareholder who holds at least 5% of the total vote in the Company. However, the report does not contain information about the Supervisory Board members in the context of diversity, because the Company does not have a pertinent policy in place, as indicated in the Company's commentary regarding principle 2.1.

2.11.5. Assessment of the rationality of expenses referred to in principle 1.5;

This principle has not been applied.

Explanation: The Company publishes information on its sponsorship and charitable activity in its annual report, but it does not disclose its expenses on this account. The provisions of the Articles of Association require the Management Board to present, at least once a year, an expense report to the Supervisory Board pertaining to its sponsoring, charitable, social communication and public relations activities.

2.11.6. information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.

This principle has not been applied.

Explanation: The Company is in the process of developing a diversity policy.

3.6. The head of internal audit reports organizationally to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee.

This principle has not been applied.

Explanation: The head of internal audit operates within the structure of a department whose director reports directly to the Management Board Member in charge of Operations. The head of internal audit reports functionally to the Supervisory Board Audit Committee.

3.10. Companies participating in the WIG20, mWIG40 or sWIG80 index have the internal audit function reviewed at least once every five years by an independent auditor appointed with the participation of the audit committee.

This principle has not been applied.

Explanation: In connection with the adopted cost-saving measures, the Company has temporarily abandoned the review of the audit function performed by an independent auditor.

6.2. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term standing of the company measured by its financial and non-financial results as well as long-term shareholder value creation, sustainable development and the company's stability.

This principle has not been applied.

Explanation: The Company has in place an incentive system for Management Board Members – the bonus is contingent, among other criteria, on the attainment of the objectives correlated with the Company's annual business plan and the projection of the PKP CARGO Group's financial results; the Company, however, does not have an incentive system for key managers (senior management).

6.4. As the supervisory board performs its responsibilities on a continuous basis, the remuneration of supervisory board members cannot depend on the number of meetings held. The remuneration of members of committees, in particular the audit committee, should take into account additional workload on the committee.

This principle has not been applied.

Explanation: A Supervisory Board Member is entitled to monthly compensation regardless of the number of meetings of the Supervisory Board or committees appointed by the Supervisory Board. The remuneration of Members of Committees does not take into account additional workload on the committee. The Supervisory Board intends to submit a motion to the Shareholder Meeting to increase the compensation of Chairpersons of Supervisory Board Committees.

8.3. Description of the primary attributes of the internal control and risk management systems used in the Company and the PKP CARGO Group in respect of the process of preparing standalone and consolidated financial statements

Uniform accounting policy

PKP CARGO S.A.'s parent company has developed and implemented the Accounting Policy designed in accordance with EU IFRS. The document is updated on an ongoing basis as statutory amendments are introduced. The principles contained in the document are applied to standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. Companies subject to consolidation are required to apply the Accounting Policy of PKP CARGO S.A. in their preparation of reporting consolidation packages which form the basis for preparation of the PKP CARGO Group's consolidated financial statements.

Uniform consolidation packages of subsidiaries

For the purposes of preparation of consolidated financial statements for the PKP CARGO Group, a uniform pattern of IFRS-compliant reporting packages to be prepared by the subsidiaries has been adopted. The subsidiaries prepare their reporting packages in accordance with EU IFRS taking into account the differences between Polish Accounting Standards (and other local standards in the case of international companies) and EU IFRS.

Bookkeeping

The reliability of financial statements is ensured by using data derived directly from the accounting ledgers. The Parent Company keeps a set of accounting ledgers forming the basis for preparation of financial statements in its computerized financial and accounting system SAP. The Company updates its financial and accounting system on an ongoing basis in line with the changing legislation and reporting requirements, both internal and external. Access to the IT systems is restricted by appropriate permissions granted to authorized employees. The IT and organizational solutions used by the Company secure control of access to the financial and accounting system and ensure appropriate protection and archiving of accounting ledgers.

Procedures for the closing of ledgers and authorization of financial statements

PKP CARGO S.A. and the subsidiaries have implemented internal procedures for closing the reporting periods, setting the dates and defining the responsibilities of internal departments for each reporting area; financial statements are subjected to internal procedures aimed at verifying their completeness and compliance; EU IFRS-compliant reporting packages are signed by the

Management Boards of the subsidiaries and EU IFRS-compliant consolidated financial statements are properly authorized and signed by the Company's Management Board.

Supervision by the Audit Committee

Within the structure of the PKP CARGO S.A. Supervisory Board, the Audit Committee has been established which, in accordance with the applicable regulations, exercises supervision over the process of preparation of consolidated financial statements and the process of financial audit and which analyzes and monitors interim and annual financial data of both the Company and the Group.

Audit and review of financial statements

Annual standalone and consolidated financial statements are audited by a statutory auditor, semi-annual standalone and consolidated financial statements are reviewed by a statutory auditor. Reports on the auditor's activities (reviews and audits) are appended to all approved and published financial statements.

8.4. Shareholders holding directly or indirectly significant blocks of shares

Table 32 Shareholder structure of PKP CARGO S.A. as at 31 December 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 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	19,853,740	44.33%	19,853,740	44.33%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material.

On 15 February 2024, the Company received a notice from Generali Powszechne Towarzystwo Emerytalne S.A. about a reduction in its share in the total number of votes in PKP CARGO S.A. on 14 February 2024 below the threshold of 5% of the total number of votes.

Table 33 Shareholder structure of PKP CARGO S.A. as at the delivery date of this 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 Polska OFE	3,105,654	6.93%	3,105,654	6.93%
Other shareholders	22,478,626	50.19%	22,478,626	50.19%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material.

8.5. Holders of securities giving special controlling rights

No PKP CARGO S.A. securities give any of the shareholders any special control rights.

8.6. Exercise of voting rights at the Shareholder Meeting

Right to participate in the Shareholder Meeting and voting rights

A shareholder exercises the right to participate in the Shareholder Meeting and voting rights at Shareholder Meetings. Pursuant to the Commercial Company Code, the Company's shareholders may participate in the Shareholder Meeting and exercise their voting right in person or by proxy. A shareholder wishing to participate in a Shareholder Meeting by proxy must grant the proxy powers in writing or in electronic form. The Company provides a form of proxy document in the notice on convening the Shareholder Meeting. Moreover, the Company should be notified about granting proxy powers in electronic form using the means of electronic communication specified in the announcement on convening the Shareholder Meeting. The Company takes proper action to identify the shareholder and his/her/its proxy to verify the validity of the proxy powers granted in electronic form. A detailed description of the manner of verification of the validity of proxy powers granted in electronic form must be included in the contents of the notice on convening the Shareholder Meeting.

A Company shareholder holding shares registered in more than one securities account may appoint separate proxies to exercise the rights attached to shares registered in each of his/her/its accounts.

If a Management Board Member, a Supervisory Board Member, the liquidator, an employee of the Company, or a member of a corporate body or an employee of the Company's subsidiary or cooperative acts as a proxy at a Shareholder Meeting, then the proxy document may authorize such a person to represent the shareholder at a single Shareholder Meeting only. The proxy is obligated to disclose to the Company's shareholder any circumstances indicating the existence or possibility of a conflict of interest. In such a situation, it is not permitted for the proxy to grant the proxy powers to others. The proxy will vote in accordance with the instructions given by the Company's shareholder.

Pursuant to § 11 Section 2 of the Articles of Association, each share entitles its holder to one vote at the Shareholder Meeting. Pursuant to § 13 Section 1 of the Company's Articles of Association, voting rights of the shareholders holding more than 10% of all the votes in the Company are restricted in such a manner that no such shareholder may exercise more than 10% of all the votes in the Company existing on the date of the Shareholder Meeting. This restriction does not apply for the purposes of determining the obligations of buyers of significant blocks of shares, which are prescribed by the Act on Public Offerings. The above restriction of the voting rights does not apply to shareholders who, on the date of adoption of the Shareholder Meeting resolution introducing the restriction, were entitled to exercise voting rights, also as users, attached to shares representing more than 10% of the total number of votes existing in the Company or any other entity that acquires the Company's shares held by the shareholders referred to above in connection with their liquidation.

In accordance with the provisions of the Articles of Association, the limitation of voting rights of shareholders representing more than 10% of the total number of votes in the Company will not cease after a sale of all shares held by PKP S.A. to which the said limitation does not apply.

A Company shareholder may not, either personally or by proxy or while acting in the capacity of a proxy of any other person, vote on resolutions concerning his/her/its liability towards the Company on whatever account, including granting a discharge on the performance of his/her/its duties, being released from any of his/her/its liabilities towards the Company or any dispute between him/her/it and the Company. The above restriction does not apply to voting by a Company shareholder acting in the capacity of a proxy for another shareholder on any of the said resolutions concerning the voting shareholder.

Moreover, pursuant to § 13 Section 3 of the Company's Articles of Association, for the purposes of restricting the voting rights, the votes of the shareholders connected by a parent or subsidiary relationship are added up according to the principles described below.

The shareholders whose votes are accumulated and reduced are jointly referred to as a "Grouping". An accumulation of votes involves adding up the votes held by individual shareholders comprising a Grouping. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Grouping. Reduction of votes is effected according to the following principles:

- for each shareholder associated with a Grouping, a percentage of votes vested in the shareholder in the cumulative number of votes vested in the entire Grouping is calculated;
- the number of votes corresponding to 10% of all the votes in the Company is calculated on the date of holding the Shareholder Meeting;
- for each shareholder, the product of the percentage mentioned in item 1) and the number of votes mentioned in item 2) is calculated;
- the number of votes vested in each shareholder forming part of the Grouping after the reduction is the number obtained in item 3) rounded up to a full vote;
- the restriction of the voting rights pertains also to shareholders who are not present at the Shareholder Meeting.

Pursuant to § 13 Section 7 of the Company's Articles of Association, in order to determine the basis for vote accumulation and reduction, each Company shareholder, the Management Board, Supervisory Board and individual members of these bodies, as well as the Chairperson of the Shareholder Meeting may demand that a Company shareholder whose votes are reduced provide information as to whether he/she/it is a person having the status of a controlling entity or subsidiary of another shareholder.

8.7. Restrictions on the transfer of ownership title to PKP CARGO S.A. securities

Statutory restrictions on the transferability of shares

The Act on Public Offerings, the Act on Trading in Financial Instruments and the Commercial Company Code provide, among others, for the following restrictions on the unconstrained transferability of shares:

- the obligation to notify the Polish Financial Supervision Authority and the Company applies to anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a

company and, as a result of a reduction in this shareholding, reached 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90%, respectively, or less of the total number of votes; (iii) has changed his/her/its previously held share greater than 10% of the total number of votes by at least 2% of the total number of votes in a public company whose shares are admitted to trading on an official stock market (as at the Prospectus Date, the market in question is the main market of the Warsaw Stock Exchange); (iv) has changed his/her/its previously held share greater than 33% of the total number of votes in a public company by at least 1% of the total number of votes;
- the obligation to announce a call to subscribe for the sale or conversion of shares in the event of: surpassing the threshold of 50% of the total number of votes at the Shareholder Meeting.
- the prohibition of the acquisition or sale, for one's own account or for a third party, of any financial instruments, based on confidential information;
- the obligation to announce a voluntary tender offer in the event of an intention to acquire all remaining shares of the issuer,
- the prohibition of the acquisition or sale of financial instruments during the lock-up period by the persons referred to in the Market Abuse Regulation;
- the parent company, within the meaning of Article 4 Section 1 Item 4 of the Commercial Company Code, is required to inform a subsidiary of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

Apart from the foregoing, there are no other statutory restrictions on the transferability of shares in the Company.

8.8. The rules for appointing and dismissing managers and their powers, in particular the right to make decisions on issuing or redeeming shares

The PKP CARGO S.A. Management Board consists of between one and five members, including the President of the Management Board. Management Board members are appointed for a joint three-year term of office. The President and other Members of the Management Board are appointed by the Supervisory Board pursuant to the Company's Articles of Association and the Bylaws for Appointing Management Board Members in PKP CARGO S.A. and the Bylaws for Electing Candidates to Become an Employee Representative in the PKP CARGO S.A. Management Board and to Appoint Employee Representatives to the PKP CARGO S.A. Supervisory Board and the Procedure for their Removal. The Supervisory Board sets the number of Management Board members.

Management Board Members are appointed following the conduct of a recruitment procedure only from among candidates participating in the qualification procedure who received a favorable opinion from the recruitment consultant (Nomination Committee of the PKP CARGO S.A. Supervisory Board). Unless the Supervisory Board decides otherwise, the recruitment procedure for a Management Board Member is prepared, organized and carried out by a professional personnel consulting company selected by a resolution of the Nomination Committee of the PKP CARGO S.A. Supervisory Board. A participant in the procedure for appointment of Management Board Members is the Nomination Committee which also exercises ongoing supervision over the process of selection (in the event of entrusting a professional personnel consulting firm the conduct of the recruitment procedure) of Management Board Members and the process of evaluation and appointment of Management Board Members.

The Supervisory Board also selects one Management Board Member from among candidates nominated by the Company's employees. Such a candidate should have higher education, at least 5 years of professional experience in the PKP Group and have no criminal record. A Management Board member may not discharge an elected function or sit in the bodies of a company, inter-company or national trade union organization, a federation of trade unions or a confederation of trade unions. The bylaws for electing candidates for a representative of employees in the Management Board shall be adopted by the Supervisory Board. Failure to appoint a representative of employees to the Management Board does not preclude the appointment of the Management Board or the effective adoption of its resolutions. The power referred to in the first sentence above was granted to the Company's employees in connection with Article 4 section 4 of the Act on Commercialization and Restructuring of PKP and the provisions of the Employee Guarantee Package.

As long as the State Treasury, PKP S.A. or other state legal persons hold less than 100% of the Company's shares, the President of the Management Board and other Management Board members are appointed and dismissed by the Supervisory Board. In the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have the personal power to select candidates for the President of the Management Board on its own. The personal rights referred to in the preceding sentence are exercised by way of delivering a written statement to the Supervisory Board Chairperson.

Pursuant to § 18 and § 25 Section 3 Item 2 of the Articles of Association, the PKP CARGO S.A. Management Board is authorized, with the consent of the Supervisory Board, in accordance with the rules laid down in the provisions of the Commercial Company Code, to pay shareholders an interim dividend towards the dividend expected at the end of the financial year.

The Company's executives are not authorized to make any decisions on the issue or redemption of shares.

8.9. Rules for amending the Articles of Association of PKP CARGO S.A.

The rules for amending the Company's Articles of Association are based on Article 430 and Article 402 § 2 of the Commercial Company Code. Any amendment to the Articles of Association requires a resolution of the Shareholder Meeting. Moreover, the adoption of a resolution on amendments to § 26 Section 3 or 4 and § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing at least 50% of the total number of votes in the Company plus 1 vote.

Any amendments to the Articles of Association are subject to their registration by the appropriate court. Pursuant to §25 Section 3 Item 11, the Supervisory Board is entitled, after the court's decision on the registration of amendments to the Company's Articles of Association becomes final non-appealable to adopt the consolidated version of the Company's Articles of Association. An amendment to the Company's Articles of Association which involves a material change in the line of business does not require a buyout of the shares held by the shareholders objecting to such an amendment if the relevant resolution of the Shareholder Meeting in this matter is adopted by a majority of two thirds of the votes in the presence of shareholders representing at least one half of the share capital.

In 2023, the Shareholder Meeting amended the Company's Articles of Association:

– by Resolution Nos. 10/2023, 14/2023, 15/2023 and 16/2023 of the Extraordinary Shareholder Meeting of 17 May 2023,

– by Resolution Nos. 51/2023, 56/2023, 57/2023 and 60/2023 of the Ordinary Shareholder Meeting of 29 June 2023.

All these amendments to the Articles of Association have been registered by the registry court.

8.10. Manner of operation and key powers of the Shareholder Meeting, description of shareholders' rights and the manner of their exercise

The Company's Shareholder Meeting operates pursuant to the provisions of the Commercial Company Code, the Company's Articles of Association (in particular, §10-§13) and the Bylaws of the Shareholder Meeting. Shareholders are entitled to participate in and exercise their voting rights at the Shareholder Meeting in person or by proxy. The Shareholder Meeting is valid irrespective of the number of shares represented thereat.

Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes except for resolutions the adoption of which is subject to more stringent requirements provided for by the Commercial Company Code or the Articles of Association. Moreover, the adoption of a resolution on amendments to § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing 50% of the total number of votes in the Company plus one vote.

Votes at the Shareholder Meeting are cast in an open ballot. A secret ballot is ordered for elections and motions for the dismissal of members of the Company's corporate bodies or the Company's liquidators, or for holding them accountable, or in other personal matters. Moreover, a secret ballot must be ordered at the request of at least one shareholder attending or represented at the Shareholder Meeting.

The Shareholder Meeting may adopt a resolution on waiving the secrecy of voting in matters concerning the selection of a committee appointed by the Shareholder Meeting.

The Shareholder Meeting is presided over by its Chairman who oversees its efficient conduct in accordance with the adopted agenda. The Chairman may make decisions concerning procedural matters. Without the consent of the Shareholder Meeting, the Chairman may not remove or change the order of business entered in the adopted agenda.

The Shareholder Meeting of PKP CARGO S.A. is opened by the Chairperson of the Shareholder Meeting appointed by the President of the Management Board. If the President of the Management Board fails to appoint the Chairperson of the Shareholder Meeting prior to the designated start time of the meeting, the provisions of Article 409 § 1 of the Commercial Company Code are applied. The Chairperson of the Shareholder Meeting is elected by an absolute majority of votes cast in a secret ballot.

The Extraordinary Shareholder Meeting may be convened by a shareholder whose stake in the total number of votes in the Company is greater than 33%. In such a case, the shareholder convening the Extraordinary Shareholder Meeting appoints the Chairperson of the Shareholder Meeting.

The Shareholder Meeting adopts the Bylaws of the PKP CARGO S.A. Shareholder Meeting laying down a detailed procedure of conduct for its meetings. Draft Bylaws of the Shareholder Meeting are presented by the Company's Management Board. It is permitted to participate in the Shareholder Meeting by means of electronic communication, provided that the notice of convocation of the Shareholder Meeting contains information about such a possibility.

8.11. Description of the functioning of PKP CARGO's management, supervisory and their committees, along with an indication of the composition of such bodies and changes in them during the last financial year

MANAGEMENT BOARD

The PKP CARGO S.A. Management Board operates on the basis of regulations of law, and in particular:

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws of 2020 No. 94 Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 110/VIII/2023 of the PKP CARGO S.A. Supervisory Board of 31 August 2023);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018 and approved by Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018;
5. other internal and external regulations.

Management Board's powers

The Management Board manages the Company's day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the Shareholder Meeting or the Supervisory Board. Two Management Board Members acting jointly or a Management Board Member acting with a commercial proxy are authorized to make statements of will on behalf of the Company.

Since 1 June 2023, the PKP CARGO S.A. Management Board, by Resolution No. 190/2023, entrusted the PKP CARGO S.A. Management Board Member in charge of Commerce with temporary formal and substantive supervision over matters falling within the scope of powers of PKP CARGO S.A. Management Board Member in charge of Finance, resulting from the scope of activities of the Procurement Department of the PKP CARGO S.A. Head Office, and entrusted the PKP CARGO S.A. Management Board Member in charge of Operations with temporary formal and substantive supervision over matters falling within the scope of powers of the President of the PKP CARGO S.A. Management Board, resulting from the scope of activities of the Security and Audit Department of the PKP CARGO S.A. Head Office, except for matters falling within the scope of execution of defense tasks, which are under the supervision of the President of the PKP CARGO S.A. Management Board.

Operation of the Management Board

The procedure of the Management Board's operation is described in detail in the Management Board Bylaws. The Bylaws are adopted by the Management Board and approved by the Supervisory Board. According to the Management Board Bylaws, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting; they may only be adopted if all the Management Board Members have been duly notified about the Management Board meeting. According to the Management Board Bylaws, if an equal number of votes is cast "for" and "against" together with abstentions, the President of the Management Board will have the casting vote.

According to the Management Board Bylaws, in the event of conflicting interests of the Company and personal interests of a Management Board member, his/her spouse, relatives and next of kin (up to the second degree) or a potential conflict of interest in this regard, the Management Board member should immediately inform the remaining Management Board members thereof, and the President of the Management Board is also required to inform the Supervisory Board, and to refrain from participating in the discussion and voting on the adoption of a resolution in the matter where the conflict of interests has occurred and may request that this fact be recorded in the minutes of the Management Board meeting.

Division of tasks:

Subject to Resolution No. 190/2023 adopted by the PKP CARGO S.A. Management Board on 1 June 2023, the internal allocation of tasks and functions discharged by Management Board members, resulting from the provisions of the Management Board Bylaws, is as follows:

President of the Management Board – the scope of the President's activity includes directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's business, in particular:

- business strategy.

Special powers of the President of the Company's Management Board include performance of the Company's defense tasks resulting from the regulations on general defense obligation.

Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular:

- finance management.

Special powers of the Management Board Member in charge of Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.

Management Board Member in charge of Commerce – the scope of duties of the Management Board Member in charge of Commerce covers responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's business, in particular:

- commercial policy,
- sales of transportation services,
- purchase and sale of assets.

Management Board Member in charge of Operations – the scope of activity of the Management Board Member in charge of Operations includes caring for the effective execution of the Company's business and technological processes and overseeing the management of specific areas of the Company's activity, in particular in the following areas:

- execution of transports,
- maintenance of rolling stock,
- safety of business and internal audit.

Management Board Member – Employee Representative – the scope of activity of the Management Board Member – Employee Representative includes overseeing the management of specific areas of the Company's activity, particularly in the following areas:

- real estate management and administration,
- management of human resources and relations with social partners in specified areas.

Diversity policy

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

The Company's Articles of Association define the rules of appointing the Management Board and electing one Management Board member by employees. Pursuant to § 14 Section 10 of the Company's Articles of Association, a Management Board member is obligated to satisfy the requirements specified in Article 22 of the Act on the Rules for Managing State Property.

Composition of the Management Board

The table below presents the composition of the Management Board as at the delivery date of this report.

Table 34 Composition of the PKP CARGO S.A. Management Board

Name	Position	Period in office	
		from	to
Dariusz Seliga	President of the Management Board	13 April 2022	1 February 2024 (suspended)
Marek Olkiewicz	Management Board Member in charge of Operations	3 February 2022	1 February 2024 (suspended)
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Maciej Jankiewicz	Management Board Member in charge of Finance Acting President of the Management Board Temporary supervision over responsibilities of Management Board Member in charge of Operations	25 April 2022 1 February 2024 1 February 2024	to date to date to date
Jacek Rutkowski	Management Board Member in charge of Commerce	25 April 2022	22 April 2024 (dismissed from Management Board)

Source: Proprietary material.

On 1 February 2024, the PKP CARGO Supervisory Board made the following decisions:

- to suspend, for important reasons, Mr. Dariusz Seliga, President of the Management Board of PKP CARGO S.A., in the performance of his duties,
- to suspend, for important reasons, Mr. Marek Olkiewicz, PKP CARGO S.A. Management Board Member in charge of Operations, in the performance of his duties,
- to entrust the performance of the duties of President of the PKP CARGO S.A. Management Board to Mr. Maciej Jankiewicz, PKP CARGO S.A. Management Board Member in charge of Finance, in connection with the suspension of Mr. Dariusz Seliga, President of the PKP CARGO S.A. Management Board, in the performance of his duties.

Management Board of PKP CARGO S.A. on February, 2nd 2024 entrusted Mr. Maciej Jankiewicz with supervision over competences and organizational units of the Company previously within the scope of responsibility of Management Board Member in charge of Operations as of February, starting 1st 2024.

DARIUSZ SELIGA — PRESIDENT OF THE MANAGEMENT BOARD (suspended)

Mr. Dariusz Seliga is a graduate of the faculty of administration at the Paweł Wlodkowic University College in Płock. He completed a course of post-graduate study in Kozminski University in Warsaw and the National Defense University of Warsaw and he completed a Railway Sector Executive MBA. He completed his 4-year doctorate course of study at the National Defense University of Warsaw.

He has many years of experience in serving in companies' management boards and supervisory boards. Since 2004, he worked in the Warsaw local government administration as a Representative of the City Mayor. In 2005, he became the mayor of the Włochy district of Warsaw, and then he was elected to be a member of parliament in the Republic of Poland's Sejm in the fifth, sixth and seventh terms of office. He has been affiliated with the rail industry for many years. In 2016, he became the President of the Management Board of PKP CARGO CONNECT Sp. z o.o., a company belonging to the PKP CARGO Group. Since 2019 he has been affiliated with PKP CARGO INTERNATIONAL a.s. (Czech company belonging to PKP CARGO S.A.), initially as a Management Board member, and since 2021 as the President of the Management Board.

MACIEJ JANKIEWICZ — MANAGEMENT BOARD MEMBER IN CHARGE OF FINANCE (Acting President of the Management Board, temporary supervision over competences within responsibilities of Management Board Member in charge of Operations)

Dr. Maciej Jankiewicz graduated from the Cardinal Stefan Wyszyński University, the Warsaw School of Economics and the Poznań University of Technology. He received an Executive MBA having participated in a two-year international program validated by the Paul Cezanne University in Marseille. He also completed third level studies (doctoral studies) at the War Studies University. During his studies, he expanded his knowledge of management, company law, national security and psychology.

His professional experience includes the restructuring of business entities and corporate groups, the initiation and coordination of activities to establish corporations (including in the financial industry) and the development and implementation of recovery programs measured by sales results and significant improvement of financial performance. His experience also includes the preparation of grant applications and obtaining and settling EU grants, including in the R&D area.

Mr. Maciej Jankiewicz has over twenty years of experience in holding managerial positions and serving as a member of statutory corporate bodies. He has acted in managerial and supervisory roles in various companies, including: Centrum Doradztwa i Informacji Difin sp. z o.o., Pocztowo-Bankowe PTE S.A., Post Media Service sp. z o.o., BDM Grupa Inwestycyjna S.A., Wojskowe Przedsiębiorstwo Handlowe sp. z o.o., Polskie Radio S.A., Pocztylion-Arka PTE S.A., Centrum Bankowo-Finansowe Nowy Świat S.A., Poczta Polska S.A. He has also been in charge of CSR activities.

MAREK OLKIEWICZ — MANAGEMENT BOARD MEMBER IN CHARGE OF OPERATIONS (suspended)

Mr. Marek Olkiewicz is a graduate of the Warsaw University of Technology and the Częstochowa University of Technology and MBA, DBA and LL.M post-graduate courses of study.

He has been associated with the rail sector since the beginning of his professional career. He has more than thirty years of experience in the sector, including 15 years in managerial positions at PKP Polskie Linie Kolejowe S.A., as Vice-President – Operations Director, Deputy Director and Director of the Rail Lines Unit in Łódź. From 2017 to 2021, he served as a Board Member at the Association of PKP Rail Employers and sat on the supervisory boards of other commercial law companies.

Mr. Marek Olkiewicz is a specialist in transportation and management. He has gleaned experience in all of the key areas of operational management – ranging from running train traffic, to logistics, finance and human resources and to the management of geographically and organizationally distributed structures.

JACEK RUTKOWSKI	MANAGEMENT BOARD MEMBER IN CHARGE OF COMMERCE (dismissed from Management Board)

Mr. Jacek Rutkowski is a graduate in law at the Silesian University in Katowice and an Executive MBA in the Marseille Graduate School of Management (course held by the University of Gdańsk) and post-graduate studies in corporate finance management at the WSB University in Poznań.

Jacek Rutkowski has more than 25 years of professional experience, including more than 16 years in the rail industry. He served as President of the Management Board of CARGOTOR sp. z o.o. in 2016-2018. He was President of the Management Board of PKP CARGO Centrum Logistyczne Małaszewicze sp. z o.o. from 2018 to 2019 and he has been President of the Management Board of PKP CARGO TERMINALE sp. z o.o. since 2019.

He also has experience in cooperating with domestic institutions overseeing the rail industry and with EU institutions. He has written restructuring and optimization programs pertaining to the functioning of commercial law companies.

ZENON KOZENDRA	MANAGEMENT BOARD MEMBER – EMPLOYEE REPRESENTATIVE

Mr. Zenon Kozendra is a graduate of the Higher School of Public Administration in Kielce. He completed postgraduate studies in the organization of management at the Kozminski University.

He has been associated with PKP since 1985. From 2005 to 2008, Zenon Kozendra was the Management Board Member responsible for Employee and Administrative Affairs at PKP CARGO and since 2008 he has served as the Personnel Strategy Representative of the PKP CARGO Management Board In 2001-2005, Mr. Kozendra was a member of the PKP CARGO Supervisory Board. From 2006 to 2008, he served as a Board Member at the Association of Rail Employers. In 2016-2022, he held the position of Vice-President of the Main Council of the Association of Rail Employers.

Moreover, Zenon Kozendra sat on the supervisory boards of the following companies: PKP CARGO SERVICE – as Chairman of the Supervisory Board in 2006-2007, PKP CARGO WAGON Kraków – as Chairman of the Supervisory Board in 2007-2008, PKP CARGO TABOR Karsznice – as Member of the Supervisory Board in 2010-2014, PKP S.A. – as Member of the Supervisory Board in 2014-2016, CARGOTOR – as Chairman of the Supervisory Board in 2016-2018. Since 2019, he has served as Chairman of the PKP CARGOTABOR Supervisory Board and Chairman of the PKP CARGO Terminale Supervisory Board.

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Vice-Chairperson) appointed for a joint term of office. The number of Supervisory Board members in a specific term of office is set by PKP S.A. (in the 8th term: 11 members). The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

The Supervisory Board carries out ongoing supervision over the Company’s operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Company Code or other statutes, include granting consent for the payment of an interim dividend by the Management Board towards the anticipated end-of-the-year dividend, appointing and dismissing the President and other Members of the Management Board, setting the number of Management Board Members, granting consent for the establishment or liquidation of the Company's branch, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting.

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson or Vice-Chairperson. Resolutions of the Supervisory Board are adopted by a simple majority of votes. If an equal number of votes is cast "for" and "against", the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. The Supervisory Board may adopt resolutions without holding a meeting, by following a written procedure or using means of direct remote communication. Decisions in this respect are made by the Supervisory Board Chairperson at his/her own initiative or at a written motion of a Management Board member or Supervisory Board member.

In accordance with the Bylaws of the Supervisory Board, in the event of conflicting interests of the Company and personal interests of a Supervisory Board member, his/her spouse, family or relatives (to the second degree next of kin) and personal relations, the Supervisory Board member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes of the Supervisory Board meeting.

Diversity policy

PKP S.A. shall be entitled to appoint and dismiss members of the PKP CARGO S.A. Supervisory Board in a number equal to half the composition of the Supervisory Board (if such number is not an integer, it shall be rounded down to the nearest integer) plus one.

The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board. The Bylaws of running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal, as adopted by the Supervisory Board with Resolution No. 1804/VI/2019 of 21 January 2019 (as amended), were amended by Resolution No. 11/VII/2022 of 27 January 2022 and Resolution No. 12/VII/2022 of 2 February 2022. Failure to elect the Supervisory Board members representing employees does not prevent the Supervisory Board from being appointed or from adopting effective resolutions.

Independent Supervisory Board members

Independent members of the PKP CARGO S.A. Supervisory Board fulfill the criteria for independence within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017, the principles of the "Best Practice of WSE Listed Companies 2021" constituting an attachment to Resolution No. 13/1834/2021 of the WSE Supervisory Board of 29 March 2021 and §21 of the Company's Articles of Association.

The table below presents the composition of the Supervisory Board as at the delivery date of this report.

Table 35 Composition of the PKP CARGO S.A. Supervisory Board

Name	Position	Period in office	
		from	to
Władysław Szczepkowski	Supervisory Board Chairman	12 July 2022	to date
Andrzej Leszczyński	Supervisory Board Vice-Chairperson	12 July 2022	19 April 2024 dismissed from Supervisory Board
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	19 April 2024 dismissed from Supervisory Board
Paweł Sosnowski	Supervisory Board Member	26 June 2019	to date

Jarosław Stawiarski	Supervisory Board Member	7 July 2022	19 April 2024 dismissed from Supervisory Board
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
Paweł Miłek	Supervisory Board Member	19 April 2024	to date
Monika Starecka	Supervisory Board Member	19 April 2024	to date
Marcin Wojewódka	Supervisory Board Member	19 April 2024	to date

Source: Proprietary material.

Władysław Szczepkowski – Supervisory Board Chairman

Mr. Władysław Szczepkowski graduated in law from the Faculty of Law and Administration in the Department of Theory of the State and Law of the Nicolaus Copernicus University in Toruń in 1992. From 1992 to 2005, he pursued his career in banking where he was involved in financial analysis and corporate restructuring projects; he also worked for legal departments.

From 2005 to 2007, he was the President of the PKP CARGO S.A. Management Board. From 2010 to 2016, he worked for companies of the PGNiG Group. From September 2016 to March 2017, he was employed by Przewozy Regionalne sp. z o.o. Since the beginning of March 2017, he has been working for PKP S.A., currently as the Director – PKP S.A. Management Board Representative for Corporate Affairs. Since 2000, he has been entered in the list of legal counsels.

Since 2017, he has been a member of the PKP CARGO S.A. Supervisory Board; from October 2021 to April 2022 he was the acting President of the PKP CARGO S.A. Management Board.

Andrzej Leszczyński – Supervisory Board Vice-Chairman (dismissed from Supervisory Board)

Mr. Andrzej Leszczyński has been professionally involved in corporate governance, restructuring and equity transactions in companies with State Treasury shareholding for over 20 years. He is a graduate of the Cybernetics Department at the Military University of Technology and postgraduate studies at the Warsaw School of Economics.

Currently, he serves as Deputy Director of the Corporate Governance Department at the Ministry of State Assets, responsible for the performance of corporate governance tasks, including in relation to companies of significant importance to the state economy. Previously, for many years, he was linked to the Ministry of State Treasury and the Ministry of Economic Development and Technology, where he worked on various specialist and management positions involving broad oversight over the effective use of State Treasury assets.

He has many years of experience as a member and chairman of supervisory bodies of commercial law companies, including, among others, Krajowa Spółka Cukrowa S.A., Katowicki Holding Węglowy S.A., H.CEGIELSKI-POZNAŃ S.A., Fabryka Łożysk Tocznych Kraśnik S.A., Stocznia Remontowa NAUTA S.A., as well as defense industry entities. Currently he is a chairman of the Supervisory Board of Exatel S.A.

Henryk Grymel – Supervisory Board Member

Mr. Henryk Grymel graduated from the Commercial Secondary School in Katowice. He joined the rail industry in 1982: as a warehouse worker at the PKP's Katowice-Piotrowice Car Section, then as a warehouse manager, senior warehouse worker and unit warehouse manager.

Since 1 April 2011, he has served as Deputy Department Head at PKP CARGO S.A.'s Southern Unit in Katowice. Since 1980, he has been a member of the Solidarity Trade Union. An energetic social and trade union activist. Since 2006, Chairman of the National Council of the National Rail Workers Section of the Independent Self-Governing Trade Union "Solidarity". Since 2019, Chairman of the Council of the National Transport Workers Secretariat of the Independent Self-Governing Trade Union "Solidarity" and member of the National Committee.

Tomasz Pietrek – Supervisory Board Member

Mr. Tomasz Pietrek has been professionally associated with the rail industry for 32 years. He started his professional career in 1990 at the Rail Vocational School in Tarnowskie Góry. In 2010, he graduated from a technical secondary school as an electrical technician specializing in power electronics. A diesel and electric traction train driver at the Silesian Unit of PKP CARGO S.A. in Tarnowskie Góry.

He has acquired extensive experience in representing the interests of staff vis-à-vis employers. Chairman of the Inter-Company Trade Union of Train Drivers in Tarnowskie Góry.

Participated in numerous negotiations, including on working out the collective bargaining agreement in the Company. For many years, he served as Chairman of the Freight Transport Sector at the Trade Union of Train Drivers. Currently serving as Vice-Chairman of the Trade Union of Polish Train Drivers of the 9th term of office. He completed a training course for Supervisory Boards members.

Marek Ryszka – Supervisory Board Member (dismissed from Supervisory Board)

Mr. Marek Ryszka is a graduate of the Forest Department of the Warsaw University of Life Sciences. He has also completed specialized postgraduate studies: the Inter-University Study of Assessment and Valuation of Natural Resources at the Warsaw University of Life Sciences and the Warsaw School of Economics, Environmental Protection Policy – Ecology, as well as Management and Risk Management at the Academy of Finance in Warsaw. He also completed a Master of Business Administration (MBA) program. He participated in numerous courses and trainings, e.g. in project management and implementation of EU funds.

He has many years of broad professional experience in the area of environmental protection and management. Until November 2019, he served as Vice-President of the Management Board of the National Fund for Environmental Protection and Water Management; previously he was also an acting President of the Management Board of NFOŚiGW. In 2017-2019, he was President of the Management Board of the Voivodship Fund for Environmental Protection and Water Management in Warsaw. In 2015-2018, he also served as Deputy Chairman of the Supervisory Board of the National Fund for Environmental Protection and Water Management.

From 2013 to 2017 he was Director of the Independent Public Health Care Facility in Sulejówek. He also worked at the Warsaw City Hall as Head of the Environmental Protection Department and chief specialist at the Infrastructure and Investment Department. In the National Fund for Environmental Protection and Water Management, he was Director of the Nature Protection and Ecological Attitudes Formation Department. He was also a member of the Academic and Social Council of the "Janów Forests" Promotional Forest Complex.

As an environmental expert in the Ministry of Economy and in the Institute for Fuels and Renewable Energy he evaluated applications for co-funding and examined protests in the field of renewable energy sources under the Operational Programme Infrastructure and Environment 2007-2013.

Under the Operational Program Infrastructure and Environment 2014-2020, he acts as an environmental expert at the Ministry of Energy and in the Oil and Gas Institute – National Research Institute. He evaluates projects under sub-measures: 1.1.2 Supporting projects relating to the construction and reconstruction of grids enabling connection of energy generation units from renewable sources and 1.4.1 Supporting the construction of smart power grids – pilots and demos – under Priority I Reduction of the economy emissivity, as well as measure 7.1 Development of smart systems for energy storage, transmission and distribution under Priority VII Improvement of energy security of the Operational Program Infrastructure and Environment 2014-2020.

He is a member of the Academic and Social Council of the "Janów Forests" Promotional Forest Complex. Mr. Marek Ryszka has been awarded many medals, including the Honorary Badge "For Merit in Environmental Protection and Water Management" granted by the Minister in charge of the environment, dated 31 March 2017; the Honorary Badge "For Merit in Energy" granted by the Minister in charge of energy, dated 31 May 2021; the "Medal of the Centenary of Regained Independence" granted by the order of the President of the Republic of Poland Andrzej Duda, dated 19 May 2020.

As of 30 June 2021, the President of the Republic of Poland Andrzej Duda appointed Marek Ryszka to participate in the work of the National Development Council – the Council for Environment, Energy and Natural Resources to the President of the Republic of Poland. He serves as the chairman of the Convention of Presidents of Voivodship Funds for Environmental Protection and Water Management.

Paweł Sosnowski – Supervisory Board Member

Mr. Paweł Sosnowski graduated from the Faculty of Law and Administration at the University of Warsaw and from the Faculty of Canon Law at the Warsaw Theological Academy. He obtained a Ph.D. degree in administrative law from the Catholic University of Lublin. Mr. Paweł Sosnowski is also a licensed legal counsel and a member of the Regional Chamber of Legal Counsels in Warsaw.

In 1992-2006, he was associated with Totalizator Sportowy sp. z o.o., and in 1998-2002 he rendered his services to the State Fund for the Rehabilitation of the Disabled. In parallel, he also lectured at the Faculty of Administration and Social Sciences of the Warsaw University of Technology and cooperated with the Department of Administrative Law and Local Self-Government at the Cardinal Stefan Wyszyński University in Warsaw.

In 2003-2007, he served as Deputy Mayor of the Wawer District of Warsaw and Chief Specialist in the Legal Department of the Warsaw City Hall. In 2007, he also served as Deputy County Construction Supervision Inspector in the County Construction Supervision Inspectorate for the Capital City of Warsaw.

Since 2007, he has worked for the General Counsel to the Republic of Poland. In 2000-2002, he was a member of the Supervisory Board of LIGIA sp. z o.o., in 2003-2006, Supervisory Board Chairman of Towarzystwo Budownictwa Społecznego "WOLA" sp. z o.o. and in 2017-2018 he was a member and secretary of the PKP S.A. Supervisory Board.

Jarosław Stawiarski – Supervisory Board Member (dismissed from Supervisory Board)

Mr. Jarosław Stawiarski was born on 3 October 1963 in Kraśnik. He is a seasoned local government official, civil servant and politician. He is a graduate in history from the Humanities Faculty of the Maria Curie-Skłodowska University in Lublin, post-graduate studies in management at the University of Warsaw and post-graduate studies in the management of education at the Baltic Higher School of Humanities in Koszalin.

In his home town he served as a school teacher and principal, a city council member and deputy mayor. He was a member of parliament for four terms of office. He was a Secretary of State in the then Ministry of Sports and Tourism for three years.

In his capacity as deputy minister he was responsible for financial support for sporting infrastructure. He supervised the National Stadium, the Central Sports Center and the Institute of Sport. He is a member of the executive board of the European Committee of Regions (CoR) and the chair of the President's Council on Local Government affairs.

He was selected to serve as Marshal of Lubelskie Voivodship on 21 November 2018. His great passion is for sports. Privately and professionally. He always attends the most important events. He supports and roots for Polish national teams in various disciplines.

Jarosław Ślepaczuk – Supervisory Board Member

Mr. Jarosław Ślepaczuk earned his MA degree from the College of Education in Częstochowa and completed postgraduate studies at the Faculty of Material Engineering and Transport – Organization and Management of Human Resources – at the Silesian University of Technology. He has been employed in PKP's structures since September 1993. While continuing his family traditions, he got his first professional hands-on experience as a switchman at the Tarnowskie Góry PKP station. Currently, he works as a shipment organizer at PKP CARGO S.A.'s Silesian Unit. Since 2002, he has served as an alderman for a local government – currently for the Tarnowskie Góry City Council as Vice-Chairman of the Audit Committee.

Since 2000, he has served as Chairman of the Trade Union of Silesian Rail Workers at PKP CARGO S.A.'s Silesian Unit, and since 2020 as Chairman of the CARGO Sectoral Council operating within the structures of the Trade Union Federation of Rail Workers in Warsaw.

Michał Wnorowski – Supervisory Board Member – independent

Mr. Michał Wnorowski is an expert in corporate governance. Member of the Association of Independent Non-Executive Directors.

Currently, an independent member of supervisory boards and a member of audit committees of the following companies listed on the stock exchange: Alumetal, Medicalgorithmics, Polwax, Tower Investments. Previously, he sat among others on supervisory boards and audit committees of: Arteria, Voxel, Develia, Robyg, Enter Air, EMC Instytut Medyczny, Braster, Travelplanet.pl, Elektrobudowa, Armatura Kraków, ARM Property.

He has been associated with the financial market since 1995. In 2012-2016, he was Investment Director Managing the Long-Term Equity Portfolio of the PZU Group, where he was responsible for the largest equity investment projects and for coordinating investments in this asset class across the PZU Group.

Previously, he was Director of the Analysis and Corporate Governance Team at the PZU Group, responsible among others for the analysis and selection of companies for investment portfolios and for subsequent oversight over portfolio companies. He has experience in investment project management, market analysis, business analysis and valuation, securities portfolio management, and supervision over merger and acquisition processes. He is a graduate of the Warsaw School of Economics and the Kraków University of Economics.

Izabela Wojtyczka – Supervisory Board Member – independent

Graduated from the Warsaw School of Economics majoring in economics in the Global Economic Interdependence Department and from the University of Warsaw, having earned a Master's degree. A Ph.D. student at the Cardinal Stefan Wyszyński University in Warsaw. She also completed a fellowship at Pázmány Péter Catholic University in Budapest. She holds a Master of Business Administration (MBA) degree and international project management certificates.

An independent member of the PKP CARGO S.A. Supervisory Board, Chairwoman of the Nomination Committee and a member of the Audit Committee. She served as Secretary of the Corporate Governance Reform Commission responsible for preparing the most comprehensive reform of the Commercial Company Code in Poland in 20 years. She serves as Vice-President of the Management Board of PZU Centrum Operacji SA. She acquired her professional experience working in managerial positions in the private sector and public administration, including at Polskie Górnictwo Naftowe i Gazownictwo Obrót Detaliczny, the Ministry of Entrepreneurship and Technology and non-governmental organizations. She authored publications on the legal functioning of the European Union and expansion of powers of EU institutions.

Grzegorz Dostatni – Supervisory Board Member

Mr. Grzegorz Dostatni graduated from the Faculty of Law and Administration at the University of Gdańsk, the National School of Public Administration, Polish-Dutch European Study Program organized by the University of Warsaw and the Maastricht University, doctoral studies in the Faculty of Law and Administration at the University of Warsaw. He is a doctor of law and an attorney at law. During his career, he has worked with the government administration: among others, he served as the Deputy Director of the Legal Department in the Ministry of Finance and the Director of the Legal Department in the Prime Minister's Office. At present, he is the Director of the Legal Department in the Ministry of State Assets. He has served as a supervisory board member in Bank Gospodarstwa Krajowego and PZU Życie S.A., among other companies.

Paweł Miłek - Członek Rady Nadzorczej

Mr. Paweł Miłek graduated in law from the University of Wrocław, completed his judge training in 1997 and his legal counsel training in 1999. Since 1997, trustee in bankruptcy proceedings, supervisor and administrator in restructuring proceedings. On 9 February 2022, he obtained the professional title of Qualified Restructuring Advisor. Legal counsel since January 2000. Used to serve as Vice-Chairman of the Regional Disciplinary Court at the Regional Chamber of Legal Counsels in Wroclaw. From 2021 to 2023, President of the Lower Silesian Association of Trustees in Bankruptcy Proceedings.

Monika Starecka - Członek Rady Nadzorczej

Since 18 April 2024, Director of the Financial Division at PKP S.A.

From 2019 to April 2024, Director of the Finance Division at Szybka Kolej Miejska sp. z o.o. with its registered office in Warsaw, overseeing the areas of accounting, controlling and obtaining and accounting for EU funds. Participated in activities aimed at improving the efficiency of the company's operations and development.

Appointed to the ENEA S.A. Supervisory Board on 30 January 2024, seconded as a Supervisory Board Member to temporarily perform the duties of President of the ENEA S.A. Management Board since 2 February 2024, and seconded to temporarily perform the duties of ENEA S.A. Management Board Member for Corporate Affairs from 1 March 2024 to 30 April 2024.

Since 2019, has been running Equinox Consulting, a consulting firm providing financial and operational advisory services, soft skills training, coaching and mentoring sessions for entrepreneurs and members of corporate governing bodies.

From 2014 to 2018, Management Board Member and Chief Operating Officer of EY Poland (formerly: Ernst & Young) where she was responsible for all business support areas: finance, marketing, human resources management, IT, legal, procurement, asset management and administration. Also participated in projects aimed at improving operational efficiency, boosting inclusiveness, supporting the development of women, increasing employee satisfaction and improving internal customer service.

From 2010 to 2014, Management Board Member and Chief Financial Officer of the SMYK Group. Oversaw 15 companies based in 10 countries. Used to be responsible for the areas of finance, legal and internal control at all SMYK companies located in Poland, Germany, Russia, Turkey, Ukraine, Romania, Czechia, Switzerland, etc. Participated in acquisition projects across Europe.

From 2008 to 2010, CFO of Telepizza Poland where she was responsible for the areas of finance, human resources management, IT, investments and occupational safety and health at Telepizza's own and franchised restaurants and factories.

From 2002 to 2008, Director of the Finance Department of Vattenfall Heat Poland (formerly: Elektrociepłownie Warszawskie). Also a member of a project team dealing with restructuring of the areas of procurement, sales, strategic planning, non-productive asset management, finance and cash management.

In 2001-2002, Chief Financial Officer of RTC Poland, a niche advertising agency. From 1996 to 2000, Experienced Consultant and Project Manager at Arthur Andersen in the Audit and Business Advisory Departments. Most of her clients were companies in the power and fuel sectors.

Certified auditor since 2003. Certified as an International Coach by the International Coaching Community (ICC). Graduated from the Faculty of Management at the University of Warsaw, completed postgraduate studies in Human Resource Management at Jagiellonian University and Advanced Leadership and Management at Oxford University.

Marcin Wojewódka - Członek Rady Nadzorczej

Mr. Marcin Wojewódka Legal counsel, doctor of economics, founder and managing partner of the Labor Law Firm "Wojewódka i Wspólnicy" (www.wojewodka.pl), President of the Management Board of Instytut Emerytalny (www.instytutemerytalny.pl), academic teacher. Management Board Member at the Social Insurance Institution (ZUS) from 2016 to 2017. Supervisory Board Member at PZU Życie S.A.

Graduate of the Faculty of Law and Administration at the University of Warsaw and Postgraduate Studies in Psychology of Human Resources Management. Has more than 25 years of professional experience in labor law and employee benefits. Advises employers in restructuring processes, labor law and employee benefits. Author of numerous publications on labor law, social security and pension system-related topics. Recognized on numerous occasions in international legal rankings: The Chambers and Legal 500 in the category of Labor Law in Poland.

SUPERVISORY BOARD AUDIT COMMITTEE

The Supervisory Board appoints the Supervisory Board Audit Committee, which consists of at least three Supervisory Board members and the majority of the Audit Committee members, including its Chairperson, must fulfill the independence criteria set forth in § 20 and 21 of the Company's Articles of Association. At least one Member of the Audit Committee has qualifications in the area of accounting or audit of financial statements and at least one Member of the Audit Committee has knowledge and skills in the specific industry in which the Company operates. The Committee Members are appointed for a period corresponding to the length of the Supervisory Board's term of office. The tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the firm authorized to audit financial statements, also when it provides to the Company other services than financial audit and review, assessing the independence of a statutory auditor and giving consent for it to provide permitted financial audit services, recommending a firm authorized to audit financial statements to the Shareholder Meeting to perform financial audit activities in the Company, in compliance with the policies in force in the Company: Policy and Procedure for the selection of an audit firm to audit the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group and Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network.

Table 36 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board

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

Source: Proprietary material.

In 2023, the Audit Committee held 11 meetings and took 3 votes using means of direct remote communication. In 2023, the Audit Committee adopted 13 resolutions.

The Audit Committee members who satisfy the statutory criteria of independence are Michał Wnorowski and Izabela Wojtyczka.

As required by the provisions of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (Journal of Laws of 2019, Item 1421, as amended), the independent members of the Audit Committee submitted statements confirming their fulfillment of the criteria listed in Article 129(3) of the said Act.

The following members of the Supervisory Board Audit Committee have the knowledge and skills in the area of accounting or auditing of financial statements:

- Michał Wnorowski: graduate of the Warsaw School of Economics and the Cracow University of Economics with more than 20 years of professional experience in the management of investment projects, market and financial analysis, business analysis and valuation and management of investment portfolios in large financial institutions;
- Izabela Wojtyczka: Master of Economics – Warsaw School of Economics, Ph.D. student at Cardinal Stefan Wyszyński University in Warsaw. She also completed a fellowship at Pázmány Péter Catholic University in Budapest. She holds a Master of Business Administration (MBA) degree and international project management certificates.

The Supervisory Board Audit Committee members who have the knowledge and skills in the specific industry in which PKP CARGO S.A. operates are:

- Izabela Wojtyczka: knowledge and skills acquired in her role as Member of the PKP CARGO S.A. Supervisory Board since 16 July 2020.
- Jarosław Ślepaczuk: earned his MA degree from the College of Education in Częstochowa and completed postgraduate studies at the Faculty of Material Engineering and Transport – Organization and Management of Human Resources – at the Silesian University of Technology; 30 years of experience in rail sector enterprises; since 2000, he has served as Chairman of the Trade Union of Silesian Rail Workers at PKP CARGO S.A.'s Silesian Unit, and since 2020 as Chairman of the CARGO Sectoral Council operating within the structures of the Trade Union Federation of Rail Workers in Warsaw.

In accordance with the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019, Item 1421, as amended), The Supervisory Board Audit Committee, by Resolution No. 13/2023 of 16 October 2023, established the Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network and the Policy and procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.

The Policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. The Audit Committee, in establishing this Policy, was primarily concerned with the high quality of financial information disclosed to PKP CARGO S.A.'s stakeholders.
2. The Policy for the selection of an audit firm defines the principles and rules of conduct during the process aimed at selecting an audit firm authorized to conduct a statutory audit and review of the financial statements of the Company and the PKP CARGO Group (hereinafter: "audit firm"). The independence and possession of proper authorizations by both the auditor and the audit firm is a key element of this Policy. With that, the criteria for the selection and rotation of the audit firm and the rules for the provision of non-audit services by the auditor are intended to ensure that the auditor has the proper knowledge and skills to perform the engagement and is independent.
3. In accordance with the Articles of Association of PKP CARGO S.A., the audit firm is selected by the Shareholder Meeting of PKP CARGO S.A. from among entities participating in the Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. The selection is made in consideration of the principles of impartiality and independence of the audit firm and an analysis of the work carried out by the audit firm in the Company and beyond the scope of the audit of the financial statements in order to avoid any conflict of interest (by maintaining impartiality and independence) after reviewing the transparency reports prepared pursuant to Article 13 of the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 and published by the audit firms, based on the recommendation provided by the Audit Committee.
4. When issuing a recommendation and when selecting an audit firm, the Audit Committee and the Shareholder Meeting, respectively, are required to pay special attention to:

- the need to maintain the independence and objectivity of the audit firm and the auditor – the scope of services provided during the most recent financial years by the audit company itself as well as by its related parties and network members to the Company or its parent company or entities controlled by PKP CARGO S.A. is a matter of detailed analysis;
- experience in auditing standalone and consolidated financial statements of public interest entities of a similar size to that of the Company and the PKP CARGO Group and listed on the Warsaw Stock Exchange;
- experience in auditing companies with a similar business profile to that of the Company;
- professional qualifications and experience of persons directly involved in the conduct of the audit/review of the Company and selected subsidiaries of PKP CARGO S.A.;
- the ability to provide the required range of services within the specified period, including the ability to ensure the stability of the team;
- the availability of qualified specialists in of specific issues related to financial statements, such as tax analysis, hedge accounting, measurement of derivatives, IT systems;
- costs of the audit.

5. The selection of an audit firm must be made sufficiently in advance to enable the execution of the audit contract early enough to enable the audit firm to prepare for the interim review.
6. The Audit Committee's recommendation on the selection of the audit firm is forwarded to those PKP CARGO Group companies that are immediate subsidiaries of PKP CARGO S.A.
7. An agreement with the audit firm for the audit of the financial statements will be entered into for the selected term. The agreement with the audit firm must include provisions requiring the audit firm to provide the Company at least twice per calendar year – by the end of January and by the end of July – with information on the outcomes of inspections and the initiation of proceedings conducted at the audit firm by the Polish Agency for Audit Oversight. Moreover, the agreement should stipulate that upon receipt of the relevant information, the audit firm will notify the Company of the issuance by the Polish Agency for Audit Oversight of a first-instance or second-instance administrative decision to impose a penalty on the audit firm as specified in Article 183(1) of the Act.
8. Verification and monitoring of the independence of the statutory auditor and the audit firm are carried out at every stage of the procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.
9. The audit firm is selected based on the principle of rotation of audit firms and key statutory auditors.
10. The first contract for a statutory audit is entered into with an audit firm for a period not shorter than two years with an option to extend the contract by subsequent periods of at least two years, in consideration of the rules of rotation of audit firms and key statutory auditors in compliance with the applicable laws.

11. The audit firm selection process is conducted in accordance with the adopted "Policy and Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group".

The Policy and Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. The selection procedure is initiated by the Audit Committee of the Supervisory Board which lays down detailed guidelines regarding the requirements to be satisfied by the audit firm responsible for conducting audits of standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group as well as the selection criteria.
2. The request for proposals is sent out to audit firms in accordance with Article 130(3)(2)(a) of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019, item 1421, as amended) and requires the prior approval by the Audit Committee.
3. The Audit Committee prepares a recommendation for the Shareholder Meeting in accordance with the provisions of the Policy, taking into consideration the conclusions of the annual report of the Audit Oversight Commission referred to in Article 90 Section 5 of the Act, the analysis of proposals submitted by audit firms, documentation of the procurement procedure and the report.

The Audit Committee has adopted the following rules governing the provision of additional services by audit firms, including their related parties or members of their network (hereinafter: the audit firm) responsible for auditing standalone financial statements of the Company and consolidated financial statements of the PKP CARGO Group:

1. Besides the audit/review of the financial statements, the audit firm may provide the following services to: (i) the Company, or (ii) entities controlled by PKP CARGO S.A. (hereinafter: controlled entities), or (iii) the parent company of PKP CARGO S.A. (hereinafter: the parent company):
   - conducting due diligence procedures regarding the economic and financial standing and preparation of comfort letters in connection with the issue prospectus, carried out in accordance with the national standard of related services (agreed procedures);
   - assurance services regarding pro forma financial information, result forecasts or estimates given in the issue prospectus;
   - audits of historical financial information, referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004;
   - verification of consolidation packages;
   - confirmation of the fulfillment of the terms of loan agreements based on an analysis of the financial information provided in the financial statements;
   - assurance services regarding corporate governance, risk management and corporate social responsibility reporting;
   - auditor's opinion on financial statements or other financial information addressed to supervisory authorities, the supervisory board or another supervisory body of the Company or the shareholders, not covered by the scope of the statutory audit, and intended to support those bodies in the performance of their statutory duties.
2. Provision of the services referred to in point 1 is possible only within a scope not related to the tax policy of the Company, its parent entity or subsidiaries, after the Audit Committee of the Supervisory Board has assessed the threats and warranties regarding the independence of the audit firm.
3. The execution of an agreement for the provision of additional services by the audit firm requires in each case the consent of the Audit Committee at the request of the pertinent company's Management Board. The consent of the Audit Committee referred to in the preceding sentence is required for the audit firm to execute an agreement with the Company, with each controlled entity and with the parent company.
4. The Company presents to the Audit Committee of the Supervisory Board, at least annually, a list of all additional services provided by the audit firm to PKP CARGO S.A., its parent entity and the entities controlled by the Company.

In 2023, the Supervisory Board's Audit Committee did not adopt any resolutions expressing the consent for the following audit firms to execute a contract for the provision of services other than audit services:

- Grant Thornton Frąckowiak P.S.A. (formerly: Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k.) with its registered office in Poznań, entered in the list of audit firms kept by the National Council of Statutory Auditors under file no. 3654, NIP: 778-14-76-013 (hereinafter: "Grant Thornton Frąckowiak"), and
- Grant Thornton Polska P.S.A. (Grant Thornton Polska spółka z ograniczoną odpowiedzialnością sp.k.) with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, 61-131 Poznań, KRS 0000407558, NIP 7822545999, entered in the list of audit firms kept by the Polish Audit Supervision Agency under file no. 4055

NOMINATION COMMITTEE

The Nomination Committee is appointed by the Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association, to discharge the function of Nomination Committee Chairperson.

Members of the Nomination Committee are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company's Management Board Members and over the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and compensation for the Company's employees, including in particular the Company's Management Board members and upper level management.

Table 37 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board

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.

STRATEGY AND SUSTAINABILITY COMMITTEE

On 27 September 2023, the Supervisory Board adopted Resolution No. 116/VIII/2023 on the adoption of "Bylaws of the PKP CARGO S.A. Supervisory Board", whereby it changed the name of the Strategy Committee of the PKP CARGO S.A. Supervisory Board to the Strategy and Sustainability Committee of the PKP CARGO S.A. Supervisory Board. The Strategy and Sustainability Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. The Committee Members are appointed for a period corresponding to the length of the Supervisory Board's term of office. The Strategy and Sustainability Committee supports the Supervisory Board in its supervision over the establishment of the strategy as well as the proper pursuit of the strategy and annual and long-term activity plans for the Company and its Group.

Table 38 Composition of the Strategy Committee of the PKP CARGO S.A. Supervisory Board

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	19 April 2024 dismissed from Supervisory Board
Tomasz Pietrek	Committee Member	12 July 2022	to date
Michał Wnorowski	Committee Member	12 July 2022	to date

Source: Proprietary material.

8.12. Description of the Company's and the PKP CARGO Group's sponsoring, charitable or other similar activities

PKP CARGO S.A. and members of the PKP CARGO Group focus on pro-social activities consistent with the Group's mission and growth strategy and the values represented by PKP CARGO S.A. The conduct of long-term social programs is a priority activity undertaken by these entities.

Based on an analysis of initiatives and programs executed to date and a diagnosis of the needs of the PKP CARGO Group's business and social environment, the following sponsorship activities were devised:

- Initiatives for the development of the logistics sector,
- Science and education, including cooperation with institutions of higher education and scientific centers,
- Culture and arts
- Safety and security,
- Sports – with priority given to activities aimed at the promotion of sports and a healthy lifestyle among youths.

Charitable support activities are focused on environmental protection and ecology (including supporting the initiatives related to ecology of transport), science and education, culture and art, safety and equalization of social differences. This support builds the image of the Company, whose activities are targeted not only at business, but also at social issues, and is important in particular in the pursuit of the postulates of sustainability and ESG policy. Supporting book publishing activities – PKP CARGO S.A. carries out the tasks of nurturing railroad history and promoting patriotic values. Supporting railroad schools – PKP CARGO nurtures railroad traditions while developing contacts with schools that educate future personnel for the rail industry.

In 2023, the PKP CARGO Group provided support to a group of employees and pensioners in financing their treatment and rehabilitation. Donations were provided to individuals remaining in a challenging financial situation. Also, the Group provided financial and material support to employees participating in various sports and recreational events. The sponsorship activity of PKP CARGO S.A. and other PKP CARGO Group companies focused on supporting the organization of significant historical and sports events and gatherings significant for the rail workers community. An example of this is the celebration of the 42nd anniversary of the Lublin July 1980, sponsorship of the Solidarity Cycling Race and Olympians, co-funding of the Railway Employee Day celebrations, and sponsorship of conferences, meetings and debates organized by trade unions as PKP CARGO's stakeholders. PKP CARGO S.A.'s financial involvement in the holding of such celebrations is fully justified, as this is how we nurture railroad traditions while developing contacts with a school that educates future personnel for the rail industry.

9. 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 Management Board Report on the activity of PKP CARGO S.A. and the PKP CARGO Group, 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.

10. Non-financial information

Pursuant to Article 49b(9) and Article 55(2c) of the Accounting Act, the Company and its Group do not prepare a non-financial statement due to the preparation of a separate report on non-financial information (Sustainability Report of the PKP CARGO Group) in accordance with §70(1)(5) and §71(1)(5) of the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent.

This Management Board Report on the Activity of the PKP CARGO Group has been prepared by the PKP CARGO S.A. Management Board.

Management Board

Maciej Jankiewicz
Acting President of the Management Board

Zenon Kozendra
Management Board Member

Warsaw, 23 April 2024