# The Company's answers to questions submitted electronically on 26 August 2022 during the conference devoted to the PKP CARGO Group's performance in H1 2022

In Q2 2022 alone, the company generated a net profit – for the first time in several periods. Does the Management Board see any likelihood that this may be repeated in the coming quarters?

**The Management Board's intention is to remain on the path of increasing revenues and to control the costs in a consistent manner. These measures should result in a gradual improvement of our financial performance. However, the current macroeconomic situation coupled with the fuel and energy price increases, which are independent of the Company's actions, and the pay raise expectations related to inflation remain significant risk factors. On the revenue side, we expect to see an improvement, partly due to a greater expected freight volume of coal (the peak volume of our transport services is expected to occur in the second half of this year). We are of the opinion that a result of 0.0+ may be attained by the end of this year.**

What is your annual exposure to electricity costs (in GWh)? Has the company secured its purchase prices for 2022-2023? Will the increase in freight rates be sufficient to cover the costs?

**Our current exposure to electricity costs is 547 GWh on an annual basis. In March, the Management Board entered into negotiations with our electricity supplier, that is PKP Energetyka. The subject matter of these negotiations is both the price formula and the volume and duration of our future contract. These negotiations are tough, because no one knows today how the situation on the electricity market will evolve into next year, and yet each party will attempt, before the negotiations are complete, to ascertain it as accurately as possible and reflect it in the new contract. PKP CARGO makes every effort to ensure that the adverse consequences for our clients are as mild as possible – including through electricity-saving endeavors, such as locomotive upgrades, non-traction electricity saving measures and projects executed under the Green Deal.**

1. What is the magnitude of problems with the transport of coal from the Baltic ports to inland regions of Poland (congestion, delays)?
2. What are the related difficulties in the transport of other freight?
3. Is the number of wagons owned by PKP Cargo and designated for coal transport commensurate with the needs? If not, then what actions are being taken by the Company to remedy the situation?
4. What volume of grains from Ukraine has the Company transported since the beginning of the year and since 24 February?
5. What role will PKP CARGO play in the anticipated transport of coal from Lithuanian, Latvian and Estonian ports (and, perhaps, from other foreign locations)?

1. **The transport of coal is treated as a priority on a national scale, meaning that deliveries are handled on an ongoing basis in cooperation with all participants within the logistics chain. The related difficulties have not been any more severe than the usual operational challenges faced by the Company on an ongoing basis. At the same time, we are aware that the peak of the coal freight volumes is ahead of us, but the PKP CARGO Group is well prepared to deal with this task.**

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| 2. **We are currently not experiencing any such impact. The Management Board's intention is to provide timely services to our clients in all transport segments, regardless of the stepped-up challenges related to the provision of coal transport services in the current circumstances.**<br>3. **The Company has at its disposal a fleet of 24,000 coal wagons and, in parallel, is involved in intense overhaul and repair operations and activities aimed at extending the useful life of its wagons. We expect these activities to be completely appropriate for the operational needs related to the transport of coal in H2 2022 and in the subsequent periods of 2023.**<br>4. **In reporting terms, the information on the grain volumes is provided in the agricultural produce and wood segment, which at the end of H1 2022 totaled 1.6 million tons, or 3.1% of the total freight volume. Due to the capacity constraints at border crossings and the opening of Black Sea ports, the volume of grain cargo from Ukraine is rather insignificant from the perspective of the Company's overall freight transport volumes.**<br>5. **The provision of freight services from ports located in the Baltic States is currently considered auxiliary to the volumes handled through Polish ports (for the most part, Gdańsk and Gdynia) and is in the process of negotiations and intergovernmental arrangements. Along these routes, PKP CARGO intends to play a role consistent with its leading position on the freight transport market.** |
| 1. According to information included in the periodic report, the value of the PKP CARGO Group's short-term trade payables as at 30 June 2022 was PLN 679.4 million, which means an increase by PLN 40.4 million compared to the end of 2021 and by as much as PLN 287.2 million compared to 30 September 2021. What is the reason for such a significant increase in these payables?<br>2. According to information presented in the interim report for H1 2022, the costs of traction electricity consumed by the Group increased in this period by approx. PLN 84 million yoy (up by approx. 43% yoy compared to the increase in freight turnover by 7.2% yoy). Does the Group intend to take any mitigating measures in this respect, and if so, then what measures, in a situation where the wholesale electricity prices on the Polish market for next year's supplies exceeded PLN 2,000 per MWH yesterday (compared to PLN 400-500 per MWh in the corresponding period of 2021)? It seems that in the current situation, due to the price change alone in traction electricity rates, the increase in the Group's operating expenses may reach some PLN 300-400 million in 2023 (assuming the unit consumption at the same level as that in H1 2022 and stabilization of the freight volume). |
| 1. **The increase in trade payables results from an increase in operating expenses and the related active management of working capital.**<br>2. **In March, the Management Board entered into negotiations with our electricity supplier, that is PKP Energetyka. The subject matter of these negotiations is both the price formula and the volume and duration of our future contract. These negotiations are tough, because no one knows today how the situation on the electricity market will evolve into next year, and yet each party will attempt, before the negotiations are complete, to ascertain it as accurately as possible and reflect it in the new contract. PKP CARGO makes every effort to ensure that the adverse consequences for our clients are as mild as possible – including through electricity-saving endeavors, such as locomotive upgrades, non-traction electricity saving measures and projects executed under the Green Deal.** |

1. Which factors drove up the significant improvement in performance in Q2 2022?
2. Does the Management Board intend to grow the Company to the top position in the European Union – as the largest rail freight operator?
3. Will PKP CARGO sell Cargotor? If so, then why?
4. What were the main drivers of the profit generated in Q2? The conclusion may be drawn from the report that this was mainly due to the reduction in provisions for employee expenses. Please comment.

**1. The improved performance was largely driven by the increase in revenues in all major transport groups and the maintenance of expenses at a proper level.**
**2. The Company is beginning to work on a strategy that will take into account the Company's key objectives for the coming years, including its intended target position on Europe's transport market. We would like our logistics group, created on the basis of capital provided by PKP CARGO and our subsidiaries from the Czech Republic, Slovenia, Slovakia and Hungary, to become the dominant market player, mainly along the North-South corridor. Bearing this in mind, we are already providing international training courses for train drivers, are in the process of obtaining pertinent licenses and are involved in similar activities.**
**3. In PKP CARGO's opinion, the integration and consolidation of the business of PKP PLK and CARGOTOR will contribute to increasing the efficiency of management and the allocation of throughput capacity. It will also provide us with the opportunity to coordinate infrastructural investments aimed at increasing our throughput capacity (including, in particular, at the Małaszewicze-Brest border crossing, which is of key significance for the conduct of international transport operations), which will generate added value for PKP CARGO as a recipient of the infrastructure manager's services. The growth of international transport volumes, including our active participation in the "New Silk Road" project, constitutes a major pillar of the PKP CARGO Group's growth strategy.**
4. **Our improved performance was largely driven by the increase in revenues in all key transport groups. The decrease in provisions for employee benefits caused by changes in actuarial assumptions is reflected for the most part in other comprehensive income – detailed information on this matter is presented in Note 5.8 to the Interim Condensed Consolidated Financial Statements.**

Please elaborate on your growth plans and your anticipated strengthening of the Group's position on the European market.

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1. When does the Management Board intend to publish the Company's new strategy?
2. Does the Management Board intend, ultimately (for instance, in 1 or 2 years), to spin off the coal transport segment from the Company to a separate entity, which would be consolidated with production assets under the NABE umbrella?

3. What financial parameters constitute the medium-term objectives for the Management Board? What level of annual EBITDA would be satisfactory?
4. In light of the current market situation, what is the Management Board's expectation of an increase in the unit cost of electricity in 2023?
5. What is the current maximum quarterly coal transport capacity (in terms of freight volume or freight turnover) taking into consideration the available rolling stock, employees and infrastructure throughput? Where do you see the most significant bottlenecks today?
6. What is the attainable value of optimization savings that may be reached annually?
7. What assets does the Management Board currently consider as potentially disposable? What potential revenues may the Company generate from such disposal?
8. What CAPEX level has been assumed for 2022 and 2023?

**1. We have not yet decided on the date of publication of our new strategy. The Company makes every effort to make it happen as soon as possible, but the quality and completeness of this document takes priority for us over the date of publication. During the results conference, Mr. Dariusz Seliga, President of the Management Board, expressed our hope that the main objectives of the new strategy would be ready at the beginning of 2023. In this context, the last months of this year will be of key significance for our assessment of the current economic reality. Our new strategy will have a 3-year horizon. As soon as it has been adopted, will be disclose this fact in the form of a current report.**

**2. Currently, the Company has no such plans.**

**3. Our detailed plans will be described in the Company's new strategy which is currently being developed. At the current stage of our business development and in consideration of the difficult and volatile macroeconomic environment, the Management Board is focusing its endeavors on restoring sustainable profitability in terms of the net result.**

**4. In March, the Management Board entered into negotiations with our electricity supplier, that is PKP Energetyka. The subject matter of these negotiations is both the price formula and the volume and duration of our future contract. These negotiations are tough, because no one knows today how the situation on the electricity market will evolve into next year, and yet each party will attempt, before the negotiations are complete, to ascertain it as accurately as possible and reflect it in the new contract.**

**5. The Company has at its disposal appropriately trained staff and a fleet of 24,000 coal wagons and, in parallel, is involved in intense overhaul and repair operations and activities aimed at extending the useful life of its wagons. We expect these activities to be completely appropriate for the operational needs related to the transport of coal in H2 2022 and in the subsequent periods of 2023. We see potential risk areas in the capacity of transport infrastructure, for which a rapid increase in freight volume will pose a major challenge.**

**6. Optimization activities are in progress across many areas of the Company's business. We expect their effects to be significant. The purpose of these activities is to reduce the impact of unfavorable market developments on our clients, while maintaining a proper ratio of revenues to expenses, and thus to generate a positive net profit. In this context, savings from our optimization activities will support the organic growth of our business.**

**7. Non-current assets classified as held for sale are valued by the Company at PLN 5.2 million. Today, we are in the process of verifying the quantum of necessary assets in the PKP CARGO Group and adjusting it to the profile and size of our business. The identification of non-working assets is a continuous process resulting in the abandonment of investments wherever such decisions are economically justified. In cases of material transactions, the Company will disclose information about them in its current reports.**

**8. Because the Company refrains from publishing financial projections, it is impossible to provide the exact value. However, the rolling stock investment plan (for upgrades and**

**purchases) for the coming years provides for approximately PLN 800 million in spending. Capital expenditures are considered in relation to the Company's EBITDA and liquidity requirements.**