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Management Board Report

on the activity of the PKP CARGO S.A. CAPITAL GROUP under restructuring

for H1 2024

PKPCARGO

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO w restrukturyzacji GROUP IN THE FIRST HALF OF 2024

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1. Organization of the PKP CARGO w restrukturyzacji Group

1.1. Highlights on the Company and the PKP CARGO Group along with changes in H1 2024

The PKP CARGO w restrukturyzacji Group ("PKP CARGO Group") is a rail freight operator in Poland and the European Union ("EU") that has provided comprehensive logistics services for years. Apart from transport activity, the PKP CARGO Group provides complementary services supporting the Group in the area of rail freight, including siding and traction services, terminal or forwarding services.

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

As at 30 June 2024, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A. w restrukturyzacji ("PKP CARGO", "PKP CARGO S.A.", "Company"):

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

Moreover, as at 30 June 2024, PKP CARGO or PKP CARGO's (direct or indirect) subsidiaries held shares in 8 companies that were not controlled or jointly controlled by PKP CARGO or PKP CARGO's subsidiaries, including:

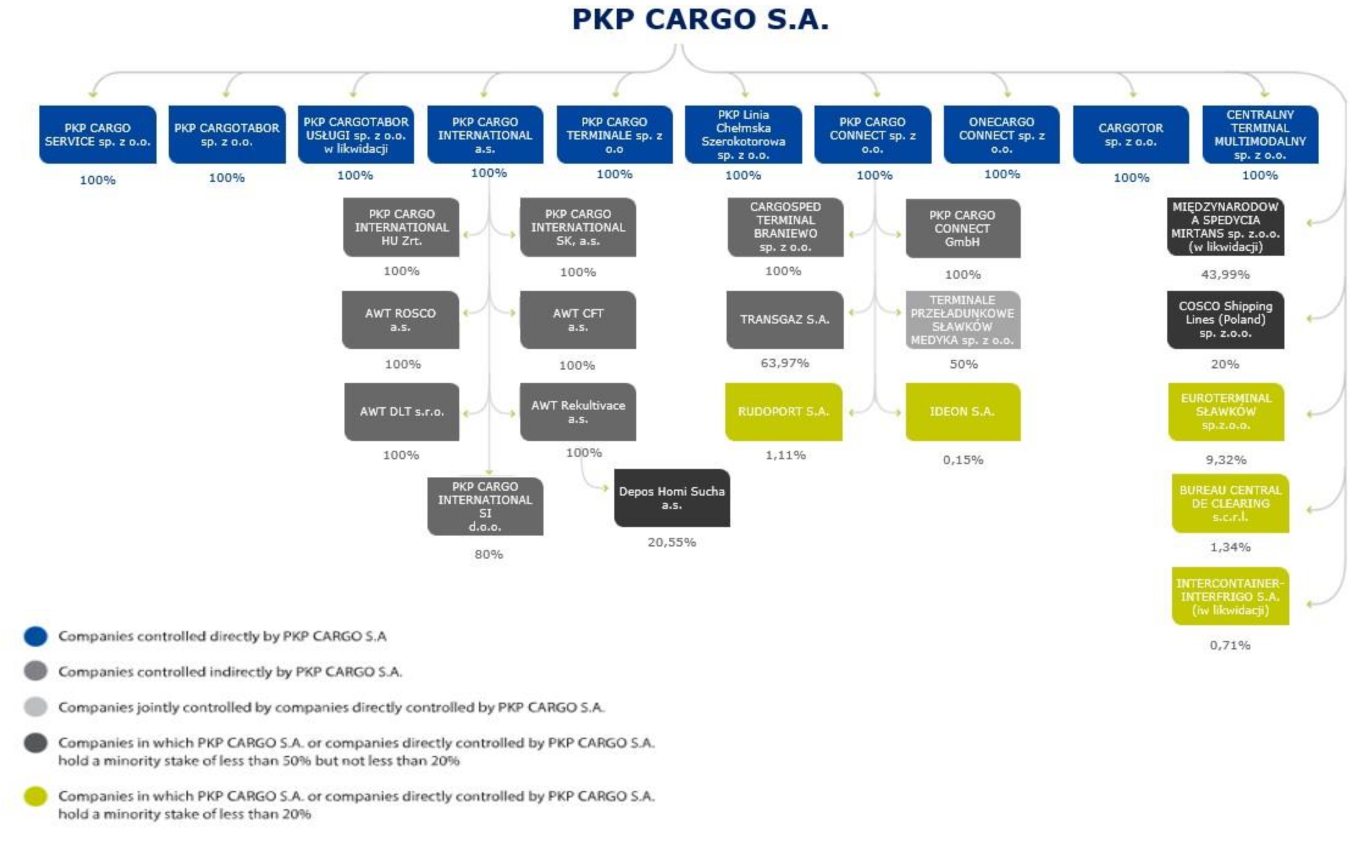
– 5 companies in which PKP CARGO directly holds a minority stake,

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

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

The chart below presents the structure of capital links with companies in which PKP CARGO or its subsidiaries hold an equity stake – as at 30 June 2024:

Figure 1. Structure of capital links with companies in which PKP CARGO or its subsidiaries hold shares – as at 30 June 2024



Source: Proprietary material

During the first half of 2024 and until the date of this report, the following changes were made to the organization of PKP CARGO Group:

- on 25 April 2024, the Extraordinary Shareholder Meeting of PKP CARGOTABOR USŁUGI sp. z o.o. was held and adopted a resolution to dissolve PKP CARGOTABOR USŁUGI sp. z o.o. through liquidation and to appoint a liquidator for the company as of 25 April 2024.
- on 25 July 2024, the restructuring proceedings of PKP CARGO S.A. were opened.
- on 2 September 2024, the restructuring proceedings of PKP CARGOTABOR sp. z o.o. were opened.

In H1 2024 and until the date of approval of this report, apart from the events enumerated above, no other changes were made to the Group's organization resulting from a merger, obtaining or losing control over subsidiaries or long-term investments, or a demerger, restructuring or discontinuation of business.

1.2. Consolidated entities

The Interim Consolidated Financial Statements of the PKP CARGO Group as at 30 June 2024 encompass PKP CARGO and 12 subsidiaries consolidated by the full method:

Table 1. Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o. ("PKP CARGO SERVICE")	Comprehensive handling of rail sidings, rail freight and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o. w restrukturyzacji ("PKP CARGOTABOR")	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o. w likwidacji ("PKP CARGOTABOR USŁUGI w likwidacji")	As at the date of this report, the company does not conduct any operating activity.
PKP CARGO TERMINALE Sp. z o.o. ("PKP CARGO TERMINALE") (formerly CL Medyka-Żurawica and CL Małaszewicze)	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company 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")	Cargo handling, wholesale and retail sale of coal.
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") (formerly Advanced World Transport a.s.)	Comprehensive handling of rail freight (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. Comprehensive services related to 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 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") (formerly: AWT Rail HU Zrt)	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

Moreover, the following 7 companies are measured using the equity method as at 30 June 2024 in the PKP CARGO Group's Interim Condensed Consolidated Financial Statements:

Table 2. Entities accounted for under the equity method

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

2. Information about the Parent Company

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

MANAGEMENT BOARD

Table 3. Composition of the Management Board of PKP CARGO as at 30 June 2024

Name	Position	Period in office	
		from	to
Marcin Wojewódka	acting President of the Management Board	26 April 2024 26 July 2024	25 July 2024* 25 October 2024*
Paweł Miłek	acting Management Board Member in charge of Commerce	26 April 2024 26 July 2024	25 July 2024* 25 October 2024*
Monika Starecka	acting Management Board Member in charge of Finance	26 April 2024 26 July 2024	25 July 2024* 25 October 2024*
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	2 September 2024

** Supervisory Board Members temporarily seconded to perform the duties of Management Board Members.*
Source: Proprietary material

As at the date of this report, the PKP CARGO Management Board was composed of:

- Marcin Wojewódka – Acting President of the Management Board
- Paweł Miłek – Acting Management Board Member in charge of Commerce
- Monika Starecka – Acting Management Board Member in charge of Finance

In H1 2024 and until the date of this report, the following changes occurred in the Company's Management Board:

- On 1 February 2024, the Supervisory Board suspended from office Mr. Dariusz Seliga, President of the PKP CARGO S.A. Management Board, and Mr. Marek Olkiewicz, PKP CARGO S.A. Management Board Member in charge of Operations. On the same date, the Supervisory Board appointed Mr. Maciej Jankiewicz, Management Board Member in charge of Finance, as acting President of the Company's Management Board.
- On 22 April 2024, the Supervisory Board dismissed Mr. Jacek Rutkowski, Management Board Member in charge of Commerce, from the PKP CARGO S.A. Management Board.
- On 24 April 2024, the Supervisory Board:
  – dismissed Mr. Dariusz Seliga, President of the Management Board, and Mr. Marek Olkiewicz, Management Board Member in charge of Operations, from the Company's Management Board and, effective as of 25 April 2024, Mr. Maciej Jankiewicz, Management Board Member in charge of Finance, from the Company's Management Board and from the post of acting President of the Management Board.
  – seconded Supervisory Board Members to temporarily, that is from 26 April 2024 to 25 July 2024, perform the following duties: Mr. Marcin Wojewódka to serve as acting Management Board Member in the capacity of acting President of the Management Board, Ms. Monika Starecka to serve as acting Management Board Member in the capacity of Management Board Member in charge of Finance, and Mr. Paweł Miłek to serve as acting Management Board Member in the capacity of Management Board Member in charge of Commerce,
- On 15 July 2024, the Company's Supervisory Board adopted resolutions to again second Supervisory Board Members to temporarily, that is from 26 July 2024 to 25 October 2024, perform the following duties: Mr. Marcin Wojewódka to serve as acting Management Board Member in the capacity of acting President of the Management Board, Ms. Monika Starecka to serve as acting Management Board Member in the capacity of Management Board Member in charge of Finance, and Mr. Paweł Miłek to serve as acting Management Board Member in the capacity of Management Board Member in charge of Commerce.
- On 25 July 2024, the District Court for the Capital City of Warsaw in Warsaw, 18th Commercial Division, appointed Ms. Izabela Skonieczna-Powałka as administrator of the remedial estate.
- On 2 September 2024, the Supervisory Board, at the request of some of the trade unions operating in the Company, dismissed Mr. Zenon Kozendra, Management Board Member – Representative of Employees, from the Company's Management Board.

On 30 April 2024, the PKP CARGO S.A. Management Board entrusted the supervision of matters and organizational units of the Company's Head Office existing within the scope of powers of the Management Board Member in charge of Operations to Mr. Marcin Wojewódka, acting President of the Management Board, with regard to the Department of Transport and International Cooperation at the PKP CARGO S.A. Head Office (currently the Department of Operational Supervision at the PKP CARGO S.A. w restrukturyzacji Head Office), to Ms. Monika Starecka, acting Management Board Member in charge of Finance, with regard to the Department of Rail Traffic Safety at the PKP CARGO S.A. Head Office (currently the Division of Rail Traffic Safety at the PKP CARGO S.A. w restrukturyzacji Head Office), and Mr. Paweł Miłek acting Management Board Member in charge of Commerce, with regard to the Department of Rolling Stock and Technical Support at the PKP CARGO S.A. Head Office.

SUPERVISORY BOARD

Table 4. Composition of the PKP CARGO Supervisory Board as at 30 June 2024

Name	Position	Period in office	
		from	to
Władysław Szczepkowski	Supervisory Board Chairman	12 July 2022	to date
Henryk Grymel	Supervisory Board Member	29 June 2022	to date
Tomasz Pietrek	Supervisory Board Member	29 June 2022	to date
Jarosław Ślepaczuk	Supervisory Board Member	29 June 2022	to date
Michał Wnorowski	Supervisory Board Member	29 June 2022	to date
Izabela Wojtyczka	Supervisory Board Member	16 July 2020	to date

Paweł Miłek	Supervisory Board Member	19 April 2024	to date
	(seconded to temporarily perform the duties of Management Board Member in charge of Commerce)	26 April 2024 26 July 2024	25 July 2024 25 October 2024
Monika Starecka	Supervisory Board Member	19 April 2024	to date
	(seconded to temporarily perform the duties of Management Board Member in charge of Finance)	26 April 2024 26 July 2024	25 July 2024 25 October 2024
Marcin Wojewódka	Supervisory Board Member	19 April 2024	to date
	(seconded to temporarily perform the duties of President of the Management Board)	26 April 2024 26 July 2024	25 July 2024 25 October 2024
Bogusław Nadolnik	Supervisory Board Member	14 May 2024	to date
Robert Stępień	Supervisory Board Member	14 May 2024	to date

Source: Proprietary material.

As at the date of this report, the composition of the PKP CARGO Supervisory Board has not changed.

In H1 2024 and until the date of this report, the following changes occurred in the Company's Supervisory Board:

- on 19 April 2024, PKP S.A., acting in its capacity as a shareholder in the Company:
  – dismissed the following individuals from the Supervisory Board: Mr. Andrzej Leszczyński, Mr. Jarosław Stawiarski and Mr. Marek Ryszka,
  – appointed the following individuals to the Supervisory Board: Mr. Paweł Miłek, Ms. Monika Starecka and Mr. Marcin Wojewódka,
- on 13 May 2024, PKP S.A., acting in its capacity as a shareholder in the Company:
  – dismissed the following individuals from the Supervisory Board: Mr. Paweł Sosnowski and Mr. Grzegorz Dostatni,
  – appointed the following individuals to the Supervisory Board: Mr. Bogusław Nadolnik and Mr. Robert Stępień.

SUPERVISORY BOARD AUDIT COMMITTEE

Table 5. Composition of the Audit Committee of the PKP CARGO Supervisory Board as at 30 June 2024

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

Source: Proprietary material

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

NOMINATION COMMITTEE

Table 6. Composition of the Nomination Committee of the PKP CARGO Supervisory Board as at 30 June 2024

Name	Position	Period in office	
		from	to
Izabela Wojtyczka	Committee Chairwoman	12 July 2022	to date
Władysław Szczepkowski	Committee Member	12 July 2022	to date
Robert Stępień	Committee Member	16 May 2024	to date

Source: Proprietary material

In H1 2024 and until the date of this report, the following changes occurred in the Nomination Committee:

- On 14 May 2024, Mr. Paweł Sosnowski was removed from the Supervisory Board due to his dismissal from the Committee,
- On 16 May 2024, the Supervisory Board appointed Mr. Robert Stępień to the Nomination Committee.

STRATEGY AND SUSTAINABILITY COMMITTEE

Table 7. Composition of the Strategy and Sustainability Committee of the PKP CARGO Supervisory Board as at 30 June 2024

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
Tomasz Pietrek	Committee Member	12 July 2022	to date
Michał Wnorowski	Committee Member	12 July 2022	to date
Bogusław Nadolnik	Committee Member	16 May 2024	to date

Source: Proprietary material

In H1 2024 and until the date of this report, the following changes occurred in the Strategy and Sustainability Committee:

- On 19 April 2024, Mr. Andrzej Leszczyński was removed from the Supervisory Board due to his dismissal from the Committee,
- On 16 May 2024, the Supervisory Board appointed Mr. Bogusław Nadolnik to the Strategy and Sustainability Committee.

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

The structure of PKP CARGO's share capital as at 30 June 2024 is presented in the table below:

Table 8. Structure of PKP CARGO S.A.'s share capital

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

Source: Proprietary material

In H1 2024 and until the date of this report, no changes have been made to the amount or structure of the Company's share capital.

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

In the period from the date of publication of the previous periodic report, that is 27 May 2024, to the delivery date of this report, the following changes occurred regarding entities holding, directly or indirectly, significant equity stakes in PKP CARGO S.A.:

Table 9. Shareholding structure of PKP CARGO S.A. as at 27 May 2024

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

Table 10. Shareholding structure of PKP CARGO S.A. as at 30 September 2024

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%
Funds* managed by Nationale-Nederlanden PTE S.A.	4,490,053	10.03%	4,490,053	10.03%
Allianz Polska OFE	3,105,654	6.93%	3,105,654	6.93%
Other shareholders	22,407,016	50.03%	22,407,016	50.03%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

** Nationale-Nederlanden Otwarty Fundusz Emerytalny, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2025, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2030, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2035, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro2040, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2045, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2050, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2055, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2060 and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2065*
Source: Proprietary material

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

In the period from the date of publication of the previous periodic report, that is 27 May 2024, to the delivery date of this report, the following changes occurred in the ownership of PKP CARGO shares by management and supervisory board members:

Table 11. PKP CARGO shares held by Management Board members as at the date of this report and as at 30 June 2024

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at 30 September 2024	
Izabela Skonieczna-Powałka	0
Marcin Wojewódka	34,100*
Paweł Miłek	3,922
Monika Starecka	10,000
as at 27 May 2024	
Marcin Wojewódka	2,852*
Paweł Miłek	0
Monika Starecka	0
Zenon Kozendra	46

** Including 2,100 shares held through Instytut Emerytalny Sp. z o.o.*
Source: Proprietary material

Table 12. PKP CARGO shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by the Supervisory Board member
as at 30 September 2024	
Władysław Szczepkowski	0
Izabela Wojtyczka	0
Michał Wnorowski	0

Henryk Grymel	70
Tomasz Pietrek	46
Jarosław Ślepaczuk	0
Paweł Miłek	3,922
Monika Starecka	10,000
Marcin Wojewódka	34,100*
Bogusław Nadolnik	0
Robert Stępień	0
as at 27 May 2024	
Władysław Szczepkowski	0
Izabela Wojtyczka	0
Michał Wnorowski	0
Henryk Grymel	70
Tomasz Pietrek	46
Jarosław Ślepaczuk	0
Paweł Miłek	0
Monika Starecka	0
Marcin Wojewódka	2,852*
Bogusław Nadolnik	0
Robert Stępień	0

** Including 2,100 shares held through Instytut Emerytalny Sp. z o.o.*
Source: Proprietary material

3. Key areas of operation of the PKP CARGO Group

3.1. Macroeconomic environment

Polish industry and economy

Slight increase in sold industrial output in H1 2024 by +0.1% yoy (compared to a -2.1% yoy decrease in H1 2023). The positive rate of growth was achieved owing to growth in Q2 of this year. (In Q1 this year, output was lower on an annualized basis by -0.6% yoy, in Q2 it increased by +0.9% yoy).[1] The result in industrial processing (which accounts for more than 4/5 of the sector's revenue) remained unchanged. In turn, mining and quarrying output declined (-4.1% yoy). Only the electricity, gas, steam and hot water generation and supply section and the water supply, sewage and waste management and reclamation section recorded a noticeable increase in output (+1.0% yoy and +7.9% yoy, respectively).[2]

Increases were recorded in year-on-year output (January-June) in 22 (out of 34) industrial branches, including furniture manufacturing (+1.1%), rubber and plastic products (+1.3%), other non-metallic mineral products (+1.8%), wood products (+2.6%), motor vehicles (+5.0%), paper and paper products (+5.2%), chemicals and chemical products (+8.8%). In turn, decreases were recorded in branches of major significance for the PKP CARGO Group's business, including: coal and lignite mining (-15.3%), machinery and equipment manufacturing (-5.2%), metals (-5.1%) and metal products (-2.1%).[3]

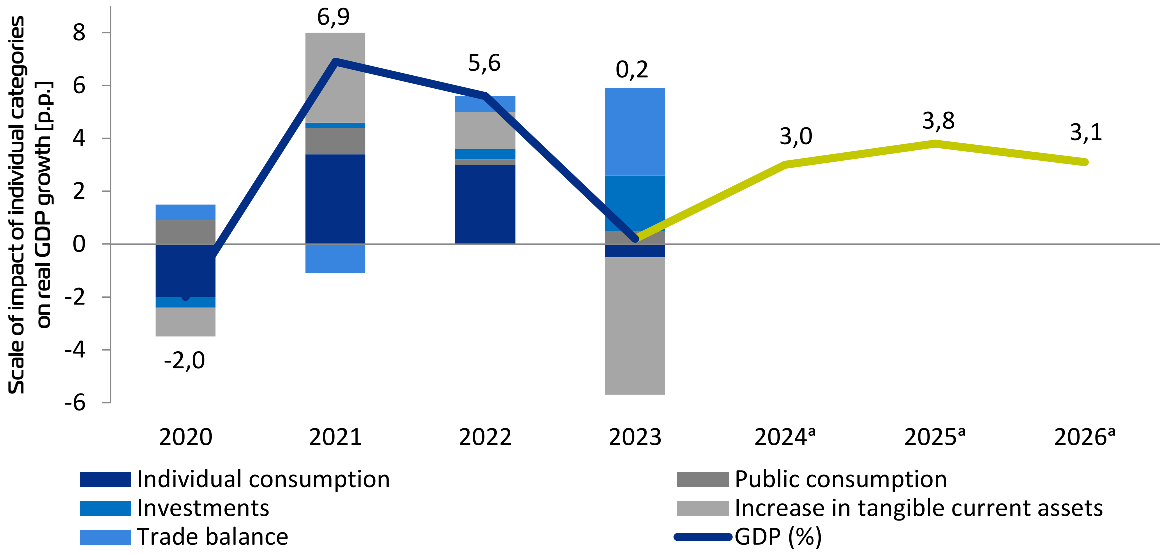
Decrease in construction and assembly output: by -8.7% yoy (vs. +3.8% yoy increase in H1 2023).[4] Each of the construction branches recorded a decline, including civil engineering construction (-7.6% yoy), building construction (-8.5% yoy) and specialized construction work (-10.6% yoy).[5]

[1] Statistics Poland (in enterprises employing more than 9 staff) – The country's socio-economic situation in H1 2024
[2] Statistics Poland – The country's socio-economic situation in H1 2024 (p. 44)
[3] Statistics Poland – The country's socio-economic situation in H1 2024 (p. 47-48)
[4] Statistics Poland, in construction companies, including enterprises with up to 9 staff.
[5] Statistics Poland – The country's socio-economic situation in H1 2024 (p. 51-52)

Significantly lower foreign trade revenues in January-May 2024 compared to January-May of last year. Exports in PLN decreased by -10.2% yoy, while imports in PLN decreased by -9.7% yoy. On both sides of foreign trade, revenues generated on all groups of countries declined, with imports from Central and Eastern European countries declining the most.[6]

GDP growth in 2024 – According to Statistics Poland's preliminary estimate, Gross Domestic Product for Q2 of this year (seasonally unadjusted data) increased by +3.2% yoy in real terms (compared to a -0.6% yoy decline in Q2 of last year and a +2.0% yoy increase in Q1 of this year). At the same time, seasonally adjusted real GDP was higher by +4.0% yoy and +1.5% qoq.[7]

Figure 2. Real GDP growth rate in Poland in 2020-2023, its decomposition and forecasts for 2024-2026 – seasonally unadjusted data.



a – macroeconomic forecasts of the National Bank of Poland for 2024-2026 (July 2024)
Source: Proprietary material based on data published by Statistics Poland and the National Bank of Poland

Weaker price growth in H1 2024 than the year before: prices of consumer goods and services increased by +2.7% yoy (vs. +15.0% yoy in H1 2023).[8] At the same time, the prices of industrial output sold decreased by -8.7% yoy (after a significant increase the year before), while the prices of construction and assembly output and increased noticeably (by +7.0% yoy).[9]

In Q2 2024, weak value of the Purchasing Managers' Index (PMI) – in June, for the 26th 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 Q1 of this year, the PMI increased to 47.7 points on average (up from 47.1 points in January to 48.0 points in March). However, this trend did not continue in Q2 of this year, when the average value of the PMI declined to 45.3 points (and monthly index values failed to reach 46.0 points, with May and June being particularly weak, at 45.0 points). An unfavorable outlook for buyers in the European Union, a reduction in new orders and lower output by companies led to the low PMI value for H1 of this year (46.5 points, compared to an average of 47.2 points in H1 2023).[10]

A slight improvement in the weak values of the manufacturing business tendency indicator (Statistics Poland) which, after an upward movement during the first five months of this year from -10.5 to -6.2 (reaching an average of -8.6 in Q1 and -7.7 in Q2), dwindled to -10.1 in June, indicating a major slump and a bad surprise at the end of Q2. This means a significant increase at the end of H1 of this year in the number of commercial undertakings expecting the economic situation to worsen in the coming months relative to those expecting conditions to improve (partly as a result of the decline in new orders and the worsening outlook for economic growth in Europe).[11]

[6] Statistics Poland – The country's socio-economic situation in H1 2024 (p. 6)
[7] Statistics Poland – Preliminary estimate of gross domestic product in Q2 2024
[8] Statistics Poland – The country's socio-economic situation in H1 2024 (p. 29)
[9] Statistics Poland – The country's socio-economic situation in H1 2024 (p. 34-35)
[10] IHS Markit (www.pmi.spglobal.com/Public/Release/PressReleases – reports for each month)
[11] Statistics Poland, Statistical Bulletin, Table 62 (part 1), column C

Forecasts: according to the National Bank of Poland's current inflation and GDP projection, economic growth may be expected in 2024-2026. According to the projection, GDP growth is expected to reach +3.0% yoy in 2024, +3.8% yoy in 2025 and +3.1% yoy in 2026. The period 2024-2025 is expected to be marked by a continuation of strongly elevated price levels, with inflation at +3.7% yoy and +5.2% yoy, respectively. Only 2026 will see the inflation rate suppressed to +2.7% yoy.[12]

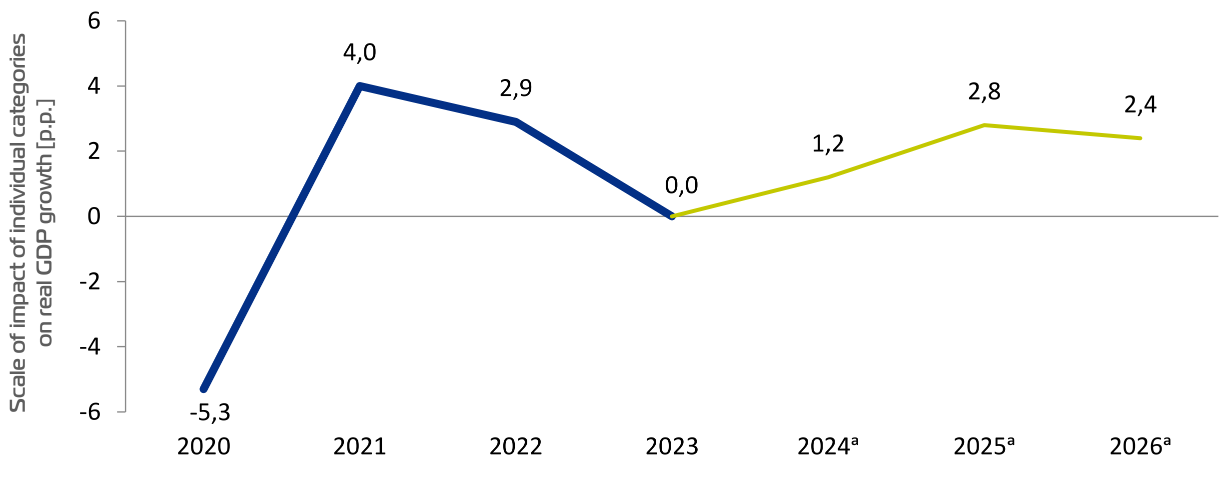
Czech industry and economy

Industrial output sold in the Czech Republic was -0.2% yoy lower in Q2 2024, having declined -0.7% yoy in Q1 of this year.[13] In Q2 of this year, a number of important Czech industry sectors (from the vantage point of the PKP CARGO Group's business) recorded declines in output, including coal and lignite mining (-25.5% yoy). Declines were also recorded in the production of metals (-13.8% yoy), machinery and equipment (-7.2% yoy), and wood and wood products (-3.0% yoy). Meanwhile, year-on-year increases were recorded in the production of paper and paper products (+4.0% yoy), chemicals and chemical products (+6.3% yoy), motor vehicles, trailers and semi-trailers (+2.5% yoy), among other branches.[14]

The value of new orders at current prices in Q2 2024 improved by +4.2% (after a good rate of growth in Q1 of this year at +2.2% yoy), with a noticeable increase in both domestic orders (+2.4% yoy) and foreign orders (+5.3 yoy).[15]

GDP growth in Q2 2024 – according to the CZSO's preliminary estimate, it improved by +0.4% yoy (after a +0.3% yoy increase in Q1 of this year) and, in parallel, by +0.3% qoq (with the last GDP declines recorded in Q3 of last year). The positive yoy GDP growth was driven primarily by domestic demand, with a particular focus on end consumption expenditures by household and, to a lesser extent, by the central government and local governments as well as by external demand. In turn, a drop in inventories exerted an adverse impact.[16]

Figure 3. Real GDP growth rate in the Czech Republic in 2020-2023 and forecasts for 2024-2026 – seasonally adjusted data



a – Macroeconomic forecasts of the Czech National Bank (August 2024)
Source: proprietary material based on data from the Czech National Bank and the Czech Ministry of Finance

Inflation in Q2 2024 reached +2.5% yoy (following a +2.1% yoy increase in consumer prices in Q1 of this year and a +7.6% yoy increase in Q4 last year).[17]

Czech National Bank (CNB) forecasts: according to the August publication, a moderate increase in gross domestic product is anticipated at +1.2% yoy in 2024, +2.8% yoy in 2025 and 2.4% yoy in 2026. In parallel, a moderate inflation rate should continue at a level close to the inflation target of +2% yoy.[18]

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[12] National Bank of Poland (nbp.pl/projekcja-inflacji-i-pkb-lipiec-2024/)
[13] Czech Statistical Office / Sales from industrial activity: unadjusted data
[14] Czech Statistical Office / Sales from industrial activity: unadjusted data
[15] Czech Statistical Office / New industrial orders by selected CZ-NACE divisions: unadjusted data
[16] Czech Statistical Office, csu.gov.cz/rychle-informace/gdp-preliminary-estimate-2-quarter-of-2024
[17] vdb.czso.cz / Statistics > Prices, Inflation
[18] Czech National Bank, https://www.cnb.cz/en/monetary-policy/forecast/

Low PMI values along with a high degree of volatility of monthly figures: for the Czech Republic in H1 of this year, the PMI averaged 44.9 points (vs. 43.3 points in H1 of last year), which was still well below the 50.0-point threshold delineating the technical boundary between recovery and recession in the industrial sector. The continued poor performance in the respective quarters should also be noted (44.5 points in Q1 and 45.4 points in Q2). After the Prime Minister increased to 46.2 points in March of this year, it hovered around 45-46 points in subsequent months. The PMI is now for the twenty-fifth consecutive month below the 50.0-point threshold delineating the technical boundary between recovery and recession in the manufacturing sector. This is a clear reflection of the problems faced by the Czech economy which, despite the improvement in the domestic market, still largely depends on the situation in external markets, which looks rather grim at the moment.[19]

3.2. Freight transportation activity

3.2.1. Rail transport market in Poland

Rail freight operations in the Polish market are carried out by 3 member companies of the PKP CARGO Group, namely PKP CARGO S.A., PKP CARGO SERVICE and PKP CARGO International.

Despite the lingering period of reduced freight volumes in the rail freight market in Poland, a steady growth of the industry is noticeable, as reflected in the increasing number of carriers obtaining a license for the conduct of freight operations. According to Office of Rail Transport data, at the end of June 2024, as many as 133 operators held an active license issued for the conduct of rail freight operations.[20] In the corresponding period of 2023, there were 120 rail operators, meaning that as many as 13 new ones entered the market over the course of a single year.[21]

H1 2024 confirmed the trend, which had already been observed for many months, of a reduction in market demand for rail transportation services, which continued to be adversely affected by the downturn in the industrial sphere (as experienced especially by Western partners). They were affected strongly by the ongoing war in Ukraine and the energy crisis in Europe (including by the elevated energy prices), exerting a significant impact on Polish businesses and resulting in relatively low freight volumes. In H1 2024, rail operators transported a total of 110.7 million tons of cargo and achieved a freight turnover of 29.3 billion tkm. Compared to the corresponding period of the previous year, the volume of transports in the market decreased by -4.0% yoy (i.e. by -4.6 million tons), whereas the completed freight turnover was lower by +4.8% yoy (-1.5 million tkm). Also, the average haul in Poland's rail freight market during H1 2024 was slightly lower than in the corresponding period of 2023, at 265 km (-2 km or -0.9% yoy).

However, the industry's performance shows some positive signs. It should be noted that the Q1 data had the strongest impact on the weak performance of the rail market during the entire first six months of 2024, with Q1 clearly very weak (marked by a decrease in volume in each of the months in terms of both freight volume and freight turnover). A negative yoy rate of growth in the rail freight market was recorded in each of the quarter's months: in January -13.3% in terms of freight volume and -17.7% in terms of freight turnover, in February -6.6% and -9.5%, and in March -11.4% and -10.2%, respectively. In Q2 2024, the volume of freight transported by rail was already slightly higher in year-on-year terms. In April, the market's freight volume increased by +4.7% yoy and freight turnover improved by +4.0% yoy. The corresponding figures for May and June were +0.5% yoy and +2.5%, and +4.8% yoy and +4.2% yoy, respectively. Accordingly, the rail transport market saw steady increases in all freight parameters in the past three months, which may be a good sign ushering in a more optimistic view of the industry's future. Favorable signs were also noticeable in the performance of the intermodal transport segment, which had been hit hardest by the war in Ukraine. In H1 2024, it saw solid double-digit increases in all basic parameters characterizing this market segment. The freight volume of intermodal cargo transported by rail during the first 6 months of 2024 reached 13.7 million tons (+18.3% yoy), while the freight turnover increased to 4.6 billion tkm (+19.8% yoy). In parallel, the number of intermodal units transported also increased to nearly 850 thousand (+10.4% yoy), while the number of TEUs climbed to 1.3 million (+10.9% yoy).[22]

In H1 2024, the largest cargo category[23] in rail freight transport in Poland was hard coal, the transport of which follows a clear downward path in the structure of rail freight, but still accounted for 27.5% of total rail freight traffic. The following changes

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[19] Markit PMI (www.pmi.spglobal.com/Public/Release/PressReleases)

[20] Office of Rail Transport (licensed rail operators, as stated in the list published by the Office of Rail Transport on 7 June 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.

[21] Office of Rail Transport

[22] Office of Rail Transport

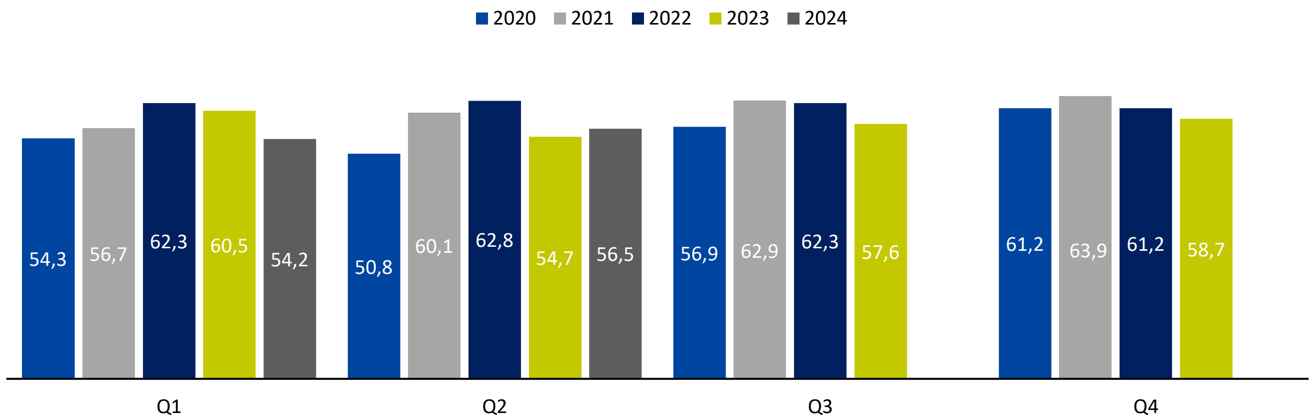
[23] Based on the NST classification

in rail transport year-on-year performance were recorded over that period in the cargo categories defined by Statistics Poland:[24]

- hard coal (down -23.1% yoy to 30.3 million tons),
- aggregates, stone, sand and gravel (up +7.5% yoy to 25.7 million tons),
- refined petroleum products (down -1.6% yoy to 10.5 million tons),
- chemicals, chemical products (up +23.0% yoy to 5.5 million tons),
- coke, briquettes, gases (down -8.3% yoy to 5.1 million tons),
- metals and metal products (down -9.2% yoy to 5.0 million tons),
- agricultural products (down -4.1% yoy to 3.4 million tons),
- iron ore (up +2.7% yoy to 2.8 million tons).

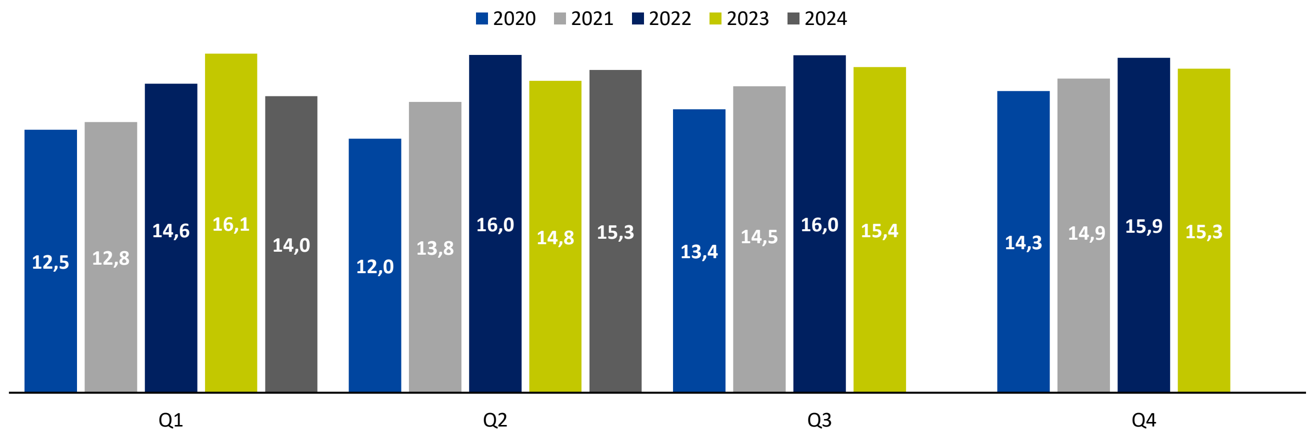
Significant decreases in the volume of freight transported by rail compared to H1 last year were recorded mainly in hard coal (-9.1 million tons). Furthermore, decreases were recorded in the volume of transported: metals and metal products (-0.5 million tons), coke, briquettes, gases (-0.5 million tons), refined petroleum products (-0.2 million tons), and agricultural products (-0.1 million tons yoy), among other categories. At the same time, the largest yoy increases in rail freight volumes were recorded in: other cargo (+2.3 million tons, with intermodal shipments included in this group), aggregates, sand and gravel (+1.8 million tons), and chemicals and chemical products (+1.0 million tons).[25]

Figure 4. Quarterly rail freight volumes in Poland (million tons) in 2020-2024



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

Figure 5. Rail freight turnover in Poland (billion tkm) broken down by quarter in 2020-2024



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

[24] Statistics Poland (data for the first 6 months of 2024)

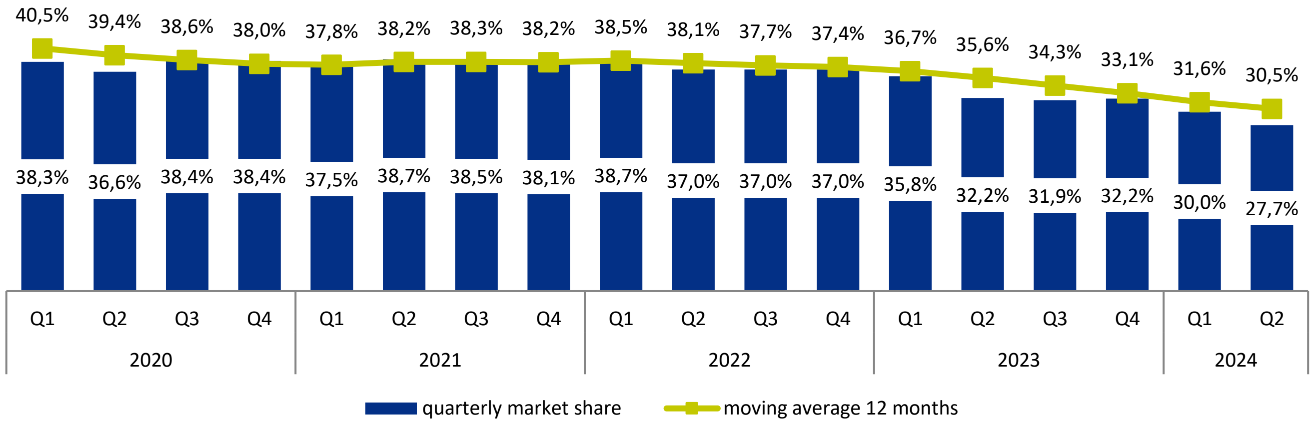
[25] Statistics Poland (data for the first 6 months of 2024)

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

According to Office of Rail Transport data, in H1 2024, 31 rail carriers conducted transport operations whose market share in terms of transported freight volume exceeded the 0.5% threshold. These included two member companies of the PKP CARGO Group: PKP CARGO and PKP CARGO Service.

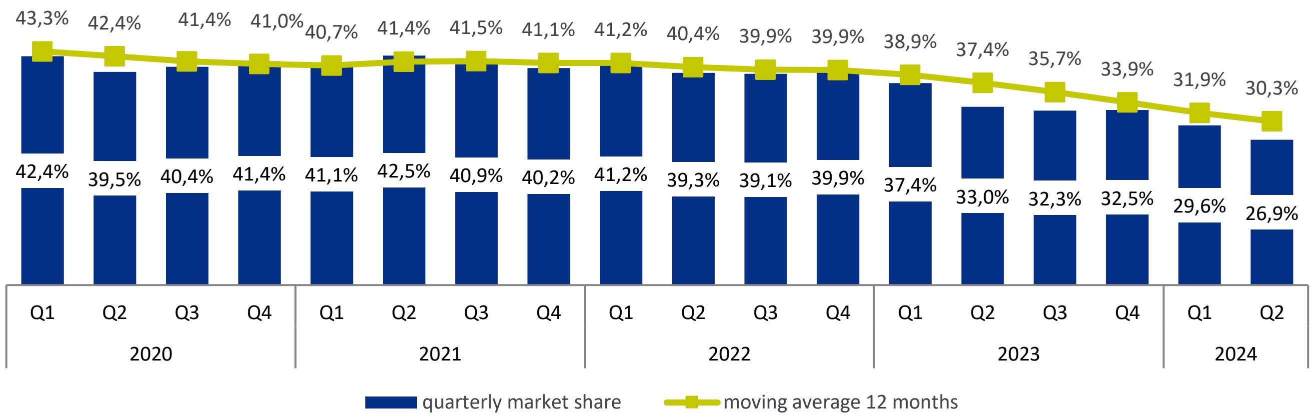
The PKP CARGO Group[26] continues to be the leader in the rail freight market in Poland both in terms of share in the transported freight volume and the generated freight turnover. The PKP CARGO Group's market share in H1 2024 was 28.8% (-5.3 p.p. yoy) in terms of freight volume and 28.2% in terms of freight turnover (-7.1 p.p. yoy).[27] The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 27.5% (-4.8 p.p. yoy) in terms of freight volume and 28.0% (-7.0 p.p. yoy) in terms of freight turnover.[28]

Figure 6. Quarterly shares of the PKP CARGO Group in total freight volume in Poland in 2020-2024



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

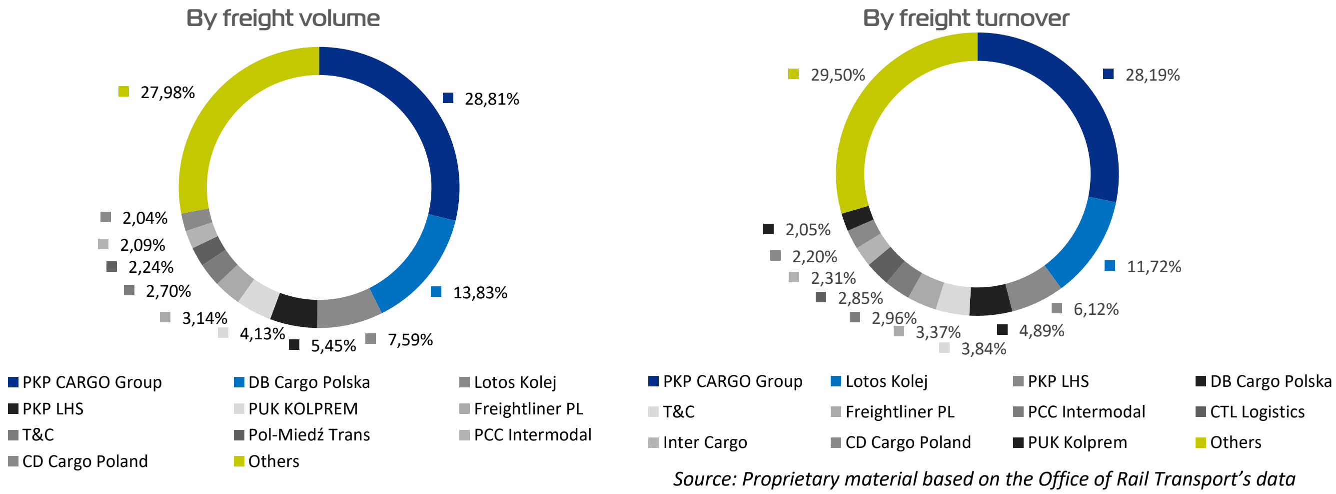
Figure 7. Quarterly shares of the PKP CARGO Group in total freight turnover in Poland in 2020-2024



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

[26] The PKP CARGO Group's freight volume takes into account also cargo transported by PKP CARGO International a.s. in Poland.
[27] PKP CARGO Group and Office of Rail Transport data
[28] Office of Rail Transport

Figure 8. Market shares of the largest rail operators in Poland in H1 2024



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

In H1 2024, the following companies were the Group's main competitors on the Polish rail transport market in terms of freight volume: DB Cargo Polska, Lotos Kolej, PKP LHS, PUK Kolprem, Freightliner PL, T&C, Pol-Miedź Trans, PCC Intermodal and CD Cargo Poland.[29] These were the operators that gained more than a 2% market share each.

In H1 2024, the Group's competitors in the Polish market transported a total of 78.8 million tons of freight (+3.8% yoy). In this period, in terms of freight volume, PKP LHS and T&C recorded the largest yoy increase in market share among the PKP CARGO Group's competitors (+1.4 p.p. and +1.1 p.p., respectively). Noteworthy was also the good combined performance of the other smaller market carriers, none of which exceeded the market share threshold of 0.5% (+1.5 p.p.). In turn, the PKP CARGO Group's competitor that recorded the largest drop in market share in this period was DB Cargo Polska (-1.5 p.p. yoy), with a -13.4% yoy decrease in volume.[30]

At the same time, freight turnover generated by operators competing with the PKP CARGO Group increased by +5.7% yoy, to 21.1 billion tkm. The largest year-on-year increases in market shares were reported by T&C (+1.8 p.p. yoy) and PKP LHS (+1.6 p.p. yoy). The other small carriers combined saw market share gains of +1.7 p.p. yoy. Significant declines in market share among the Group's competitors were recorded by Lotos Kolej (-0.6 p.p. yoy) and DB Cargo Polska (-0.5 p.p. yoy). Ecco Rail and CTL Logistics each lost -0.4 p.p. yoy.[31]

The largest rail carriers in terms of freight volume (PKP CARGO Group, DB Cargo Polska and Lotos Kolej) continue to be most affected by reduced market demand for rail freight operations and, accordingly, lost the most freight volume year-on-year after H1 2024.

3.2.3. Rail freight transport market in the Czech Republic

In Q1 2024, a total of 121.9 million tons of cargo was transported in the Czech Republic (+3.5% yoy) and freight turnover stood at 20.2 billion tkm (+6.4% yoy).[32] A year-on-year decrease was recorded in terms of freight turnover in rail and water transport, while road transport recorded increases in these freight parameters.

The average haul of cargo in the market increased by +2.8% yoy and reached 165.5 km, with the road transport segment recording an increase in the average haul by +3.0% yoy (to 161.5 km) and the rail transport showing improvement in the average haul by +3.7% yoy (to 181.8 km).[33]

[29] Office of Rail Transport
[30] proprietary material based on Office of Rail Transport data
[31] proprietary material based on Office of Rail Transport data
[32] Ministry of Transport of the Czech Republic, Czech Statistical Office. Data for Q2 2024 will be available at the turn of Q4 2024 (data for rail, road and water transport)
[33] Ministry of Transport of the Czech Republic, Czech Statistical Office (data are for rail, road and water transport)

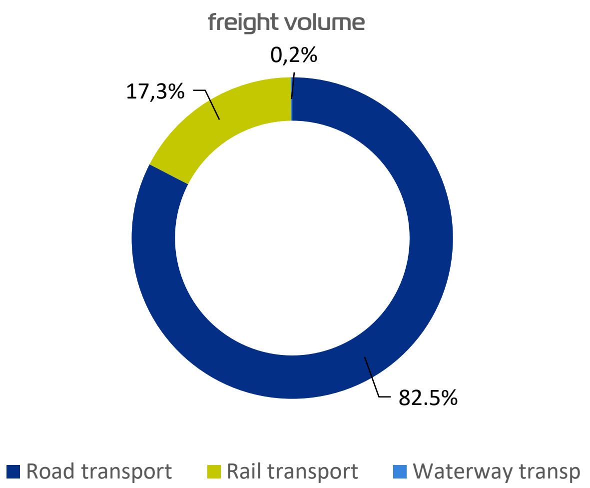
Table 13. Freight transport market in the Czech Republic in Q1 2024

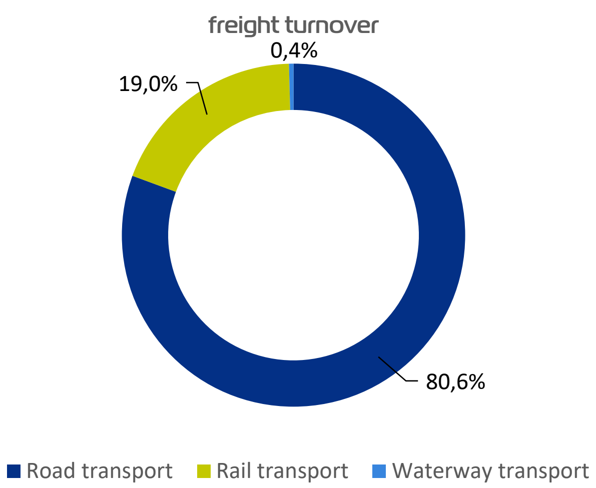
Description	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (million tons)	Change yoy	Change % yoy	Volume (billion tkm)	Change yoy	Change % yoy	Distance (km)	Change yoy	Change % yoy
Total transport market	121.9	+4.1	+3.5%	20.2	+1.2	+6.4%	165.5	4.5	+2.8%
Road transport	100.6	+5.4	+5.6%	16.3	+1.3	+8.8%	161.5	+4.7	+3.0%
Rail transport	21.0	-1.1	-5.1%	3.8	-0.1	-1.6%	181.8	+6.4	+3.7%
Waterway transport	0.20	-0.16	-44.1%	0.09	-0.05	-36.4%	429.0	+51.9	+13.8%

** Source: proprietary material based on data published by the Ministry of Transport of the Czech Republic (data for rail, road and water transport).*

In Q1 2024, rail transport in the Czech Republic recorded a yoy decrease in freight volume to 21.0 million tons (-5.1% yoy) with a concurrent decrease in freight turnover to 3.8 billion tkm (-1.6% yoy).[34] In the same period, cargo operations carried out by road increased by +5.6% (to 100.6 million tons) in terms of freight volume and by +8.8% (to 16.3 billion tkm) in terms of freight turnover. These results translated into a noticeable decline in the rail sector's share of freight volume, down -1.6 p.p. yoy (with road transport's share increasing +1.7 p.p. yoy). At the same time, rail transport recorded a perceptible decrease in terms of freight turnover (-1.5 p.p. yoy), with an increase in the share of the road transport (+1.8 p.p. yoy).[35]

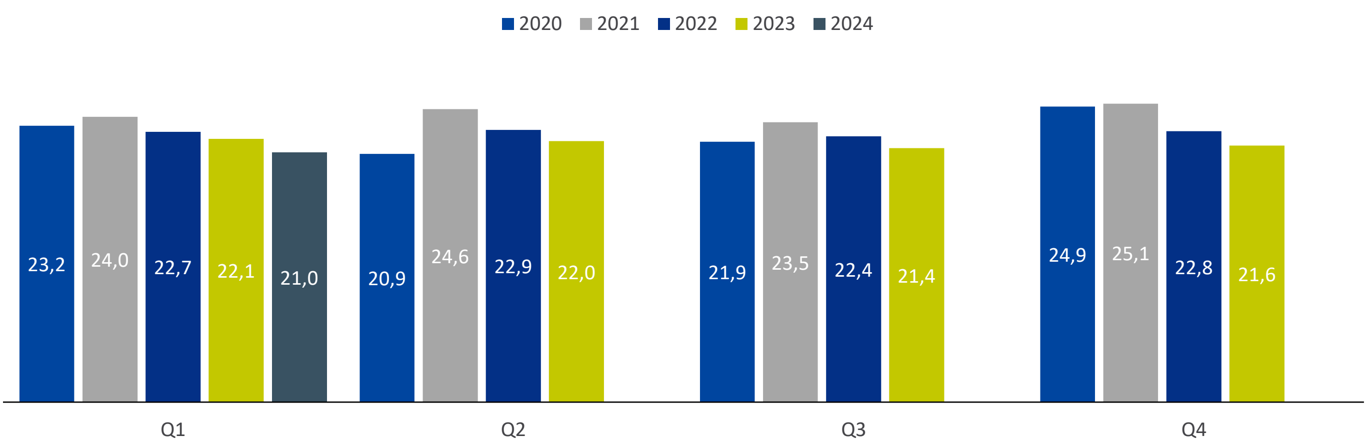
Figure 9. Shares of various modes of transport in the transport market in the Czech Republic in Q1 2024





Source: proprietary material based on data published by the Ministry of Transport of the Czech Republic and the Czech Statistical Office

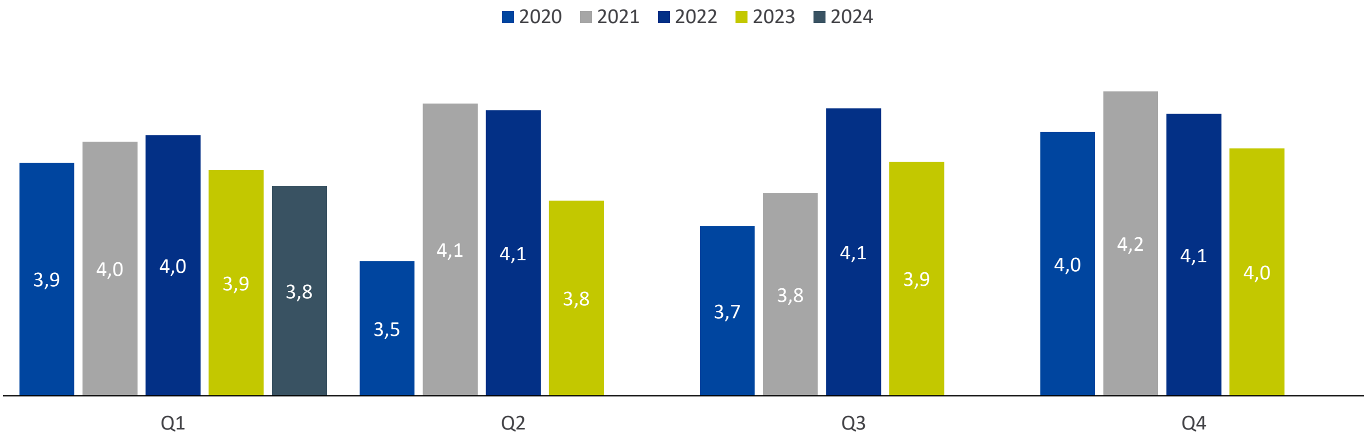
Figure 10. Quarterly rail freight transport in the Czech Republic by freight volume in 2020-2024 (million tons)



34 Ministry of Transport of the Czech Republic, Czech Statistical Office (data are for rail, road and water transport)
35 Ministry of Transport of the Czech Republic, Czech Statistical Office (data are for rail, road and water transport)

Source: proprietary material based on data published by the Ministry of Transport of the Czech Republic and the Czech Statistical Office

Figure 11. Quarterly rail freight transport in the Czech Republic by freight turnover in 2020-2024 (billion tkm)



Source: proprietary material based on data published by the Ministry of Transport of the Czech Republic and the Czech Statistical Office

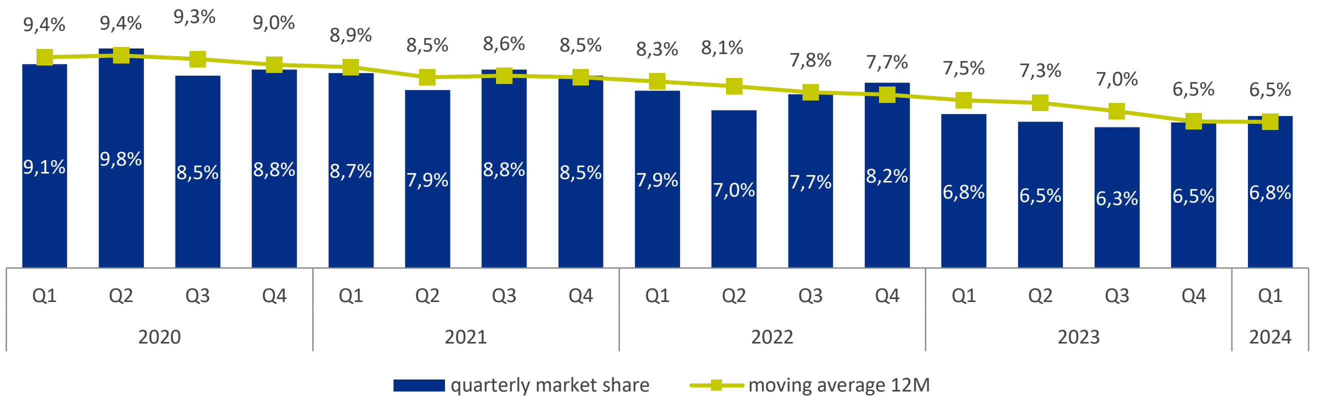
3.2.4. Position of PKP CARGO Group companies in the rail transport market in the Czech Republic

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.[36]

In H1 2024, PKP CARGO International a.s. transported 2.7 million tons of freight (-8.4% yoy) and achieved freight turnover of 0.3 billion tkm (+1.6% yoy).[37] In the same period, the average haul of PKP CARGO International increased to 111.6 km (+10.9% yoy).[38] Decreases were recorded in the volume of transported solid fuels (-26.6% yoy, including coal -31.0% yoy), aggregates and construction materials (-48.1% yoy), and (slightly) other goods (-1.0% yoy). Other cargo categories recorded growth in shipments during the reporting period. The strongest growth in terms of volume was recorded in intermodal freight (+35.0% yoy). The robust restoration of an important part of the freight turnover resulted in increases in shipments of metals and ores (+258.7% yoy) and timber and agricultural crops (+1,518.6% yoy). A good rate of growth was also recorded in the chemical segments, that is in the carriage of chemical products (+17.1% yoy) and liquid fuels (+19.9% yoy). Solid fuels remain the largest cargo category in terms of freight volume, with a decrease in share from 68.0% in H1 2023 to 54.5% in H1 2024. Intermodal transport remained second in terms of importance, with its share in total volume rising to 18.7% (from 12.7% the year before).[39] Transport operations in all cargo categories were affected by the strong economic downturn. The Czech transport market (with a significant contribution from rail in both domestic and international transport) remains strongly affected by the weak demand in Europe.

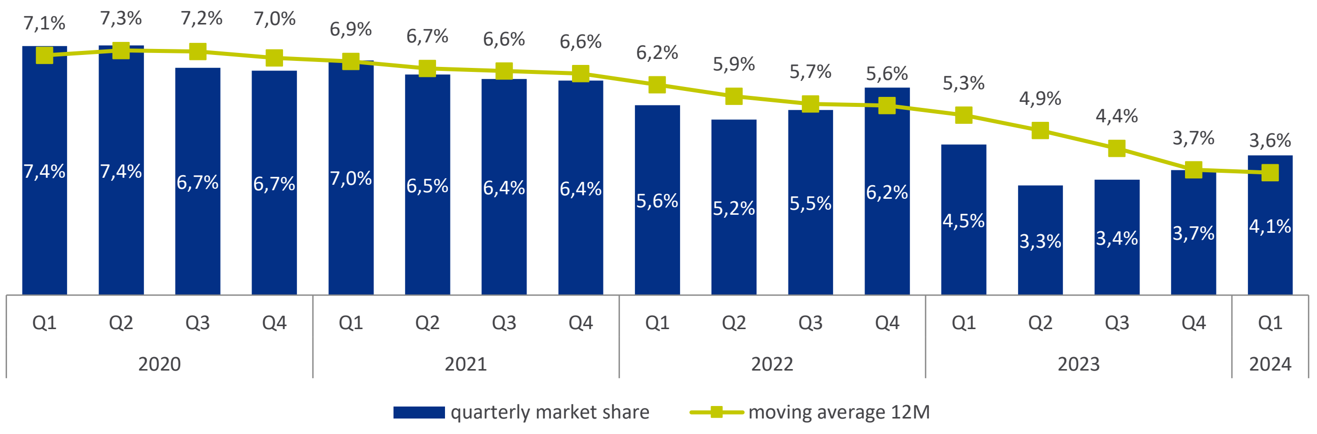
[36] SŽDC (as at 5 April 2024)
[37] PKP CARGO International's own statistics
[38] PKP CARGO International's own statistics
[39] PKP CARGO International's own statistics

Figure 12. PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2020-2024*



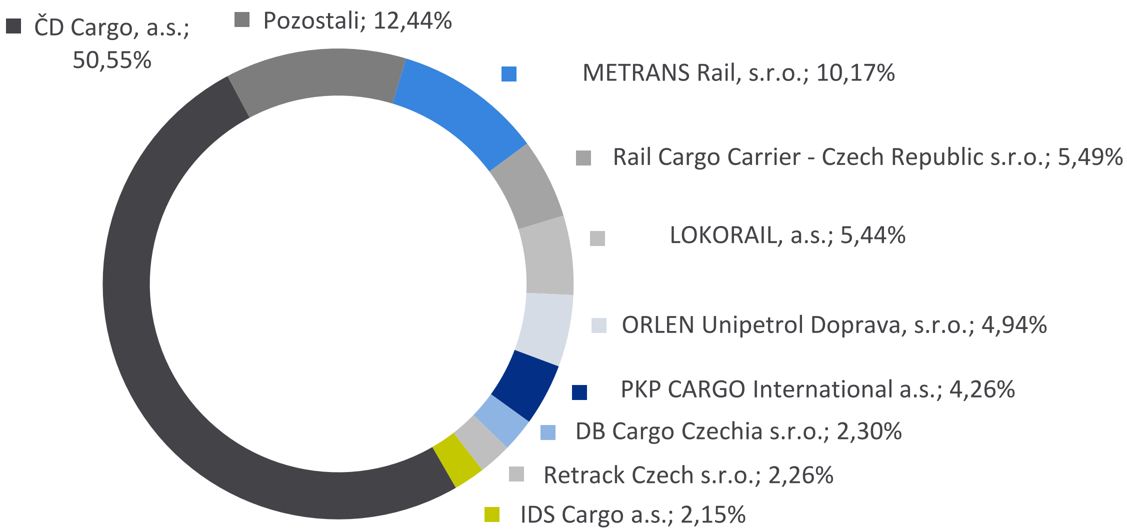
** Data for Q2 2024 will be available at the turn of Q4 2024.*
Source: proprietary material based on data from the Czech Ministry of Transport, the Czech Statistical Office and PKP CARGO International

Figure 13. PKP CARGO International's quarterly market shares in terms of freight turnover in the Czech Republic in 2020-2024*



** Data for Q2 2024 will be available at the turn of Q4 2024.*
Source: proprietary material based on data from the Czech Ministry of Transport, the Czech Statistical Office and PKP CARGO International

Figure 14. Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in H1 2024 (tkm)



Source: SŽDC (Czech rail infrastructure manager)

According to SŽDC data on the shares in the rail transport market in terms of gross freight turnover in H1 2024, PKP CARGO International, while halting share declines, saw a slight year-on-year increase in market share (+0.2 p.p. yoy to nearly 4.3%).[40] The company ranks sixth among operators in the Czech market.

ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market in terms of gross operational turnover, with a deceleration of earlier share declines (after a 49.8% share recorded in Q1 of this year), and its share in H1 2024 was 50.6% yoy (-6.3 p.p. yoy).[41]

Significant yoy market share increases (of +1.1 p.p. yoy each) in H1 2024 were recorded by Metrans Rail (share increase to 10.2%, while maintaining its position as market runner-up), Rail Cargo Carrier – Czech Republic (share increase to 5.5% and maintaining third place in the market) and LOKORAIL a.s. (share increase to 5.4% and maintaining fourth place in the market). DB Cargo Czechia s.r.o. and Retrack Czech s.r.o. earned themselves a roughly 2.3% market share (with increases of +0.2 p.p. yoy and +0.7 p.p. yoy, respectively). The other smaller operators combined achieved a share of 12.4% of the market in H1 2024 (thus recording a 2.5 p.p. yoy increase in share).

The market share of IDS Cargo a.s., an independent logistics carrier operating in the Czech Republic and Slovakia, declined (-0.4 p.p. yoy to 2.2%). ORLEN Unipetrol Doprava (-0.01 p.p. yoy to over 4.9%), an Orlen Group operator, came in fifth in the market.[42]

SŽDC's compilation of the largest rail operators in the Czech market for H1 of this year does not show an isolated performance of PKP CARGO S.A. In H1 2024, compared to H1 of last year, the Company's hard coal transport volumes from Poland to the Czech Republic decreased significantly due to the weaker demand from the power and metallurgical industries. The situation in the metallurgical industry also affected the suspension of iron ore transport operations from Ukraine to a steel mill in the Czech Republic and resulted in the absence of slag shipments from the Czech Republic to Poland.[43]

3.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in H1 2023 and H1 2024 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE and PKP CARGO International companies. Transport services are rendered by 6 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE, PKP CARGO International a.s., PKP CARGO International HU Zrt., PKP CARGO International SK a.s. and PKP CARGO INTERNATIONAL SI d.o.o.

40 SŽDC
41 SŽDC
42 SŽDC
43 PKP CARGO S.A.'s own statistics

Table 14. Freight turnover of the PKP CARGO Group in H1 and Q2 2024 and 2023

Description	H1 2024	H1 2023	Change H1 2024/ H1 2023		H1 2024	H1 2023	Q2 2024	Q2 2023	Change Q2 2024/ Q2 2023	
	(million tkm)			%	percentage of total (%)		(million tkm)			%
Solid fuels[1]	3,194	5,485	-2,291	-41.8%	35%	47%	1,446	2,065	-619	-30.0%
of which hard coal	2,562	4,561	-2,000	-43.8%	28%	39%	1,145	1,601	-456	-28.5%
Aggregates and construction materials[2]	2,113	2,563	-450	-17.6%	23%	22%	1,206	1,368	-161	-11.8%
Metals and ores[3]	569	828	-260	-31.4%	6%	7%	294	400	-106	-26.4%
Chemicals[4]	870	773	98	12.6%	10%	7%	441	393	48	12.2%
Liquid fuels[5]	334	240	94	38.9%	4%	2%	155	103	53	51.2%
Timber and agricultural produce[6]	429	490	-61	-12.5%	5%	4%	181	209	-29	-13.8%
Intermodal transport	1,362	1,002	360	36.0%	15%	9%	685	546	140	25.6%
Other[7]	246	251	-5	-2.1%	3%	2%	138	131	7	5.2%
Total	**9,116**	**11,632**	**-2,516**	**-21.6%**	**100%**	**100%**	**4,547**	**5,215**	**-668**	**-12.8%**

Source: Proprietary material

Table 15. Freight volume of the PKP CARGO Group in H1 and Q2 2024 and 2023

Description	H1 2024	H1 2023	Change H1 2024/ H1 2023		H1 2024	H1 2023	Q2 2024	Q2 2023	Change Q2 2024/ Q2 2023	
	(million tons)			%	percentage of total (%)		(million tons)			%
Solid fuels[1]	16.0	22.7	-6.7	-29.6%	46%	53%	7.3	9.3	-2.0	-21.7%
of which hard coal	13.7	19.9	-6.1	-30.9%	39%	47%	6.2	7.9	-1.7	-21.7%
Aggregates and construction materials[2]	8.1	9.4	-1.3	-14.0%	23%	22%	4.5	4.9	-0.5	-9.3%
Metals and ores[3]	2.3	2.5	-0.2	-9.6%	6%	6%	1.1	1.1	0.0	-0.6%
Chemicals[4]	2.7	2.3	0.4	15.7%	8%	5%	1.3	1.2	0.2	13.2%
Liquid fuels[5]	1.2	0.9	0.2	22.8%	3%	2%	0.5	0.4	0.1	14.4%
Timber and agricultural produce[6]	1.1	1.3	-0.2	-18.2%	3%	3%	0.5	0.5	0.0	10.6%
Intermodal transport	3.1	2.6	0.5	18.7%	9%	6%	1.5	1.3	0.1	9.6%
Other[7]	0.7	0.8	-0.1	-8.9%	2%	2%	0.4	0.4	0.0	-1.2%
Total	**35.0**	**42.5**	**-7.5**	**-17.7%**	**100%**	**100%**	**17.1**	**19.2**	**-2.1**	**-10.9%**

Source: Proprietary material

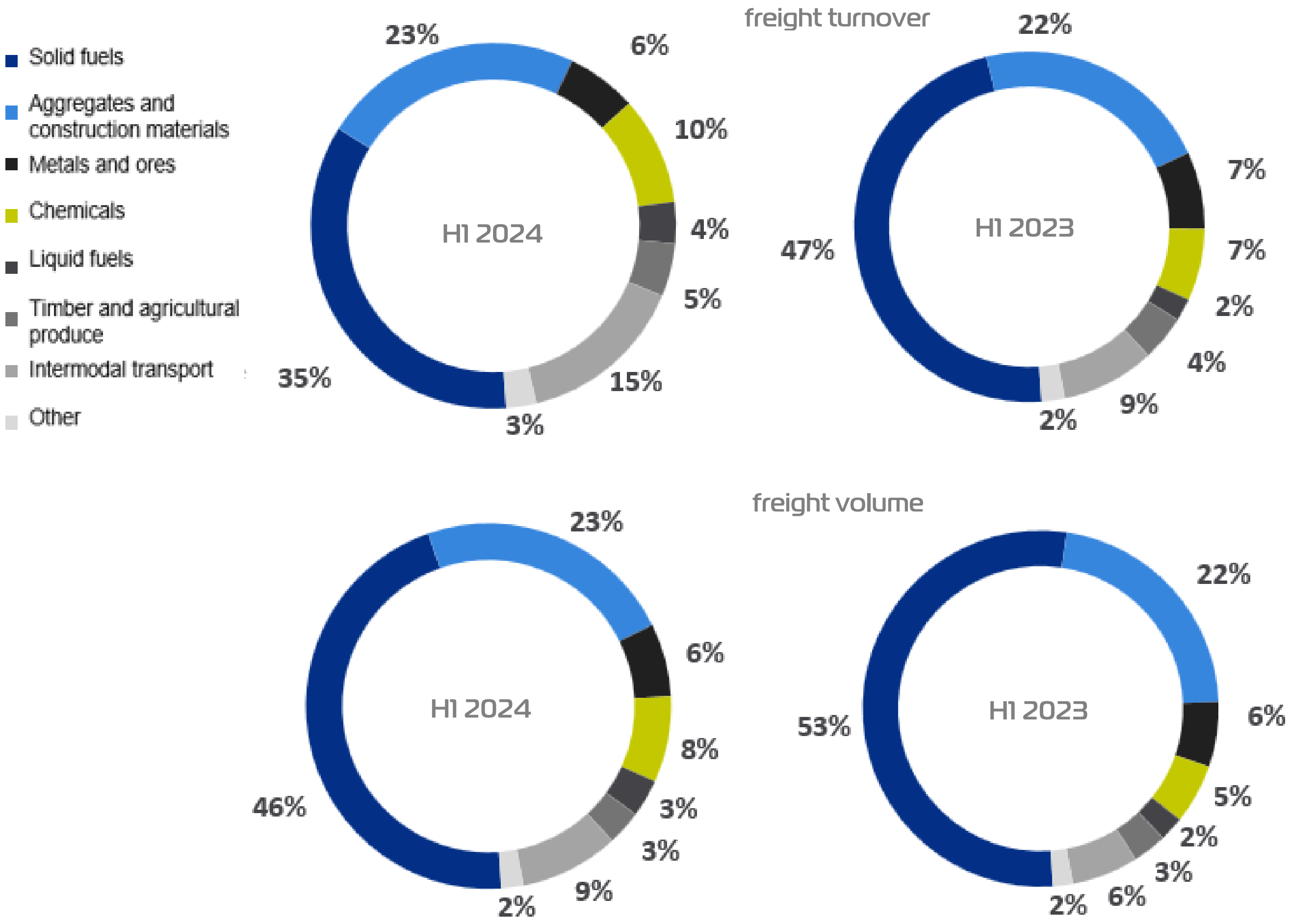
Table 16. Average haul of the PKP CARGO Group in H1 and Q2 2024 and 2023

Description	H1 2024	H1 2023	Change H1 2024/ H1 2023		Q2 2024	Q2 2023	Change Q2 2024/ Q2 2023	
	(km)			%	(km)			%
Solid fuels[1]	200	241	-42	-17.3%	198	222	-24	-10.6%
of which hard coal	187	230	-43	-18.7%	185	202	-18	-8.7%
Aggregates and construction materials[2]	262	274	-11	-4.1%	269	277	-8	-2.7%
Metals and ores[3]	252	332	-80	-24.1%	259	349	-91	-26.0%
Chemicals[4]	326	335	-9	-2.7%	334	337	-3	-0.9%
Liquid fuels[5]	288	254	33	13.2%	321	243	78	32.2%
Timber and agricultural produce[6]	399	373	26	6.9%	350	449	-99	-22.1%
Intermodal transport	445	389	56	14.5%	464	405	59	14.6%
Other[7]	355	330	25	7.5%	362	340	22	6.5%
Total	**261**	**274**	**-13**	**-4.8%**	**266**	**272**	**-6**	**-2.1%**

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

[7] Includes other freight.
Source: Proprietary material

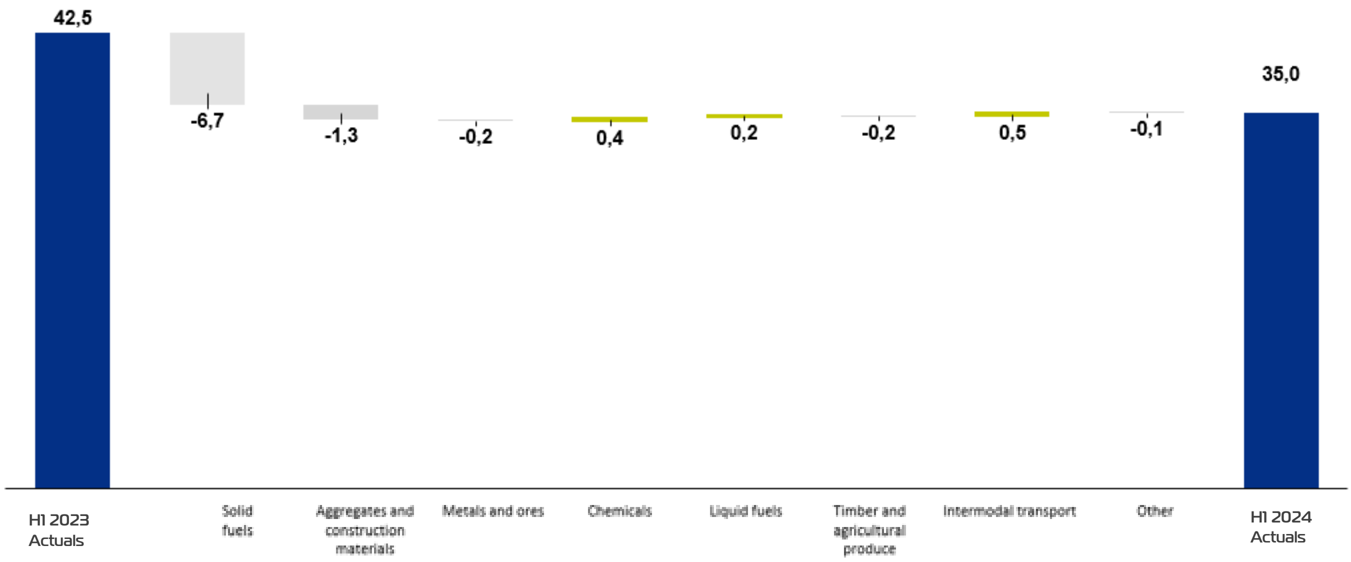
Figure 15. Structure of the PKP CARGO Group's freight turnover and freight volume in H1 2023 and 2024



Source: Proprietary material

In H1 2024, the PKP CARGO Group transported a total of 35.0 million tons of freight volume.

Figure 16. Freight volume of the PKP CARGO Group in H1 2024 compared to the corresponding period in 2023



Source: Proprietary material

The following were key factors affecting the volume of transport in various cargo categories in H1 2024:

solid fuels

- Hard coal market at a lower level compared to the period of the energy supply crisis in 2022 and early 2023 caused by Russia's invasion of Ukraine,
- gradual decline in the share of hard coal as a fuel due to the adaptation of businesses to the requirements of climate policy,
- growing competitiveness of other fuels, development of electricity generation from renewable energy sources and implementation of transition policies resulting in lower demand for this commodity,
- reduced demand for coal to be used in the production of coke for the metallurgical sector due to the reduced steel output coupled with a decrease in demand from the heating industry due to weather conditions (prevalence of temperatures above the freezing point in winter, accumulation of inventories),
- PKP CARGO INTERNATIONAL – lower freight volume for the heat and power plants in Kladno due to the lower market price of electricity rendering production unprofitable,
- decrease in the average haul of hard coal by -43 km (-18.7%) in connection with the changed directions of deliveries – drop in the share of freight in sea imports,
- ongoing reduction in the importance of hard coal in the national energy mix: decrease in the share of hard coal in total energy output to 42.0% (-4.6 p.p. yoy),[44]
- increase in the country's electricity output by +3.0% yoy to 83.2 TWh. In parallel, the volume of electricity generated by hard coal-fired commercial power plants decreased by -7.1% yoy to 34.9 TWh (lignite-fired power plants were also slightly down by -0.1% yoy to 17.3 TWh). At the same time, electricity generation in gas-fired power plants increased by +6.2% yoy, from other renewable sources increased by 34.9% yoy and from wind power increased by +23.2% yoy,[45]
- increase in electricity consumption in Poland by +2.6% yoy to 85.3 TWh,[46]
- decline in domestic hard coal output to 21.6 million tons (-1.7 million tons, or -7.2% yoy), including in Q2 2024 alone to 10.1 million tons (-1.1 million tons, or -10.0% yoy).[47]
- decline in domestic hard coal sales to 20.3 million tons (-1.7 million tons, down -7.7% yoy), with stagnation at 9.7 million tons (+0.4% yoy) in Q2 2024 alone.[48]
- very high level of hard coal inventories in mine storage yards with limited consumption of this commodity: at the end of June 2024, inventories stood at more than 5.3 million tons (+2.1 million tons, or +62.9% yoy); moreover, since the

[44] Polskie Sieci Elektroenergetyczne (https://www.pse.pl/dane-systemowe/funkcjonowanie-kse/raporty-miesieczne-z-funkcjonowania-kse/raporty-miesieczne)
[45] Polskie Sieci Elektroenergetyczne (https://www.pse.pl/dane-systemowe/funkcjonowanie-kse/raporty-miesieczne-z-funkcjonowania-kse/raporty-miesieczne)
[46] Polskie Sieci Elektroenergetyczne (https://www.pse.pl/dane-systemowe/funkcjonowanie-kse/raporty-miesieczne-z-funkcjonowania-kse/raporty-miesieczne)
[47] Industrial Development Agency / polskirynekwegla.pl/raport-dynamiczny/wydobycie-i-sprzedaz-wegla-kamiennego-ogolem
[48] Industrial Development Agency / polskirynekwegla.pl/raport-dynamiczny/wydobycie-i-sprzedaz-wegla-kamiennego-ogolem

end of last year, stocks have also increased significantly (by the end of June of this year, up by nearly +1.2 million tons, or +27.9% compared to December 2023).[49]

- significant decline in hard coal imports: imports decreased by -69.9% yoy to 3.5 million tons. Kazakhstan was the main destination for this commodity (up from second place in H1 of last year, with a -41.7% yoy drop in volume, to 1.5 million tons, which, given the significant declines of the other major players in the market, translated into a 42.5% market share). The second largest exporter of coal to Poland this year was Colombia (down from first place, -75.9% yoy, 0.8 million tons and a 22.4% share). These two major suppliers accounted for nearly two-thirds of Poland's coal imports. Russia has not been exporting coal to Poland since June 2022 (due to the embargo imposed in April 2022).[50]
- price decline in the Polish coal market in Q2 of this year: the average value of PSCMI1 for the commercial power generation segment stood at PLN 491.00 per ton (-31.6% yoy and -0.03% qoq). Meanwhile, PSCMI2 for the district heating segment reached PLN 593.51 per ton (-41.6% yoy and -2.7% qoq),[51]
- decline in coke production in Poland: by -7.4% yoy to 3.8 million tons,[52]
- decline in Czech hard coal and lignite mining output, the latter being of key significance for the Czech economy (as one of the main sources of fuel for Czech power generating units), with a strong decline in coke production – due to the lingering economic downturn.[53]

aggregates and construction materials

- Reduced supplies of limestone used in flue gas desulfurization plants for the Polish and German power industry due to weather conditions favorable to RES power generation and a general decline in demand for electricity,
- technological and maintenance breaks at several Lower Silesian aggregate mines – production resumed in the second half of April; reduced output at the Radkowice mine due to the depletion of the deposit,
- strong competition from rail operators with spare resources due to a decline in demand for the transportation of coal and other cargo, and truck operators benefiting from the greater availability of drivers and means of transport following reduced access to eastern markets,
- PKP CARGO INTERNATIONAL – lower demand for freight – decrease in the volume of production experienced by a client,
- decrease in the average haul by -11 km (-4.1%) in connection with the changed structure/direction of deliveries – last year, PKP CARGO S.A. recorded an increased freight volume of crushed stone from mines in Lower Silesia to stations located in the northern and eastern parts of Poland,
- decrease in domestic construction and assembly output: by -8.7% yoy (vs. +3.8% yoy increase in H1 2023).[54] In this period, each of the construction branches recorded a decline, including civil engineering construction (-7.6% yoy), building construction (-8.5% yoy) and specialized construction work (-10.6% yoy),[55]
- increase in Poland's cement output by +9.2% yoy to 8.3 million tons, with a slight decrease in cement clinker output by -1.6% yoy to 5.5 million tons.[56]

metals and ores

- The weak demand for steel products in Poland and globally forces a reduction in output levels at ArcelorMittal Poland plants and other facilities. The reduced steel output also resulted in a decrease in demand for raw materials, specifically metal scrap and iron ore, and a decline in slag output,
- shutdown of a furnace at the Liberty Ostrava steel plant (in bankruptcy) in the Czech Republic,
- decreased volume of transported pig iron from Ukraine through Polish seaports (attempts to resume exports from Ukraine via the Black Sea); no shipments of slab from Ukraine to CMC due to lower production levels,
- tough situation in the steel industry due to the ongoing technological transition commanded by climate policy – regulations make it more expensive to do business,
- high prices of raw materials (iron ore, coal, coke) and electricity, the cost of which is particularly important due to the high energy intensity of the industry; energy prices are lower in countries outside the EU,
- decline in average haul by -80 km (-24.1%) – change in the structure of freight routes,

[49] Industrial Development Agency / polskirynekwegla.pl/raport-dynamiczny/stan-zapasow-wegla-kamiennego-caly-okres-czasu
[50] Eurostat – data for the first 6 months of 2024 – European Commission / Eurostat / International Trade
[51] Industrial Development Agency – releases (polskirynekwegla.pl/krajowe-indeksy-weglowe-notowanie-z-czerwca-2024-r)
[52] Statistics Poland – Production of major industrial products in June 2024 – tables.
[53] Czech Ministry of Industry and Trade (mpo.gov.cz/cz/energetika/statistika/tuha-paliva/)
[54] Statistics Poland, in construction companies, including enterprises with up to 9 staff.
[55] Statistics Poland – The country's socio-economic situation in H1 2024 (p. 51-52)
[56] Statistics Poland – Production of major industrial products in June 2024 – tables.

- decline in steel product output in Poland: output of hot-rolled products decreased by -28.1% yoy to 2.9 million tons, hot-rolled bars and rods by -6.0% yoy to 0.5 million tons, bars and flat bars by -3.1% yoy to 1.6 million, and thin sheets by -3.3% yoy to 0.5 million tons.[57]
- increase in cold-rolled sheet output by +5.8% yoy to 0.7 million tons.[58]
- decline in coke production in Poland: by -7.4% yoy to 3.8 million tons.[59]

liquid fuels

- Additional fuel freight from Plock to Ukraine,
- acquisition of petroleum coke shipments from seaports to Ukraine and to domestic customers,
- increase in the average haul in H1 2024 compared to H1 2023 by 33 km (+13.2%).
- increase in domestic output of motor gasoline (+14.7% yoy to 2.7 million tons) and diesel fuels (+7.1% yoy to 7.9 million tons),[60]
- decrease in oil imports to Poland during the first five months of 2024 by -5.6% yoy to 10.4 million tons (by 0.6 million tons).[61]

timber and agricultural produce

- Import grain shipments from Ukraine halted; ongoing transit shipments only partially compensated for the lost freight volume,
- problems with the transportation of agricultural products from Ukraine due to congestion at the Dorohusk and Medyka border crossings and farmers' protests,
- lower freight volumes of timber and wood-based panels in land import and domestic transport in H1 2024 caused by a decline in production in this market segment in Poland,
- increase in the average haul by 26 km (+6.9%) as a result of an increase in the share of transit shipments of grain and animal feed, export shipments of timber, and export and import shipments of wood-based panels.

chemicals

- A slow recovery was recorded in the fertilizer market after a very weak start to 2023, when the high prices of natural gas – the main raw material for production – significantly reduced the output and sales volumes of domestic producers,
- additional fertilizer freight services to Ukraine,
- decrease in the average haul by 9 km (-2.7%) – a significant share of shipments to Ukraine is short-haul operations near the border,
- increase in the production of fertilizers in Poland, including: potassium fertilizers (+25.5% yoy to over 0.1 million tons), nitrogen fertilizers (+24.5% yoy to 0.8 million tons) and phosphate fertilizers (+17.3% yoy to over 0.1 million tons).[62]
- increased output of the following chemical products: ammonia (+25.8% yoy to 1.0 million tons), motor gasoline (+14.7% yoy to 2.7 million tons), nitric acid (+14.4% yoy to 1.0 million tons), plastics (+8.8% yoy to 1.6 million tons) and diesel fuels (+7.1% yoy to 7.9 million tons).[63]
- decrease in the output of sulfuric acid (-3.5% yoy to 0.6 million tons).[64]

intermodal

- Freight along the New Silk Road intensified due to shipping problems in the Red Sea – as a consequence of the conflict in the Middle East and the actions of the Huti rebels, a significant portion of the merchandise previously transported by sea returned to the northern corridor of the New Silk Road with transshipment in Małaszewicze,
- increase in shipments through Polish ports from/to Ukraine,
- growing freight of woodchips, metal ores, grain and hard coal in containers,
- growing freight from/to Italy,
- freight services related to the armed conflict in Ukraine,
- PKP CARGO INTERNATIONAL – new PKP CARGO INTERNATIONAL HU freight services for clients that did not use them in H1 2023,

[57] Statistics Poland – Production of major industrial products in June 2024 – tables.
[58] Statistics Poland – Production of major industrial products in June 2024 – tables.
[59] Statistics Poland – Production of major industrial products in June 2024 – tables.
[60] Statistics Poland – Production of major industrial products in June 2024 – tables.
[61] Statistics Poland – Statistical Bulletin – June 2024
[62] Statistics Poland – Production of major industrial products in June 2024 – tables.
[63] Statistics Poland – Production of major industrial products in June 2024 – tables.
[64] Statistics Poland – Production of major industrial products in June 2024 – tables.

- increase in the average haul by +56 km (+14.5%) due to a change in the structure of transport operations.

others

- Freight of other goods in H1 2024 was at a slightly lower level than that transported in the corresponding period of 2023,
- no import shipments of clay and feldspar from Ukraine,
- decrease in shipments of paper in sea transit and exports,
- gradual deceleration of automotive production in Poland against the backdrop of a challenging demand situation: a total of 152.0 thousand passenger cars were manufactured (compared to 152.5 thousand in H1 2023), slightly down by -0.3% yoy. Moreover, in the first two quarters of this year, a noticeable increase was recorded in the number of trucks and tractors produced to 183.6 thousand (from 150.6 thousand in the corresponding period of last year), up +21.9% yoy. In turn, the production of buses declined (by -11.7% yoy to less than 2.4 thousand), as did, to a smaller extent, the production of car engines (by -4.0% yoy, to 1,236 thousand),[65]
- lower output of the Czech automotive industry: in H1 of this year, a total of nearly 778.1 thousand motor vehicles of various types (passenger cars, trucks, buses and motorcycles) were produced, up by +4.9% compared to the corresponding period of 2023 (with an increase by +11.5% yoy in Q1 and a decrease by -1.2% yoy in Q2). In the reporting period, 774.3 thousand passenger cars were produced, up by +4.9% yoy (mainly due to the Q1 performance, when production of more than 394.4 thousand cars was recorded, with a weaker result in Q2, when not even 380.0 thousand vehicles were produced and a -1.3% yoy drop in production was recorded). During the first 6 months of this year, a high rate of growth was recorded in the production of motorcycles (+78.4% yoy, to nearly 0.7 thousand) and trucks (+26.5% yoy, to 0.8 thousand). In turn, the production of buses declined (by -9.8% yoy, to just under 2.3 thousand). In parallel, only 45.7 thousand electric vehicles left the conveyor belts in H1 of this year, signifying a strong market correction (down -31.5% yoy).

3.3. Information on business segments

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

3.4. Headcount

In H1 2024, the PKP CARGO Group recorded a decrease in headcount by 2,954 staff, including 2,325 PKP CARGO employees on furlough leave (in accordance with the provisions of Article 54 of the Act of 8 September 2000 on Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws 2024.561).

Figure 17. Headcount in PKP CARGO Group as at 30 June 2024 and 31 December 2023

	HEADCOUNT IN GROUP (IN PERSONS) AS AT:	BLUE-COLLAR POSITIONS IN GROUP (IN PERSONS) AS AT:	WHITE-COLLAR POSITIONS IN GROUP (IN PERSONS) AS AT:
30/06/2024	16,979	12,620	4,359
31/12/2023	19,933	15,108	4,825

[65] Polish Automotive Industry Association – pzpm.org.pl/pl/Rynek-motoryzacyjny/Produkcja-pojazdow-samochodowych-i-silnikow-do-pojazdow-mechanicznych-w-Polsce/CZERWIEC-2024

3.5. PKP CARGO Group's investments

In the first 6 months of 2024, the PKP CARGO Group incurred capital expenditures of PLN 436.0 million, down 54.7% compared to the corresponding period of 2023. 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 capital expenditures during the first 6 months of 2024 in the PKP CARGO Group were allocated to the execution of capital expenditure endeavors associated with its rolling stock, specifically to periodic repairs (P4 and P5) and checkups (P3) of rolling stock – PLN 300.2 million in total (or 68.9% of capital expenditures). Moreover, expenditures were incurred on investment construction activity in the amount of PLN 3.0 million, purchases of machinery, equipment, other workshop fittings and means of transport for PLN 7.0 million, on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 2.9 million, and on right-of-use assets for PLN 122.9 million, including: PLN 50.7 million in locomotive leases and PLN 0.4 million in repairs of leased rolling stock (or 11.7% of capital expenditures), PLN 63.3 million in real property leases and PLN 8.5 million in other rights.

Table 17. Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in 6M 2024 as compared to 6M 2023 (PLN million)

Description	6 months 2024	6 months 2023	Change 2024-2023	Change 2024-2023 %
Investment construction activity	3.0	66.7	-63.7	-95.5%
Purchase of traction vehicles	0.0	140.8	-140.8	-100.0%
Locomotive upgrades	0.0	0.1	-0.1	-100.0%
Workshop machinery and equipment	6.1	12.3	-6.2	-50.4%
ICT development	2.9	12.4	-9.5	-76.6%
Other	0.9	1.1	-0.2	-18.2%
Components in overhaul, including:	300.2	375.6	-75.4	-20.1%
Repairs and periodic inspections of locomotives	*56.6*	*81.4*	*-24.8*	*-30.5%*
Repairs and periodic inspections of wagons	*243.6*	*294.2*	*-50.6*	*-17.2%*
Right-of-use assets,* of which related to:	122.9	353.0	-230.1	-65.2%
Real properties	*63.3*	*72.2*	*-8.9*	*-12.3%*
Rolling stock	*51.1*	*272.6*	*-221.5*	*-81.3%*
*Other rights**	*8.5*	*8.2*	*0.3*	*3.7%*
Total	**436.0**	**962.0**	**-526.0**	**-54.7%**

** Expenditures for right-of-use assets do not include increases resulting from leaseback of: transshipment equipment in the amount of PLN 6.2 million for 6 months of 2024 and transport equipment in the amount of PLN 1.5 million for 6 months of 2023.*
Source: Proprietary material

3.6. Key information and events in H1 2024 and until the date of this report

3.6.1. Optimization measures in the Group's employment area

In H1 2024, the Company's Management Board took steps to optimize the Company's cost area to ensure financial stability and improve profitability. On 17 May 2024, the Management Board terminated a portion of the Employee Guarantee Package entered into on 2 September 2013 between the Company and the trade union organizations. Under the Package, the Company's obligations until 2023 included ensuring guaranteed employment for the Company's staff (guarantee of employment for the period specified in the Package for individuals employed by the Company as at the effective date of the Package). In view of the restructuring activities in the employee area, the provisions of the Package in this regard thus became irrelevant. In turn, some of the provisions of the Package remained in effect, such as the obligation set forth in §5(1) of the Package to introduce an annual wage increase correlated with the Company's financial performance and financial standing. The termination period of the Package was 3 months.

On 27 May 2024, the Management Board launched a program to put up to 30% of the Company's employees on furlough leave for a period of 12 months in accordance with Article 54 of the Act of 8 September 2000 on Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws 2024.561). The furlough leave applies to all professional groups of employees, including the management of the respective units of the Company and the departments of the Company's Head Office, with the priority of ensuring the continued operational efficiency of each entity or organizational unit.

On 11 June 2024, the Company's Management Board decided to unilaterally terminate by notice the Company Collective Bargaining Agreement for Employees Hired by the Units of PKP CARGO S.A. ("CCBA") and the Memorandum of Agreement on Mutual Obligations of the Parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. entered into on 14 February 2005 ("Valentine's Day Agreement"). The CCBA and the Valentine's Day Agreement will be terminated at the end of a 24-month notice period, which will expire on 11 June 2026. The decision was preceded by a proposal submitted to, and subsequently rejected by, the Trade Unions operating at PKP CARGO to enter into an agreement to terminate the CCBA and the Valentine's Day Agreement with effect from 31 December 2024.

On 3 July 2024, the Company's Management Board made a decision for the Units and the Head Office of PKP CARGO S.A. to carry out group layoffs and, on 24 July 2024, adopted a resolution in this regard. The group layoffs affected up to 30% of the Company's staff (up to 4,142 employees) in various occupational groups and took place during the period from the day after the date of notification to county labor offices up until 30 September 2024. In connection with the termination of employment as part of the group layoffs, employees are entitled to cash severance payments based on the period of employment.

The decisions were made by the PKP CARGO Management Board in order to reduce costs, including payroll and payroll-related expenses, and carry out reorganization introduced by the Company's Management Board with a view to improving PKP CARGO's financial performance. These measures were aimed at ensuring the Company's financial stability, continued growth and regaining its strong market position.

In parallel, on 6 August 2024, the PKP CARGO TABOR Sp. z o.o. Management Board began consultations with the trade unions operating in the company on the intention to conduct group layoffs to be carried out pursuant to the Act of 13 March 2003 on the Detailed Principles of Terminating Employment for Reasons Not Attributable to Employees. The consultations were completed on 18 September 2024 with the parties failing to sign an agreement specifying the rules for dealing with employees affected by the intended group layoffs.

On 21 August 2024, the PKP CARGOTABOR Sp. z o.o. Management Board handed over notices of intent to carry out group layoffs to trade union organizations operating in the company. The intended layoffs would apply to no more than 752 employees of PKP CARGOTABOR Sp. z o.o.

3.6.2. Court-supervised restructuring of PKP CARGO

On 27 June 2024, the Company's Management Board filed a petition with the court to open the remedial proceedings. The purpose of filing the petition was to improve the Company's financial and liquidity situation. The decision to file the petition was made by the Management Board after considering the best interests of the Company and its shareholders. The Management Board believes that the restructuring process to be carried out under court supervision will enable the Company to continue its operations and achieve the best possible outcomes for its creditors, employees and shareholders.

On 2 July 2024, the Company's Management Board received a decision from the District Court for the Capital City of Warsaw in Warsaw, 18th Commercial Division, to establish security for the Company's assets by appointing a temporary court supervisor: Zimmerman Filipiak Restrukturyzacja Spółka Akcyjna.

On 25 July 2024, the District Court for the Capital City of Warsaw in Warsaw, 18th Commercial Division, decided to open remedial proceedings of PKP CARGO, pursuant to Article 288(3) of the Commercial Code, to enable the Company to exercise management over the entire enterprise to an extent not exceeding the scope of ordinary management, and to appoint an administrator, Ms. Izabela Skonieczna-Powałka (license no. 772).

3.6.3. Court-supervised restructuring of PKP CARGOTABOR

On 27 July 2024, the Management Board of PKP CARGOTABOR Sp. z o.o., a subsidiary, filed a petition to open remedial proceedings and a petition to declare bankruptcy. The filing of these petitions was a consequence of withholding orders for rolling stock repairs from PKP CARGO and of PKP CARGO's failure to pay its liabilities.

On 6 August 2024, the subsidiary's Management Board received a decision from the District Court for the City of Warsaw in Warsaw, 18th Commercial Division, on the establishment of security for the assets of PKP CARGOTABOR Sp. z o.o. through the appointment of a temporary court supervisor, Marcin Mirosław Kubiczek (license no. 244).

On 2 September 2024, the District Court for the Capital City of Warsaw in Warsaw, 18th Commercial Division, decided to open remedial proceedings of PKP CARGOTABOR Sp. z o.o., pursuant to Article 288(3) of the Commercial Code, to enable the subsidiary to exercise management over the entire enterprise to an extent not exceeding the scope of ordinary management, and to appoint an administrator, Geromin Lewandowski Restrukturyzacje Sp. z o.o. (KRS number 0000998859).

3.6.4. Other key information and events

- During the negotiations held on 10 January 2024, as part of a collective dispute with the Trade Unions about the implementation of a wage raise as of 1 October 2023 within negotiations in a collective dispute, the Company did not reach agreement and, consequently, a Statement of Differences of Opinion was prepared. The signing of this statement of differences of opinion terminated the negotiations, whereby the collective dispute moved into the stage of mediation.
- On 17 January 2024, the Company's Management Board gave consent to the execution of a cooperation agreement with CMC Poland Sp. z o. o., whose subject matter is for the Company to provide services for CMC Poland Sp. z o. o. by transporting scrap and metal products in the period between 1 January 2024 and 31 December 2026. The expected estimated net value of the agreement during its term of validity will be PLN 192,014,521 million (PLN 236,177,860 million with VAT).
- On 29 February 2024, PKP CARGO signed an annex to the 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 and Bank Powszechna Kasa Oszczędności Bank Polski S.A. signed an annex to the overdraft facility agreement for up to PLN 100 million extending the loan availability period until 30 June 2024, and then, on 25 June 2024, PKP CARGO and Bank Powszechna Kasa Oszczędności Bank Polski S.A. signed an annex to the overdraft facility agreement of 19 December 2019 extending the loan availability period until 30 September 2024.
- On 11 March 2024, PKP CARGO TERMINALE received the last tranche from the co-financing in the amount of PLN 51,700,000, granted by the Administration of Łódzkie Voivodship from the Regional Operational Program. Public aid constituted 49.98% of the eligible costs of execution of the infrastructural project in Zduńska Wola – Karsznice.
- On 18 April 2024, the PKP CARGO S.A. Extraordinary Shareholder Meeting was held and adopted:
  - Resolution to change the consent given to the execution, with the consortium of audit firms, Grant Thornton Polska P.S.A. and Grant Thornton Frąckowiak P.S.A., of Annex 2 to Agreement for the audit and review of standalone and consolidated financial statements for 2021-2025,
  - Resolution to amend § 12 section 2 and § 25 section 3 of the Company's Articles of Association.
- On 23 May 2024, PKP CARGO executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to PLN 100 million, extending the loan availability until 23 August 2024,
- On 23 May 2024, PKP CARGO and another member company of the PKP CARGO Group executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to PLN 50 million, extending the loan availability until 23 August 2024.
- On 12 June 2024, the Company's Management Board and PKP Polskie Linie Kolejowe S.A. ("PKP PLK") signed a letter of intent whereby PKP CARGO and PKP PLK expressed their continued interest in taking steps aimed at the acquisition by PKP PLK from PKP CARGO of a 100% stake in CARGOTOR Sp. z o.o.
- On 20 June 2024, the Company's Management Board filed a notice with the District Prosecutor's Office in Warsaw on suspicion of the commission an offense to the Company's detriment by persons who served as Members of the PKP CARGO Management Board S.A. between 2022 and 2023. During their term in office, irregularities were identified resulting from their failure to fulfill their obligations to exercise due diligence resulting from the professional nature of their activities, which became the basis for filing a notice of suspicion of the commission of an offense to the Company's detriment under Article 304 § 1 of the Code of Criminal Procedure.
- On 25 June 2024, PKP CARGO executed an annex to an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. of 28 June 2022 extending the loan availability period until 30 September 2024.
- On 24 July 2024, the Company's Management Board received official information about the selection of the Company's proposal as the most favorable one in the proceeding held by ENEA Trading Sp. z o.o. acting for and on behalf of ENEA Wytwarzanie Sp. z o.o. for transporting thermal coal by rail from Lubelski Węgiel "Bogdanka" S.A. for Enea Wytwarzanie sp. z o.o.
- On 29 July 2024, ArcelorMittal accepted the commercial proposals presented by the Company for the execution of two agreements with ArcelorMittal Poland S.A. and ArcelorMittal Warszawa Sp. z o.o. for transporting cargo of various commodity groups with a total estimated volume of approximately 6 million tons.

- On 20 August 2024, the Company's Management Board obtained information that in the procedure held by Tauron Ciepło Sp. z o.o., PKP CARGO and PKP CARGO Service, acting as a consortium, submitted bids for two tasks for the provision of coal rail transportation services, which later turned out to be the most favorable bids.
- On 27 August 2024, the Company's Management Board received a request from the Trade Unions addressed to the Company's Supervisory Board to dismiss Mr. Zenon Kozendra, a representative of employees, from the Company's Management Board.
- On 29 August 2024, PKP CARGO S.A. submitted a bid in an open tender held by PGE Polska Grupa Energetyczna S.A. entitled "Purchase of coal rail transportation services to the Branches of PGE Energia Ciepła S.A. and ZEW KOGENERACJA S.A. in 2025-2027."
- On 4 September 2024, the Company's Management Board filed a notice with the District Prosecutor's Office in Warsaw on suspicion of the commission an offense by Mr. Jacek Sasin who served as the Minister of State Assets in 2019-2023.
- On 4 September 2024, a bilateral signing was held of three agreements between PKP CARGO and ENEA Wytwarzanie sp. z o.o. for the provision of rail transportation services of thermal coal from Lubelski Węgiel "Bogdanka" S.A. for Enea Wytwarzanie sp. z o.o. for a total volume of 9 million tons.

3.7. Description of the key threats and risks

Risk resulting from the macroeconomic and geopolitical situation

- The development of the geopolitical situation and the magnitude of the impact of armed conflicts in the context of their influence on economic activity in Poland and across the world as well as future levels of commodity prices – the operation of the rail sector still remains affected by significantly increased uncertainty due to the ongoing conflict in Ukraine and the economic consequences of the change in the balance of power in the world. Against the backdrop of global changes, the period of economic downturn coupled with a high inflation rate and cost of capital, the increase in energy prices significantly affected the operations of PKP CARGO Group companies in H1 2024, including the scale of freight and forwarding services provided by them. The ongoing conflict between Russia and Ukraine, the trade war between the United States and China and other smaller global flashpoints adversely affect the degree of international trade and GDP growth on a global scale;
- the relatively high costs of energy carriers, fuels and energy, along with the unfavorable structure of the power sector (due to the high share of fossil fuels in the energy mix), adversely affect domestic industry (but also services), which situation may lead to a permanent decline in the profitability of commercial undertakings doing business in Poland and at the same time lead to a depletion of potential in the future;
- the economic and trade policies of major global economies and the future shape of EU policies are areas of segment uncertainty concerning the conditions and opportunities for the operation and development of the rail sector. Major economic changes associated with the friction and formation of new powerhouses across the world serve as a prelude to an increasingly noticeable retreat from the trade and international cooperation in its previous form. Unfortunately, these changes are adversely affecting the transportation market, which fact is reflected in the performance of entities operating in and around the rail freight market (including freight forwarding activities in this area).
- unfavorable impact of low demand in global markets on economic activity in Poland and the Czech Republic – although exports in difficult global markets are not shrinking and are generally contributing to GDP performance, the scale of capacity utilization remains relatively low and operating costs are relatively high, preventing commercial undertakings from strongly committing resources to new projects or from increasing their production potential;
- continuing fundamental role of bulk cargo in the PKP CARGO Group's operations, including in particular that of coal, aggregates, but also coke, ores and metals, chemicals and chemical products, and liquid fuels. The subdued demand for these commodities exerts a major unfavorable impact on the rail freight market, significantly reducing the obtainable freight volumes. In H1 2024, industrial output sold in Poland increased by only +0.1% yoy (vis-à-vis a -2.1% yoy decline in H1 2023).[66] Manufacturing served as the decisive driver in the overall performance of the sector, which recorded no change in the value of output compared to the same period of last year (with a steady share of over 80% in the industry's performance). Also key to rail freight operations were declines in the mining and quarrying segment, which recorded a noticeable reduction in output levels (down -4.1% compared to H1 2023).[67] Due to the heavy reliance on external markets, exports in Poland and the Czech Republic, despite numerous difficulties, managed to sustain the

[66] Statistics Poland (in enterprises employing more than 9 people)
[67] Statistics Poland – The country's socio-economic situation in H1 2024 (p. 43-44)

relatively good performance in both these economies, generating noticeable flows of goods in economic circulation. However, weak data on new industrial orders and limited production capacity prevent the economies of the region from rebuilding their strength, which will unfortunately continue to exert an unfavorable impact on the operations and performance of PKP CARGO Group companies in the second half of this year.

- economic imbalance – Poland's significant public finance deficit coupled with the country's rapidly growing debt and the cost of servicing it, the prolonged recovery from high inflation and elevated interest rates as well as the huge funds allocated to defense and social spending may effectively stifle the growth rate of the domestic economy in the years to come;
- the low level of investment (especially private investment) in Poland (reducing the potential for growth in the future) has already been noticeably below the average figures for European Union countries for several years;
- demographic risk – due to the rapid aging of the population, a permanent shortage of labor exists (resulting, among other factors, from the low unemployment rate), which forces the country to import new workers (from increasingly exotic regions of the globe);
- high transition costs associated with climate change and the European Union's climate policy – these will bring about growing opposition to change, which will consequently translate into increasing costs of social security measures (implemented by states) and strongly growing debt (and thus further broadening the macroeconomic imbalances).

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

negative impact on the coal market:

- Noticeable reduction in the consumption of steam coal in the economy. An update of the strategy "Poland's Energy Policy until 2040" is underway due to the changing situation (including as a result of the war in Ukraine) and legislative amendments in the European Union, which is expected to show the actual framework and directions of the transition. The absence of notification of Polish mining programs coupled with the related risks may lead to an uncontrolled shift away from coal, and thus may trigger various rapid changes in numerous branches of the Polish economy, which will tend to phase out the use of this commodity;[68]
- persistently high and rising prices of CO_2 emission allowances – in energy-intensive industries, these constitute an ever-increasing cost associated with output (as a result of the European Union's emission trading system, which has been in force since 2002, which assumes a systemic reduction in the number of available certificates and the gradual removal of free certificates from the market), which will make an increasing number of businesses to strive to move away from commodities that generate high emission volumes, including coal;
- oversupply of coal in the Polish market (a situation exacerbated by imports), leading to increased coal inventories, thereby lowering its quality parameters and causing problems for Polish producers (who are unable to sell their current output, forcing its reduction);
- growing likelihood of strong disruptions in the coal market, including the risk of a rapid and uncontrolled shift away from the high share of this commodity in the economy. The consequences of this situation may include a medium/strong impact on the rail transportation sector, especially in the Polish market;
- scheduled termination of hard coal mining (at the turn of 2026 at the latest) in the last Czech hard coal mine, leading to a further reduction in the volume of this commodity transported by PKP CARGO Group companies. This situation may be offset only to a limited extent by the transport of coking coal (including that mined by JSW) for the needs of metallurgical output; however, due to environmental requirements, its importance will also decline over time;

negative impact on the steelmaking market:

- The economic downturn is adversely affecting the output and sales capabilities of European steel mills – the high cost of capital and the dependence on industries that react strongly to any changes in the market situation within the European Union (including the construction and automotive sectors, accounting for more than 50% of steel consumption in the EU[69]) have already forced a strong reduction in output;
- the high costs of commodities, energy and CO2 emission allowances drive capacity reductions in the metallurgical sector and incentivize modernization work on production facilities. A considerable risk continues to threaten a noticeable portion of output potential in Europe, including as a result of relocating production outside the EU;

[68] Poland's Energy Policy until 2040, Program for the hard coal mining industry in Poland, Energetyka24 website
[69] Eurofer

negative impact on the liquid fuels and chemicals market:

- The strong economic downturn is adversely affecting the output of the chemical and fuel sectors due to the strong correlation between the sector's performance and the demand for the production of other industries. The energy crisis in Europe (as a repercussion of the war in Ukraine) has pumped up the prices of commodities and energy, which are major inputs for companies operating in these sectors. The inflated costs effectively hamper production processes and curb the industry's opportunities in the European Union;
- the chemical sector's strong dependence on gas supplies exposes commercial undertakings consuming large quantities of this imported commodity to the treat of breaks in transport/delivery chains (including extended delivery times due to military action and the suspension of waterway transport operations);
- difficult situation for fertilizer manufacturers – the significantly increased costs of gas and rising production costs (related to CO_2 emissions, labor costs, etc.) translate into relatively high prices in the retail market. Moreover, a significant volume of low-cost fertilizer is supplied to the market from Russia (which has significant surpluses of gas – due to its limited exports, and which it uses for the production of non-sanctioned products, including fertilizer);[70]

negative impact on the construction market:

- The energy transition of the economy, the gradual reduction in the use of fossil fuels and the zero-carbon targets being set are causing fundamental changes in production/technological processes, which creates the need for high investment costs, with low or even negative margins caused by the harsh market reality.
- completion of the disbursement of funds from the previous budget framework of the European Union and the much-delayed implementation of the spending of money from the EU Reconstruction Fund (National Reconstruction Plan) have effectively slowed down the rate of growth of public investment. The lingering procedures, tenders and possible appeals against them may postpone the actual use of funds to 2025, while posing the risk of an accumulation of work in 2025-2026 (including especially in railroad construction, where the efficiency of processes is of key significance for rail transport operations);[71] the high cost of financing, along with the clearly elevated level of prices for energy commodities and construction materials compared to previous periods, coupled with the strongly limited investment demand of enterprises, with inflation still at a high level, significantly hinder the execution of construction processes;

negative impact on the cement industry:

- The high costs of CO2 emission allowances and commodities, energy and fuels lead to a further increase in the cost of cement production in Poland, combined with the still unequal competition with cement imports from outside the European Union (including, among other sources, from Ukraine), adversely affect the stability of production in the country;[72] the significant share of energy in total inputs for cement production, combined with the high share of high-carbon sources in the production of electricity in Poland and high electricity prices, pose a real threat to the operation and development of the domestic cement industry;[73]

negative impact on the equipment and machinery industry:

- The high costs of energy, commodities and components, coupled with the need to find new customers to maintain the scale of production (due to the economic downturn), combined with the low level of investment in Poland (caused by the high cost of capital, associated with the still high interest rates and inflation, and especially the instability of legislation) exert a strong adverse impact on the output of the equipment and machinery industry;

negative impact on the paper and wood industries:

- In the paper and wood industries, the lingering high cost of energy and commodities (including wood, wood chips and pulp), coupled with their limited availability (partly due to sanctions imposed on economic trade with Russia and Belarus), contribute to reductions in production volumes and finished goods. The sanctions imposed on Belarus (formerly a leading supplier of timber and wood chips to Poland), in connection with the war in Ukraine, continue to significantly reduce the use of the potential of the Polish rail sector to transport timber within Poland. The limited volumes of domestically sourced timber and the lack of regular supplies from across the eastern border are causing a marked reduction in rail transportation volumes of this commodity in the country;

[70] WNP, farmer.pl
[71] gov.pl, WNP
[72] Polskicement.pl
[73] Polskicement.pl

negative impact on the intermodal industry:

- The limited volume of container shipments by rail from/to China compared to the pre-war period in Ukraine, due to the tangible risks associated with transporting cargo through Russia and Belarus (including increased costs associated with cargo insurance and the risk of losing valuable freight) and the global slowdown in economic growth, have contributed to the decline in the importance of the New Silk Road (NSR).

Risks associated with the rail freight sector

- Changing market conditions related to increasing competition in the rail freight market and temporarily reduced demand for transportation services (caused by the economic slowdown in the European Union and globally);
- increase in the number of operators providing rail freight services: according to data presented by the Office of Rail Transport (UTK), there are currently 133 operators active in the Polish rail freight market holding an active license issued by the UTK President for the conduct of rail freight operations (UTK data as at 30 June 2024).[74] Among them are also three member companies of the PKP CARGO Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s.[75] Due to the economic downturn, the market is experiencing a strong intensification of the competitive struggle, with more new carriers joining the competition for the provision of transport services. During the past 12 months, the Office of Rail Transport has issued more than 10 new licenses for rail carriers to carry freight. Despite the deteriorating market conditions, this sector still remains attractive for new entrants;[76]
- increasing average haul (from 229.8 km in 2021 to 266.0 km in 2023).[77] The outbreak of war in Ukraine and the change in the direction of foreign trade patterns supplying the country's economy brought about fundamental changes in the transport of goods by rail (with seaports gaining primary importance). The lengthening of the average haul is constantly adversely affected by the infrastructure manager's repair and modernization works, additionally worsening transit times and significantly affecting the competitiveness of rail transport vis-à-vis road transport. The still very low average commercial speed of freight trains (in 2023, it was only 29.2 km per hour for all freight trains, despite the relatively high annual capital expenditures on the rail network);[78]
- vulnerability of intermodal transport to geopolitical factors – an increase or decrease in activity in this sector depends on events that affect international transport routes (including limited traffic on the New Silk Road due to Russia's involvement in the war in Ukraine or the conflict in the Middle East) and on demand generated domestically and by other European Union countries. 2023 was the second consecutive year with a decline in intermodal traffic;[79]
- expansion of the range of freight services, fragmentation of the market – the market share of other small carriers who do not exceed the market share threshold of 0.5% is clearly on the rise, at the highest rate. The PKP CARGO Group's competitors provide a very wide range of transportation services (also related to freight forwarding and transport logistics), carrying out transport operations of key significance to the Polish economy, including: coal, aggregates, ores and metallurgical products, liquid fuels and chemicals. In parallel, the number of commercial undertakings that have their own rail operator within their corporate group is increasing, which, due to their available resources, in addition to the work performed for related companies (resulting in the exclusion of numerous streams of goods from the competitive market due to the internal cooperation within the corporate group), sometimes also perform some transport services on the free market (due to the coverage of fixed costs under intra-group contracts and the ability to engage in price competition in other markets). It should be mentioned that only a small number of private companies provide dispersed traffic and extraordinary transport services, while the number of entities engaged in transporting dangerous goods is increasing for another consecutive year (39 rail operators performed such services in 2023);[80]
- change in the sales structure within the group of companies comprising PKP CARGO INTERNATIONAL – the planned rapid completion of coal mining operations in the Czech Republic and the gradual phasing out of lignite mining may significantly reduce the amount of goods available for rail freight transport (especially in the context of the difficulties experienced by the Czech metallurgical industry). In order to cope with the challenges of the future, a significant capital expenditure program is required, including the purchase of modern universal transportation vehicles, coupled

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[74] Office of Rail Transport (licensed rail operators, as stated in the updated list of the Office of Rail Transport as at 7 June 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.
[75] Office of Rail Transport
[76] Office of Rail Transport
[77] Office of Rail Transport/Report on the operation of the rail transport market in 2023 (31 July 2024)
[78] Office of Rail Transport/Report on the operation of the rail transport market in 2023 (31 July 2024)
[79] Office of Rail Transport/Report on the operation of the rail transport market in 2023 (31 July 2024)
[80] Office of Rail Transport/Report on the operation of the rail transport market in 2023 (31 July 2024)

with the construction of additional terminals, which is a major challenge in highly competitive European markets (thus requiring the incurrence of hefty costs with no guarantee of a satisfactory rate of return). An important factor in this context is also the assurance of the proper volume of transport services, but above all their profitability, coupled with a further development of services surrounding the primary business (including: maintenance of sidings, operation of terminals, operation of landfills, reclamation activities, railroad construction), which should serve as a stabilizing factor for the PKP CARGO Group's business in the countries south of Poland.

Risks associated with operations

Risks related to road transport

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.

Continued upward trend in the market share of road transport at the expense of declining shares of other modes of transport.

The highly unsustainable transport system hindering growth of the volume of loads transported by rail (including the limited network 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 costs 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,
- 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.

Risk related to the inability to recruit appropriate staff.

As at the date of this report, the risk associated with the inability to recruit appropriate staff does not exist. However, it is periodically reviewed and monitored to enable an appropriate response in case of its occurrence.

Risk of a shortage of trained personnel.

The Company has been properly managing the risk associated with shortage of trained personnel. Actions are taken with a view to ensuring appropriate number of employees with required skills to make it possible to achieve the business objectives. Employees on furlough leave are entitled to perform activities necessary to maintain their professional rights.

In connection with the possibility of rotational furlough leave, PKP CARGO, while sending an employee to furlough leave, monitors the expiration date of his/her entitlements to enable him/her to return to work without the risk of losing such entitlements. This approach enables employees to immediately resume their work duties promptly following the end of the furlough leave period without having to undergo training or pass any examinations to restore their licenses, meaning that the risk of a shortage of trained personnel is properly managed by the Company.

Risk of collective disputes and strike.

Currently, the Company has not yet completed the procedure of the industrial dispute from December 2023. The last meeting between the parties ended with the signing of a statement of differences, and at the moment talks are not continuing.

The trade union organizations operating at the Company report their dissatisfaction to the employer and express their concern about the solutions in the labor area (furlough leave, termination of the Employee Guarantee Package, the Company Collective Bargaining Agreement and the Agreement on Mutual Obligations of the Parties to the Company Collective Bargaining Agreement, and the implementation of the procedure of group layoffs) as carried out by Members of the Supervisory Board seconded as of 26 April 2024 to temporarily perform the duties of PKP CARGO S.A. Management Board Members as part of the ongoing optimization efforts.

On 17 July 2024, the National Section of Railway Workers of NSZZ "Solidarność" published a position paper on the situation at PKP CARGO, in which it strongly objected to the actions taken by the current PKP CARGO S.A. Management Board. At the same time, the trade union warned the Management Board that, if necessary, powerful measures be taken involving all railroad companies with a solidarity strike across the PKP network.

Accordingly, the Professional Section of NSZZ "Solidarność" of the PKP CARGO Group decided to start protest actions, and their first stage consisted of demonstrations, which were held on 25, 26 and 30 July 2024 in front of the head offices of the following PKP CARGO S.A. Units: Southern in Katowice, Silesian in Tarnowskie Góry, Lower Silesian in Wrocław and Western in Poznań.

Financial risks

Liquidity risk

The age structure of liabilities at the balance sheet date has deteriorated significantly compared to 31 December 2023, with all liquidity ratios at levels well below those considered safe. Given the deterioration of the financial standing and liquidity, the covenants set forth in the Parent Company's loan agreements were not satisfied as at 30 June 2024, which is described in Note 4.1 to the Interim Condensed Consolidated Financial Statements.

In view of the above, the Management Board of the Parent Company decided to file a petition with the court to open the restructuring proceedings on 27 June 2024. The opening of the restructuring proceedings has protected the Parent Company from the possibility of terminating major contracts with customers, suppliers and financial institutions, and all liabilities incurred before the opening date of the restructuring proceedings will be covered by the composition. The Parent Company expects these liabilities to be repaid in future periods under a composition agreement with creditors in accordance with the principles of the Restructuring Law. Liabilities incurred after the commencement of restructuring proceedings are paid by the Parent Company on an ongoing basis.

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

In H1 2024, 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 H1 2024, interest on financing agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M.

The interest rate risk in lease contracts is executed through revaluation of lease installments in one-month periods.

In H1 2024, 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. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered.

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

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

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

4.1. Rules for preparing the interim financial statements

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

The Interim Standalone Financial Statements of PKP CARGO for the 6 months ended 30 June 2024 and the Interim Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2024 have been prepared in accordance with the historical cost principle, except for investments in equity instruments.

4.2. Key economic and financial figures of PKP CARGO Group

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

Table 18. Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million[81]		in EUR million	
	6M 2024	6M 2023	6M 2024	6M 2023
Exchange rates (PLN/EUR)			**4.3109**	**4.6130**
Operating revenue	2,325.0	2,919.1	539.3	632.8
Operating profit / loss	-463.2	221.5	-107.4	48.0
Profit / loss before tax	-555.8	139.8	-128.9	30.3
Net profit/loss	-453.1	109.7	-105.1	23.8
Total comprehensive income attributable to the owners of the parent company	-489.7	70.3	-113.6	15.2
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share (PLN)	-10.12	2.45	-2.35	0.53
Diluted earnings / losses per share (PLN)	-10.12	2.45	-2.35	0.53
Net cash flow from operating activities	501.7	695.7	116.4	150.8
Net cash flow from investing activities	-297.8	-587.6	-69.1	-127.4
Net cash flow from financing activities	-295.0	-111.1	-68.4	-24.1
Movement in cash and cash equivalents	-91.1	-3.0	-21.1	-0.7
	30/06/2024	**31/12/2023**	**30/06/2024**	**31/12/2023**
Exchange rates (PLN/EUR)			**4.3130**	**4.3480**
Non-current assets	6,846.2	7,030.6	1,587.4	1,617.0
Current assets	1,099.7	1,289.4	255.0	296.5

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

Non-current assets classified as held for sale	2.8	-	0.6	-
Share capital	2,239.3	2,239.3	519.2	515.0
Equity attributable to the owners of the parent company	2,712.8	3,202.5	629.0	736.6
Non-current liabilities	2,701.7	2,784.2	626.4	640.3
Current liabilities	2,534.2	2,333.3	587.6	536.6

Source: Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2024 prepared according to EU IFRS

Table 19. Financial highlights of PKP CARGO S.A. w restrukturyzacji

PKP CARGO S.A.	PLN million[82]		in EUR million	
	6M 2024	6M 2023	6M 2024	6M 2023
Exchange rates (PLN/EUR)			**4.3109**	**4.6130**
Operating revenue	1,773.4	2,235.3	411.4	484.6
Operating profit / loss	-407.0	174.0	-94.4	37.7
Profit / loss before tax	-494.4	127.7	-114.7	27.7
Net profit/loss	-402.7	105.2	-93.4	22.8
Total comprehensive income attributable to the owners of the parent company	-424.4	99.3	-98.4	21.5
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share (PLN)	-8.99	2.35	-2.09	0.51
Diluted earnings / losses per share (PLN)	-8.99	2.35	-2.09	0.51
Net cash flow from operating activities	492.8	647.9	114.3	140.4
Net cash flow from investing activities	-282.2	-531.4	-65.5	-115.2
Net cash flow from financing activities	-293.9	-114.9	-68.1	-24.9
Movement in cash and cash equivalents	-83.3	1.6	-19.3	0.3
	30/06/2024	**31/12/2023**	**30/06/2024**	**31/12/2023**
Exchange rates (PLN/EUR)			**4.3130**	**4.3480**
Non-current assets	6,630.5	6,768.9	1,537.3	1,556.8
Current assets	642.3	800.0	148.9	184.0
Non-current assets classified as held for sale	2.8	-	0.6	-
Share capital	2,239.3	2,239.3	519.2	515.0
Equity attributable to the owners of the parent company	2,513.4	2,937.8	582.7	675.7
Non-current liabilities	2,347.2	2,417.5	544.2	556.0
Current liabilities	2,415.0	2,213.6	559.9	509.1

Source: Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2024, prepared in accordance with EU IFRS

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

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group and the Interim Condensed Standalone Financial Statements of PKP CARGO S.A. w restrukturyzacji for the period of 6 months ended 30 June 2024:

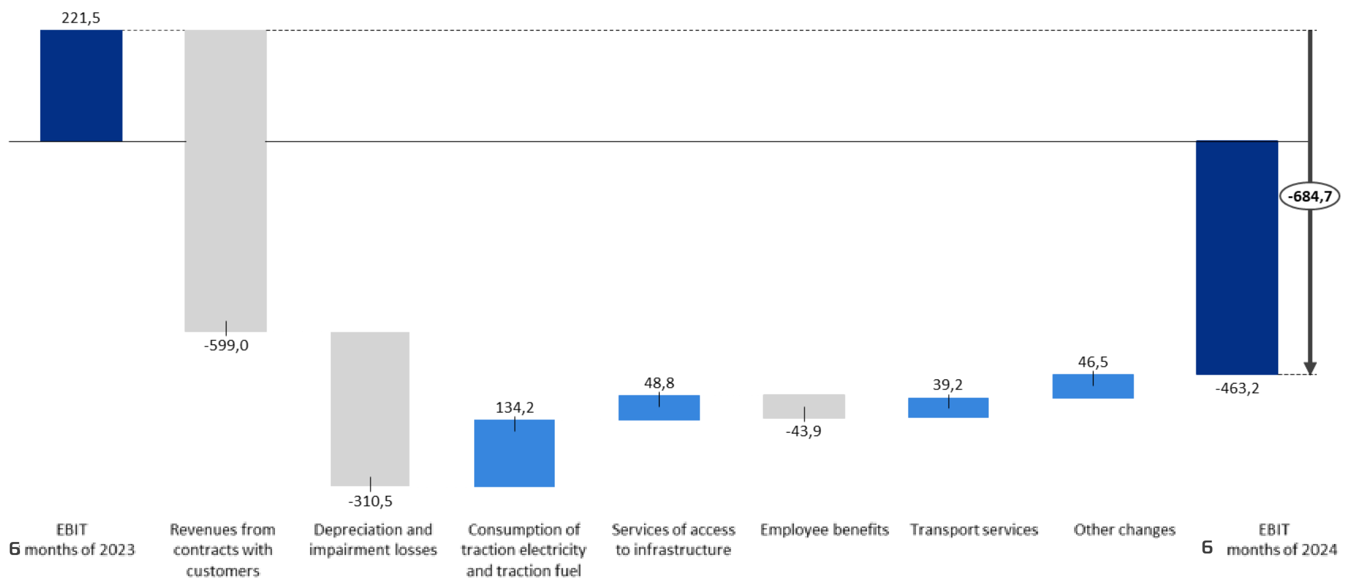
- exchange rate in force on the last day of the reporting period: 30 June 2024: EUR 1 = PLN 4.3130; 31 December 2023: EUR 1 = PLN 4.3480;
- the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 30 June 2024: EUR 1 = PLN 4.3109, 1 January – 30 June 2023: EUR 1 = PLN 4.6130

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

Statement of profit or loss of the PKP CARGO Group

During the first 6 months of 2024, EBIT reached PLN -463.2 million, having gone down by PLN 684.7 million compared to the corresponding period of 2023.

Figure 18. EBIT in 6M 2024 as compared to the corresponding period in 2023 (PLN million)



Source: Proprietary material

The following is a description of the most significant deviations affecting EBIT in the first 6 months of 2024 as compared to the first 6 months of 2023:

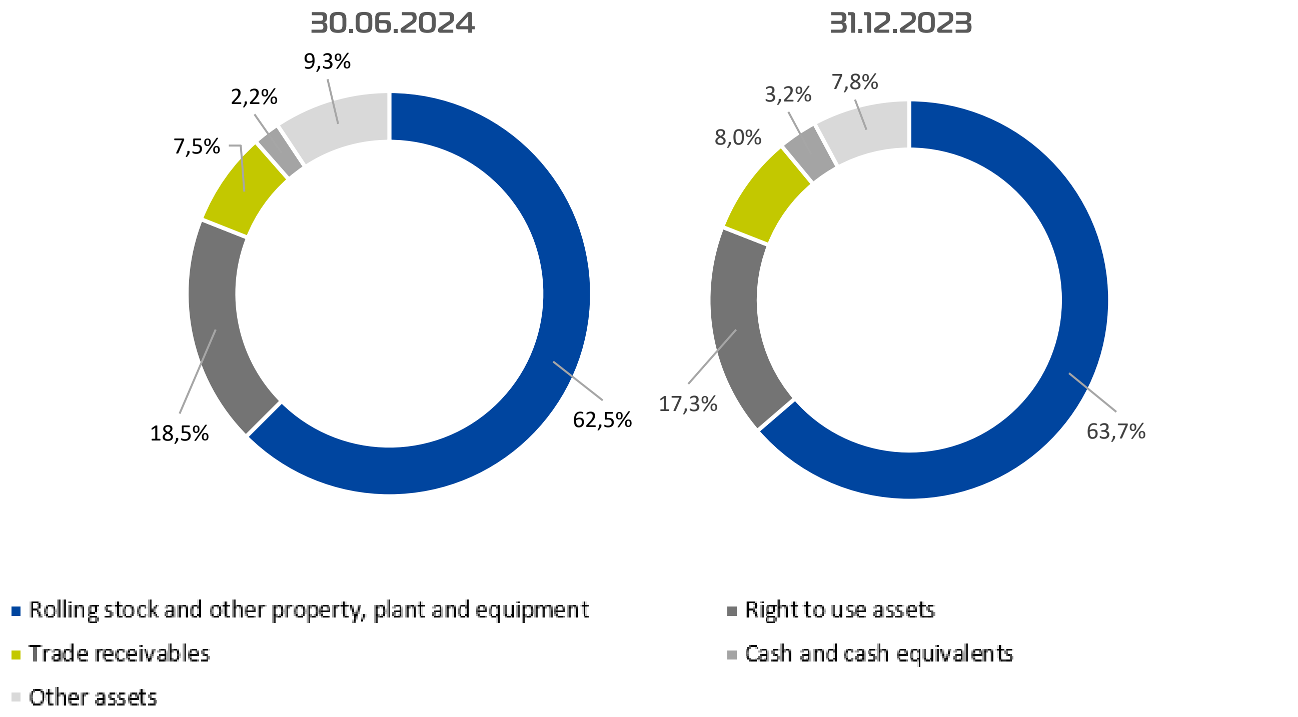
- decrease in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services) as a direct consequence of decline in freight volume. The details pertaining to the PKP CARGO Group's transport services are described in section **3.2.5 PKP CARGO Group's rail transport business**.
- increase in depreciation and impairment allowances as a result of the impairment allowances created for non-current assets as a result of the impairment tests conducted as at 30 June 2024 on the assets of the Company and PKP CARGOTABOR Sp. z o.o. w restrukturyzacji in the total amount of PLN 253.9 million;
- decrease in the costs of consumption of electricity and traction fuel and infrastructure access services in connection with the decline in freight turnover;
- decrease in employee benefit costs, mainly as a result of the furlough leave program;
- decrease in the cost of transportation services correlated with a decrease in freight turnover;
- decrease in costs under "other changes" was caused by, among other factors, the lower costs of transshipment services, land reclamation services, electricity, gas and water consumption, and consumption of materials;

Statement of financial position of the PKP CARGO Group

ASSETS

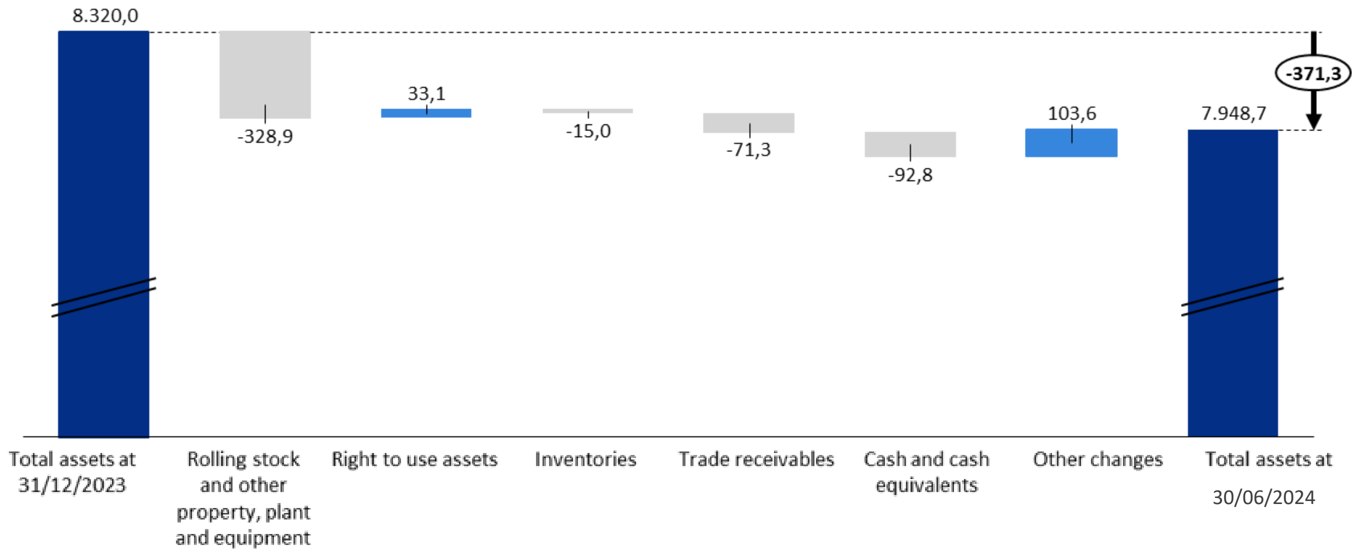
The biggest share in the PKP CARGO Group's asset structure as at 30 June 2024 was held by rolling stock and other property, plant and equipment, which in aggregate accounted for 62.5% of total assets, compared to 63.7% as at 31 December 2023. At the same time, the largest share in the structure of current assets was attributable to trade receivables, which accounted for 7.5% of the Company's total assets.

Figure 19. Structure of assets – as at 30 June 2024 and 31 December 2023



Source: Proprietary material

Figure 20. Movement in the Group's assets in the first 6 months of 2024 (PLN million)



Source: Proprietary material

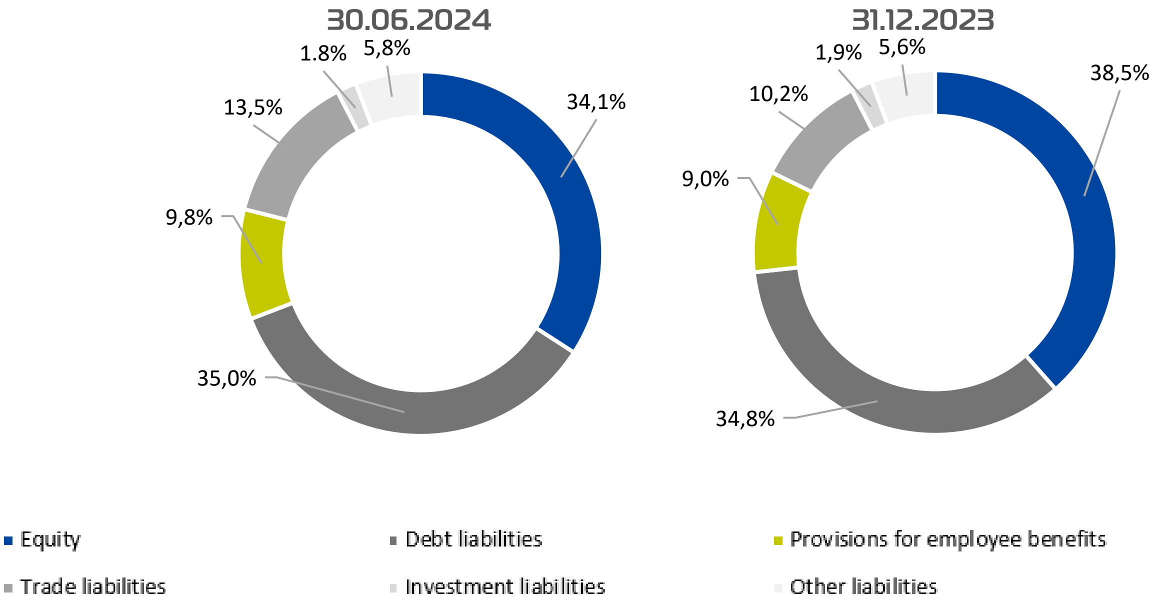
The following is the explanation of the most significant changes affecting the value of assets as at 30 June 2024 as compared to 31 December 2023:

- decrease in the value of rolling stock and other property, plant and equipment as a consequence of the depreciation and lower level of investments in H1 2024;
- increase in right-of-use assets resulting mainly from the excess of rights over depreciation. Right-of-use assets related mostly to rolling stock, including the lease of locomotives and the area related to real estate leases;
- decrease in the value of trade receivables related to the decrease in sales of services in Q2 2024;
- decrease in cash by PLN 92.8 million resulting predominantly from expenditures related to the acquisition of non-financial non-current assets in the amount of PLN 318.9 million, expenditures related to taken out loans/borrowings and leases along with interest in the amount of PLN 340.6 million, with simultaneous proceeds from operating activities of PLN 501.7 million, proceeds from loans of PLN 24.4 million, received grants in the amount of PLN 21.9 million, and proceeds from the disposal of non-financial non-current assets in the amount of PLN 13.8 million.

EQUITY AND LIABILITIES

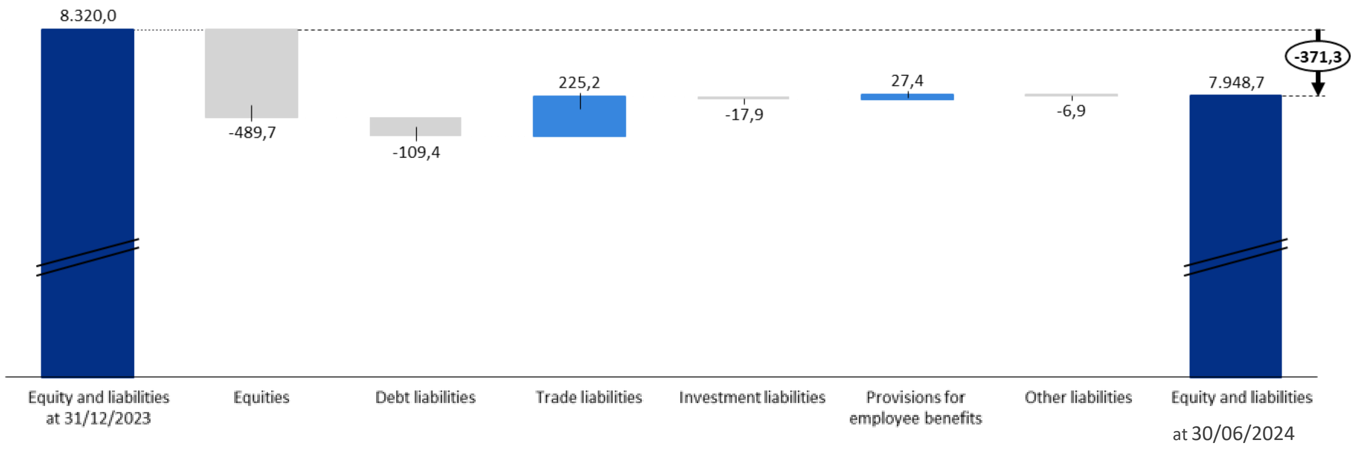
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 30 June 2024 was attributable to equity, which accounted for 34.1% of the sum of equity and liabilities, compared to 38.5% as at 31 December 2023. Debt liabilities accounted for 35.0% of total equity and liabilities, compared to 34.8% as at 31 December 2023.

Figure 21. Structure of the Group's equity and liabilities as at 30 June 2024 and 31 December 2023



Source: Proprietary material

Figure 22. Movement in the Group's equity and liabilities in the first 6 months of 2024 (PLN million)



Source: Proprietary material

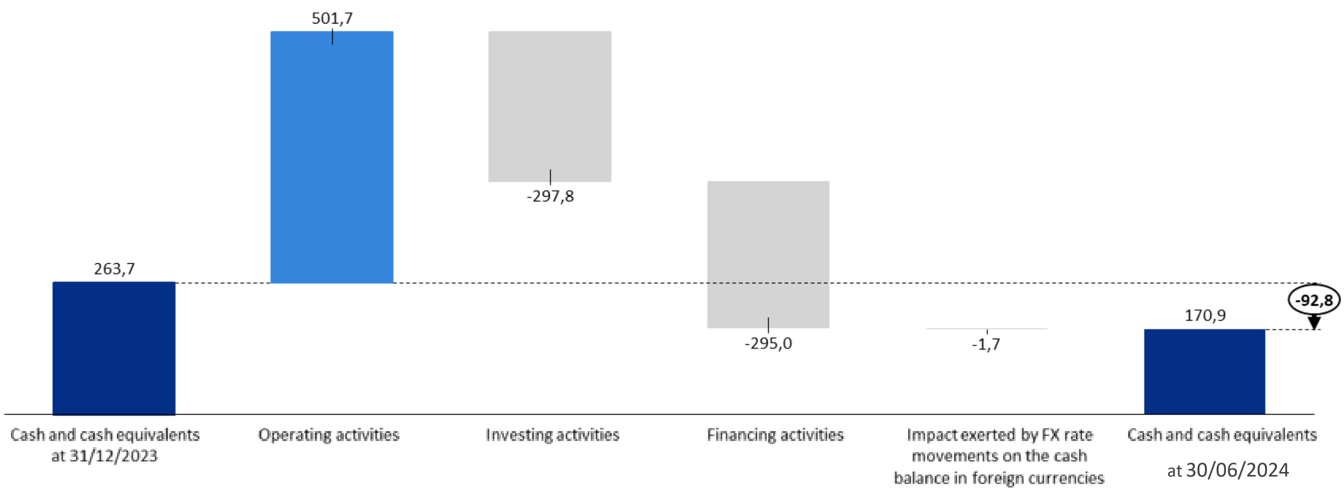
The most significant changes affecting the value of equity and liabilities as at 30 June 2024 compared to 31 December 2023 are explained below:

- decrease in the value of equity primarily due to the PKP CARGO Group's reported net loss for the first 6 months of 2024 (mainly the retained earnings/(uncovered losses) item);
- decrease in the value of debt liabilities due to the increased level of loan repayments over proceeds from borrowings;
- increase in trade payables, mainly due to the emergence of overdue liabilities and an increase in interest payables.

4.2.3. Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 30 June 2024 decreased by PLN 92.8 million compared to 31 December 2023.

Figure 23. Cash flows of the PKP CARGO Group in 6M 2024 (PLN million)



Source: Proprietary material

- positive cash flows from operating activities were achieved concurrently with, among others, loss before tax of PLN 555.8 million, depreciation and impairment allowances of PLN 700.2 million and positive cash flows from changes in working capital of PLN 345.0 million;
- negative cash flows from investing activities resulted predominantly from capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 318.9 million (including mostly investments in rolling stock);

- negative ash flows from financing activities, chiefly as a result of the repayment of loans and leases with interests in the amount of PLN 340.6 million, offset by inflows of PLN 24.4 million from new loans and PLN 21.9 million from new grants.

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

The table below presents the PKP CARGO Group's key financial and operating ratios in the first 6 months of 2024 compared to the corresponding period of the previous year.

Table 20. Key financial and operating ratios of the PKP CARGO Group in 6M 2024 as compared to the corresponding period of 2023

Description	6M 2024	6M 2023	Change	Rate of change
			2024 - 2023	2024 - 2023
EBITDA margin[1]	10.2%	20.9%	-10.7	-51.3%
Net profit margin (ROS)[2]	-19.5%	3.8%	-23.3	-
ROA[3]	-6.0%	3.7%	-9.7	-
ROE[4]	-17.7%	9.1%	-26.8	-
Average distance covered per locomotive (km per day)[5]	184.8	201.2	-16.4	-8.2%
Average gross train tonnage per operating locomotive (tons)[6]	1,436.0	1,564.0	-128.0	-8.2%
Average running time of train locomotives (hours per day)[7]	11.5	12.8	-1.3	-10.2%
Freight turnover per employee (thousands tkm/employee)[8]	471.3	585.3	-114.0	-19.5%

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.

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

- in the first 6 months of 2024, the EBITDA margin deteriorated, chiefly due to the significant decrease of operating revenue. Detailed information on the reasons for movement in EBITDA and the net result is presented in section **4.2. Key economic and financial figures of the PKP CARGO Group;**
- deterioration in the ROA and ROE ratios coupled with the return on sales (ROS) is largely due to the negative net result in the period under analysis;
- the decline in the gross train weight 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;
- decrease in the average gross tonnage per locomotive and decline in the average running time of train locomotives result from a decrease in freight turnover;
- decrease in the freight turnover per employee ratio follows predominantly from a decrease in freight turnover with a concurrent decrease in the average headcount expressed in FTEs.

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

Situation related to the war in Ukraine

The war beyond Poland's eastern border is significantly affecting the freight market in Poland as a result of the impact on both global markets and directly on entities operating in the European and Polish economic areas.

The sanctions imposed on the Russian Federation by the United States, the European Union and other international actors are affecting Russia and Belarus. PKP CARGO Group entities are also strongly affected by the lack of opportunities or restrictions related to services normally rendered in relation to these countries.

Restrictions primarily affect the market for fuels and crude oil, but also commodities that are particularly suitable for rail transportation, such as ores, metal and metal products, cement, and timber.

In turn, trade with Ukraine has increased considerably, despite numerous problems at the logistical level, this direction may be considered as developing.

The significance of imports by sea has increased, as has the importance of Polish ports, which have gained strategic prominence with limited mining output in the country and the need to import commodities and goods which previously were imported largely through pipelines. Given the resurgent GDP growth, imports into the country should increase appreciably over time, which, along with relatively stable export volumes, should ensure a rolling increase in freight volume.

The slowdown in growth and the economic problems of the People's Republic of China (partly due to a reduction in global demand), in conjunction with the ongoing war in Ukraine, created a barrier to the development of rail freight along the New Silk Road, which adversely affected the Group's freight volume. However, increasing sea freight costs (including those caused by the conflict in the Middle East and the Huti attacks), coupled with the expected gradual return of prosperity, should drive container freight growth along the NSR (as is already evident in shipments through the Małaszewicze terminal this year).

PKP CARGO Group companies are actively monitoring all organizational and legal changes related to the provision of transport services and the current situation in the ongoing conflict. Invariably, the terminals on Poland's northeastern border and companies that largely specialize in freight forwarding and transportation services in this region experienced the largest declines in revenue from business dealings with customers from this direction. The reorientation of their potential is in progress. However, due to the slowdown in economic growth and output coupled with the difficult situation of other entities in the region, this is a long-term process that requires the building of new competencies and relationships. PKP CARGO Group companies have not identified any significant risks related to the ongoing war in Ukraine and the impact in the macroeconomic environment which might significantly affect their operations. At the same time, the market environment remains highly volatile, requiring PKP CARGO Group companies to apply active adaptation measures.

Infrastructure

In next quarter of 2024, it is planned to maintain the line capacity limitations and the disruptions related to performed investments and maintenance and repair work at the current level in connection with the implementation of each stage of the National Railway Program and extension of its projects until 2027.

Particularly noteworthy are the plans to launch an upgrade of the Zebrzydowice border station in June 2024 and modernization of the Katowice interchange in September 2024, along with track works in the area of Dąbrowa Górnicza Towarowa, and modernization of line No. 276 from Międzylesie to Wrocław.

Energy costs and fuel prices

In 2023 and later, the primary factors affecting the price level of fuel, including traction fuel, were currency fluctuations and the unstable geopolitical situation (the war in Ukraine, the conflicts in the Middle East, difficulties in supply chains).
The average price of diesel fuel in Q2 2024 was at PLN 4,894.37 per m^3, compared to an average price of PLN 4,986.91 per m^3 in Q1 2024.
It is expected that energy and fuel prices in Poland will continue to remain high. A factor affecting electricity prices is the EU's climate policy and the related mandatory fees incurred by energy producers for the purchase of CO_2 emission rights. Given that coal-fired power plants still account for the largest share of electricity generation in Poland, it is necessary to get ready for

another increase in electricity prices. The current stabilization of energy prices is uncertain. Forecasting how energy and fuel prices will evolve in future periods is very difficult due to the ongoing armed conflicts in Ukraine and the Middle East.

Hiring

As part of the implementation of the recovery program aimed at rebuilding the Company's value and position, on 27 May 2024, the Management Board launched a program, starting on 1 June, to put up to 30% of the Company's employees on furlough leave for a period of 12 months in accordance with Article 54 of the Act of 8 September 2000 on Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe".

The furlough leave may be applied to all professional groups of employees, including the management of the respective units of the Company and the departments of the Company's Head Office, with the priority of ensuring the continued operational efficiency of each entity or organizational unit.

An employee put on furlough leave will have the right to:

- welfare benefit in the amount of 60% of the monthly financial equivalent calculated as remuneration for vacation leave, less the amount of contributions paid to pension, disability and health insurance in the part financed by the insured and income tax;
- engage in activities necessary to maintain the employee's professional qualifications,
- use benefits from the Company Social Benefits Fund.

In connection with numerous suggestions from trade union organizations operating at the Company for the introduction of furlough leave on a rotational basis, in June of this year the PKP CARGO Management Board S.A. introduced changes in the rules for putting employees on furlough leave. According to the adopted rule, the employer will put employees on furlough leave for the next 3 months, while the same employee may be put on furlough leave lasting 3 months each up to 4 times. The employer may also put an employee on furlough leave for a period of more than 3 months, but not more than 12 months, if justified by the employer's needs and specific criteria.

Furthermore, it has been decided that in the event that the monthly social benefit calculated in accordance with the provisions of the Act referred to above is equal in the respective month to an amount lower than the employee's monthly wage specified in his/her full-time employment contract, set at the minimum wage determined in accordance with generally applicable regulations, the employer will pay the employee, together with the social benefit for such a month, an amount of compensation calculated as the difference between the minimum wage and the amount of the social benefit for the respective month.

The PKP CARGO Management Board has decided that the Company's furlough leave program will last from 1 June 2024 to 31 December 2025, and that putting employees on furlough leave will be carried out gradually during the indicated period in line with the introduced principles of the rotational nature of the program.

At the same time, in view of the urgent need to improve the Company's financial standing due to the significant slowdown in the rail transportation market, resulting in a decrease in revenues and a reduction in available contracts, on 3 July 2024 the PKP CARGO Management Board announced its intention to carry out group layoffs, which are expected to cover up to 30% of the Company's employees in various professional groups. After subsequent consultations with the trade unions held in July, which ended in failure to reach a consensus among the parties, a final decision was made to carry out group layoffs as part of corrective measures, and the Group Layoffs Regulations issued by the Restructuring Administrator on 14 August 2024 launched the previously announced process.

It is assumed that up to 4,142 employees will leave the Company by the end of October 2024, which is the maximum number. In connection with the termination of employment as part of group layoffs, employees will be entitled to cash severance payments based on the period of employment. It is expected that as a result of this procedure, savings in employee costs will be generated to ensure the Company's liquidity. All employees affected by the group layoff process will be able to take advantage of organized training and counseling assistance useful in their efforts to find a new job. Moreover, as part of corporate social responsibility, 14 letters of intent have been signed, giving laid-off employees the prospect of continuing their work. Under these arrangements, it is possible to employ a total of more than 2,000 employees of PKP CARGO S.A. in other companies, in various sectors of the economy.

Currently, PKP CARGO is going through a wide-ranging process of change, requiring the taking of pivotal steps to increase operational and cost efficiency. Despite the difficult circumstances in the labor and social areas that the Company is currently facing, restructuring measures are the only way to rebuild its strong position and, in the long run, to maintain as many needed jobs as possible.

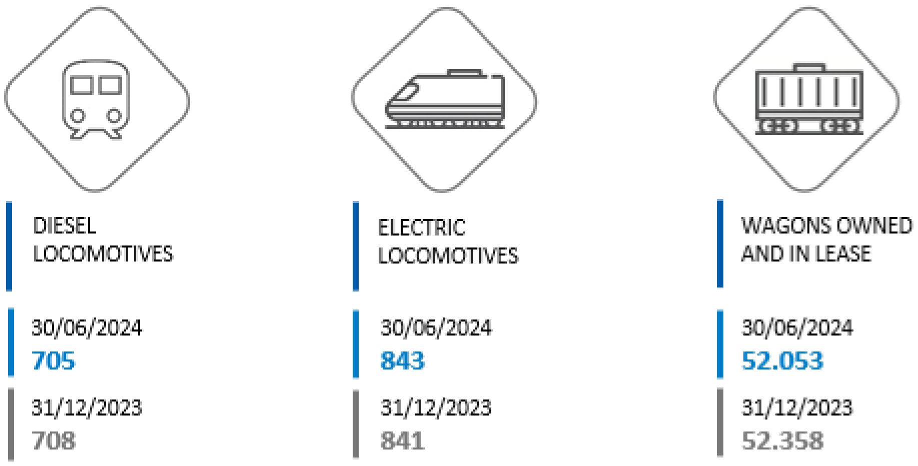
Flood damage

As a result of the flood that swept through southwestern Poland and the Czech Republic, several of the Company's vehicles were flooded. Additionally, this situation caused significant damage to the rail infrastructure owned by PKP PLK. As at the date of the report, the estimation of losses resulting from the flood and its possible impact on the PKP CARGO Group's operations in future periods is underway.

4.4. Information about production assets

4.4.1. Rolling stock

Figure 24. Structure of rolling stock used by the PKP CARGO Group as at 30 June 2024 and 31 December 2023



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

4.4.2. Real properties

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

Table 21. Real properties owned and used by the PKP CARGO Group as at 30 June 2024 and 31 December 2023.

Description	30/06/2024	31/12/2023	Change 2024-2023
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,366.73	1,366.85	-0.12
Buildings – owned, leased and rented from other entities [m^2]	681,771	683,073	-1,302

Source: Proprietary material

The decrease in the area of the land and buildings used (owned, leased and rented from other entities) is a result of the ongoing verification of the quantum of assets required by the Parent Company and its subsidiaries and its adaptation to the scale and profile of their business activities.

After the end date of the reporting period, PKP CARGO has sold a real property in Szczecin with an area of 4,508.00 m^2 for a net amount of PLN 875,000.00 (eight hundred seventy-five thousand Polish zloty).

5. Other key information and events

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

PKP CARGO has not published any financial forecasts for 2024.

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

In H1 2024, 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.

5.3. Information on transactions with related parties

No entity from the PKP CARGO Group entered in H1 2024 into any transactions with related parties on non-market terms.

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

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

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

In addition to the actions taken by the Management Board to ensure financial stability and further growth of the Company, as described in this report, other corrective measures are being taken gradually to generate savings.

The Management Board is taking measures to optimize costs and to ensure the availability of instruments to support the Company's financing of operating activities in the medium term (including overdraft facilities). In the course of managing the liquidity position, the levels of trade receivables and payables are monitored on an ongoing basis.

Administrator of PKP CARGO S.A. w restrukturyzacji

Izabela Skonieczna-Powałka
Administrator of PKP CARGO S.A.
w restrukturyzacji (license no. 772)

Warsaw, 30 September 2024