SEMI-ANNUAL REPORT FOR H1 2021

PKP CARGO GROUP'S
Consolidated Semi - Annual Report
for H1 2021

PKPCARGO

Report on Review of the Condensed Interim Financial Statements

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For the Shareholders of PKP CARGO S.A.

Introduction

We have reviewed the accompanying condensed interim financial statements of PKP CARGO S.A. (the Company) with its registered office in Warsaw, Grójecka 17 Street, which comprise the condensed statement of financial position as of June 30, 2021, condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity, condensed statement of cash flows for the period from January 1, 2021 to June 30, 2021 and selected explanatory notes.

The Management Board of the Company is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* published in the form of European Commission regulations.

Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Standard on Review Engagements 2410 consistent with International Standard on Review Engagements 2410 *Review of Interim Information Performed by the Independent Auditor of the Entity* adopted by the National Council of Statutory Auditors' resolution No. 3436/52e/2019 of April 8, 2019, as amended. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than audit conducted in accordance with National Standards on Auditing consistent with International Standards on Auditing adopted by the National Council of Statutory Auditors' resolution No. 3430/52a/2019 of March 21, 2019 (as amended), and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with

International Accounting Standard 34 *Interim Financial Reporting* published in the form of European Commission regulations.

Marcin Diakonowicz

Statutory Auditor No. 10524
Key Audit Partner performing the review on behalf of
Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k.,
Poznań, ul. Abpa Antoniego Baraniaka 88 E, Audit Firm No. 4055

Warsaw, August 19, 2021.

THIS IS TRANSLATION ONLY. The Polish language version of the report is the only valid and legally binding version. This translation into English is provided to facilitate understanding of the report.

PKPCARGO

Interim Condensed Standalone Financial Statements of the **PKP CARGO S.A** for the period of 6 months ended 30 June 2021

prepared in accordance with EU IFRS

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(in PLN million) (translation of a document originally issued in Polish)

INTERIM STANDALONE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020	
Revenues from contracts with customers	1,482.9	761.2	1,414.1	670.5	*Note 2.1*
Consumption of traction electricity and traction fuel	(234.5)	(126.4)	(211.1)	(101.4)	*Note 2.2*
Services of access to infrastructure	(259.8)	(136.4)	(242.5)	(116.2)	
Other services	(169.0)	(88.8)	(140.0)	(65.7)	*Note 2.2*
Employee benefits	(613.3)	(298.7)	(654.8)	(315.9)	*Note 2.2*
Other expenses	(76.0)	(35.2)	(75.0)	(32.6)	*Note 2.2*
Other operating revenue and (expenses)	5.1	(2.0)	41.7	39.0	*Note 2.3*
Operating profit without depreciation (EBITDA)	**135.4**	**73.7**	**132.4**	**77.7**	
Depreciation, amortization and impairment losses	(279.7)	(140.7)	(312.8)	(155.1)	*Note 2.2*
Profit / (loss) on operating activities (EBIT)	**(144.3)**	**(67.0)**	**(180.4)**	**(77.4)**	
Financial revenue and (expenses)	(7.1)	5.3	22.4	43.6	*Note 2.4*
Profit / (loss) before tax	**(151.4)**	**(61.7)**	**(158.0)**	**(33.8)**	
Income tax	28.5	12.8	37.1	15.3	*Note 3.1*
NET PROFIT / (LOSS)	**(122.9)**	**(48.9)**	**(120.9)**	**(18.5)**	
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	16.6	20.4	(29.3)	14.9	*Note 6.1*
Income tax	(3.2)	(3.9)	5.6	(2.8)	*Note 3.1*
Total other comprehensive income subject To reclassification in the financial result	**13.4**	**16.5**	**(23.7)**	**12.1**	
Actuarial profits / (losses) on post-employment benefits	34.7	34.7	(52.0)	(52.0)	*Note 5.9*
Income tax	(6.6)	(6.6)	9.9	9.9	*Note 3.1*
Measurement of equity instruments at fair value	-	-	(0.7)	(0.7)	*Note 6.1*
Total other comprehensive income not subject to reclassification in the financial result	**28.1**	**28.1**	**(42.8)**	**(42.8)**	
Total other comprehensive income	**41.5**	**44.6**	**(66.5)**	**(30.7)**	
TOTAL COMPREHENSIVE INCOME	**(81.4)**	**(4.3)**	**(187.4)**	**(49.2)**	
Earnings / (losses) per share (PLN per share)					
Weighted average number of ordinary shares	44,786,917	44,786,917	44,786,917	44,786,917	
Basic and diluted earnings / (losses) per share	**(2.74)**	**(1.09)**	**(2.70)**	**(0.41)**	

(in PLN million) (translation of a document originally issued in Polish)

INTERIM STANDALONE STATEMENT OF FINANCIAL POSITION

	30/06/2021	31/12/2020	
ASSETS			
Rolling stock	3,910.8	3,809.2	*Note 5.1*
Other property, plant and equipment	471.4	474.7	*Note 5.1*
Rights-of-use assets	608.5	641.5	*Note 5.2*
Investments in related parties	840.0	840.0	*Note 5.3*
Lease receivables	24.2	24.4	
Financial assets	4.9	4.9	*Note 5.6*
Other assets	55.4	22.6	*Note 5.7*
Deferred tax assets	150.4	131.6	*Note 3.1*
Total non-current assets	**6,065.6**	**5,948.9**	
Inventories	91.7	95.0	*Note 5.4*
Trade receivables	382.8	366.5	*Note 5.5*
Lease receivables	1.8	2.8	
Income tax receivables	1.8	1.8	
Financial assets	-	2.3	*Note 5.6*
Other assets	81.1	56.5	*Note 5.7*
Cash and cash equivalents	16.2	180.5	*Note 4.3*
Total current assets	**575.4**	**705.4**	
Non-current assets classified as held for sale	14.3	12.7	
TOTAL ASSETS	**6,655.3**	**6,667.0**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	744.7	744.7	
Other items of equity	(98.0)	(139.5)	
Retained earnings / (Uncovered losses)	(8.6)	114.3	
Total equity	**2,877.4**	**2,958.8**	
Debt liabilities	1,719.6	1,897.6	*Note 4.1*
Investment liabilities	141.8	143.0	*Note 5.8*
Provisions for employee benefits	549.3	606.1	*Note 5.9*
Total long-term liabilities	**2,410.7**	**2,646.7**	
Debt liabilities	521.9	353.7	*Note 4.1*
Trade liabilities	223.3	215.6	
Investment liabilities	254.7	141.3	*Note 5.8*
Provisions for employee benefits	118.6	93.7	*Note 5.9*
Other provisions	6.6	13.0	*Note 5.10*
Other financial liabilities	61.9	2.7	*Note 5.11*
Other liabilities	180.2	241.5	*Note 5.12*
Total short-term liabilities	**1,367.2**	**1,061.5**	
Total liabilities	**3,777.9**	**3,708.2**	
TOTAL EQUITY AND LIABILITIES	**6,655.3**	**6,667.0**	

(in PLN million) (translation of a document originally issued in Polish)

INTERIM STANDALONE STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity			Retained earnings / (Uncovered losses)	Total equity
			Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Measurement of hedging instruments		
1/01/2021	**2,239.3**	**744.7**	**(12.9)**	**(92.6)**	**(34.0)**	**114.3**	**2,958.8**
Net result for the period	-	-	-	-	-	(122.9)	**(122.9)**
Other comprehensive income for the period (net)	-	-	-	28.1	13.4	-	**41.5**
Total comprehensive income	-	-	-	28.1	13.4	(122.9)	**(81.4)**
30/06/2021	**2,239.3**	**744.7**	**(12.9)**	**(64.5)**	**(20.6)**	**(8.6)**	**2,877.4**
1/01/2020	**2,239.3**	**744.7**	**(12.2)**	**(55.8)**	**6.2**	**288.2**	**3,210.4**
Net result for the period	-	-	-	-	-	(120.9)	**(120.9)**
Other comprehensive income for the period (net)	-	-	(0.7)	(42.1)	(23.7)	-	**(66.5)**
Total comprehensive income	-	-	(0.7)	(42.1)	(23.7)	(120.9)	**(187.4)**
30/06/2020	**2,239.3**	**744.7**	**(12.9)**	**(97.9)**	**(17.5)**	**167.3**	**3,023.0**

(in PLN million) (translation of a document originally issued in Polish)

INTERIM STANDALONE CASH FLOW STATEMENT

	6 months ended 30/06/2021	6 months ended 30/06/2020	
Cash flows from operating activities			
Profit / (loss) before tax	**(151.4)**	**(158.0)**	
Adjustments			
Depreciation, amortization and impairment losses	279.7	312.8	*Note 2.2*
(Profits) / losses on the sale and liquidation of non-financial non-current assets	(3.6)	(3.6)	
(Profits) / losses on FX differences	0.8	5.3	
(Profits) / losses on interest, dividends	3.2	(32.5)	
Received / (paid) interest	0.4	0.4	
Received / (paid) income tax	(0.1)	51.4	
Movement in working capital	(73.5)	94.5	
Other adjustments	37.3	(58.8)	
Net cash from operating activities	**92.8**	**211.5**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(297.0)	(357.9)	
Proceeds from the sale of non-financial non-current assets	12.1	25.3	
Expenditures on the acquisition of related parties	(33.0)	-	
Proceeds from dividends received	8.3	58.3	
Other investment expenditures	(27.0)	-	
Other inflows from investing activities	2.2	1.9	
Net cash from investing activities	**(334.4)**	**(272.4)**	
Cash flows from financing activities			
Payments on lease liabilities	(39.8)	(41.3)	*Note 4.1*
Proceeds from bank loans and borrowings	179.7	285.5	*Note 4.1*
Repayment of bank loans and borrowings	(134.3)	(171.7)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(20.1)	(25.4)	*Note 4.1*
Grants received	29.7	11.3	
Inflow / (outflow) as part of cash pool	63.9	(20.4)	
Other outflows from financing activities	(1.8)	(3.0)	
Net cash from financing activities	**77.3**	**35.0**	
Net increase / (decrease) in cash and cash equivalents	(164.3)	(25.9)	
Cash and cash equivalents at the beginning of the reporting period	180.5	380.0	
Cash and cash equivalents as at the end of the reporting period, including:	**16.2**	**354.1**	
Restricted cash	*15.6*	*22.9*	

(in PLN million) (translation of a document originally issued in Polish)

NOTES TO THE INTERIM CONDENSED STANDALONE FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Company's business

Information about the Company

PKP CARGO S.A. ("Company") was established pursuant to a Notary Deed of 29 June 2001 (Rep. A No. 1287/2001). Key information about the Company is presented in the table below.

Basic information about the Company	
Name	PKP CARGO S.A.
Domicile	Poland
Address of the registered office of the Company	02-021 Warsaw at Grójecka Street no 17
KRS	0000027702 – District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, Poland
REGON statistical number	277586360
NIP tax identification number	954-23-81-960

The Company's financial year is the calendar year.

The composition of the Company's management and supervisory bodies and the Company's shareholding structure as at 30 June 2021 are presented in the Management Board Report on the Activity of the PKP CARGO Group for H1 2021, in **Chapters 3.1** and **3.3**, respectively.

The Company core business is rail transport of cargo. In addition to rail freight transport services, the Company also provides additional services:

Information about the Group

PKP CARGO S.A. is the parent company of the PKP CARGO Group and prepares consolidated financial statements pursuant to International Financial Reporting Standards approved by the European Union ("EU IFRS").

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 19 subsidiaries. In addition, the Group held shares in 2 associated entities and 1 joint venture.

Additional information about subsidiaries, associates and interests in joint ventures is presented in **Note 5.3** to these Interim Condensed Standalone Financial Statements.

The duration of individual Group companies is unlimited.

1.2 Basis for the preparation of the Interim Condensed Standalone Financial Statements

These Interim Condensed Standalone Financial Statements have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of these Standalone Financial Statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757, "Regulation").

These Interim Condensed Standalone Financial Statements should be read together with the audited Standalone Financial Statements of PKP CARGO S.A. for the year ended 31 December 2020 prepared according to EU IFRS.

These Interim Condensed Standalone Financial Statements have been prepared based on the assumption of the Company's being a going concern in the foreseeable future. As at the preparation date of these Interim Condensed Standalone Financial Statements, there are no circumstances indicating any substantial doubt about the Company's ability to continue its business as a going concern for a period of at least 12 months from the end of the reporting period.

These Interim Condensed Standalone Financial Statements have been prepared in accordance with the historic cost principle, except for measured at fair value derivatives and investments in equity instruments.

In the interim period, the Company's business does not show any material seasonal or cyclical trends.

These Interim Condensed Standalone Financial Statements have been prepared in Polish zloty (PLN). Polish zloty is the Company's functional and reporting currency. The data in the financial statements are presented in millions of PLN.

These Interim Condensed Standalone Financial Statements consist of the standalone statement of profit or loss and other comprehensive income, standalone statement of financial position, standalone statement of changes in equity, standalone cash flow statement and selected notes.

These Interim Condensed Standalone Financial Statements have been reviewed by a statutory auditor. The line items of the standalone statement of financial position as at 31 December 2020 were audited by a statutory auditor during the audit of the Standalone Financial Statements of PKP CARGO S.A. for the year ended 31 December 2020 prepared according to EU IFRS.

These Interim Condensed Standalone Financial Statements were approved for publication by the Management Board on 19 August 2021.

1.3 Applied International Financial Reporting Standards platform

Standards and interpretations adopted by the IASB and EU which have entered into effect

When approving these Interim Condensed Standalone Financial Statements, the Company applied the following amendments to the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

Standard / Interpretation	Effective date
Amendments to IFRS 4 "Insurance contracts" – deferral of IFRS 9	1 January 2021
Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance", IFRS 16 "Leases" - IBOR Reform - phase 2	1 January 2021

The above standards and interpretations had no material influence on the Accounting Policy applied by the Company.

Standards and Interpretations adopted by the IASB and EU which have not yet entered into effect

In the Management Board's opinion, the standards and interpretations mentioned below will not result in any major amendments to the Accounting Policy applied by the Company in the successive reporting periods:

Standard / Interpretation	Effective date
Amendments to IFRS 3 "Business combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	1 January 2022
Annual Improvements to IFRS 2018-2020 Cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022

(in PLN million) (translation of a document originally issued in Polish)

1.3 Applied International Financial Reporting Standards platform (cont.)

Standards and interpretations adopted by the IASB and not endorsed by the EU

IFRSs as endorsed by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 30 June 2021 were not yet endorsed by the EU and did not enter into effect. In the Company's Management Board's opinion, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Company:

Standard / Interpretation	Effective date
Amendments to IFRS 16 "Leases" – COVID-19-Related Rent Concessions after 30 June 2021	1 April 2021
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term	1 January 2023
IFRS 17 "Insurance contracts" and amendments to IFRS 17	1 January 2023
Amendments to IAS 1 "Presentation of financial statements" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023
Amendments to IAS 12 "Income Tax" – deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

1.4 Impact of the COVID - 19 pandemic on the Company's business

Impairment of the Company's non-current assets

As at 31 December 2020, the Company performed an asset impairment test, the results of which did not show any need to recognize impairment losses.

In H1 2021, the Company achieved lower than expected financial results due to the protracted COVID-19 pandemic, which affected, among other things, lower production volumes in the steel and coal mining sector and delays in the execution of construction and infrastructure projects. This resulted in lower demand for cargo transport and increasing price competition leading to a decline in prices. At the same time, the Company expects the negative trend in terms of freight rates and volumes will improve in the coming months. The Management Board believes that short-term deviations from the accepted assumptions have no significant effect on the results of the conducted tests and will not require recognition of additional impairment losses on assets owned by the Company as at 30 June 2021. This judgment is based on best estimates, knowledge and data available as at the balance date. Nevertheless, there still exists uncertainty regarding long-term economic forecasts and consequently, the Management Board is analyzing the situation on an ongoing basis and these estimates may change in subsequent reporting periods as a result if future events.

Assessment of expected credit losses

The Company has conducted an analysis of the impact of the COVID-19 pandemic on the calculation of expected credit losses, by incorporating the additional credit risk related to the current economic situation, which may cause deterioration of liquidity of business partners and consequently affect the ratio of recovery of trade receivables. Based in analysis of the payments of receivables to date, the Company observed that the payment levels of trade receivables presented in the statement of financial position as at 30 June 2021 did not differ significantly from the rates in previous periods. Additionally, some trade receivables are secured. The Company remains in touch with key contractors and has received no signals indicating an increased risk of non-payment of receivables. The Company has been analyzing the situation on an ongoing basis and if such indications arise it will update the assumptions adopted in the model for calculating the expected credit losses.

Impact on other expenses

Other expenses incurred by the Company for COVID-19 preventive measures amounted to PLN 1.3 million and included mainly the costs incurred for personal protection equipment.

1.4 Impact of the COVID - 19 pandemic on the Company's business (cont.)

Liquidity position of the Company

In H1 2021, the Company continued its activities aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the medium term. In order to secure its liquidity position, the Company signed an investment loan agreement with the European Investment Bank up to the maximum amount of EUR 60 million, an overdraft agreement with Bank Gospodarstwa Krajowego up to the total maximum amount of PLN 100 million and a master leasing agreement with PKO Leasing S.A. up to the total amount of PLN 100 million. The obtained financing sources enabled ongoing payment of short-term liabilities as at 30 June 2021. Risks associated with the ongoing COVID-19 pandemic persist, and if materialized - may have an additional adverse effect on the Company's financial standing.

Before the balance sheet date of 30 June 2021, the Company obtained a waiver from the creditors to meet one of the ratios defined in the loan agreements, an issue further described in **Note 4.1** of these Interim Condensed Standalone Financial Statements.

Detailed information on the impact of the COVID-19 pandemic on the Company's activity are described in The Management Board Report on the Activity of the PKP CARGO Group for H1 2021 in **Chapters 5.4** and **6.1**.

1.5 Significant values based on professional judgment and estimates

In the period of 6 months ended 30 June 2021, changes to significant values based on professional judgment and estimation related the following items:

- rolling stock and other property, plant and equipment

As at 31 December 2020, the Company remeasured the residual value of rolling stock in connection with the observed increase in scrap metal prices used for measurement of the residual value of rolling stock. The increase in the residual value and the decrease in the base for calculating depreciation charges caused the decrease of depreciation costs in the 6-month period ended 30 June 2021 by approximately PLN 8.0 million.

- deferred tax assets

In the period of 6 months ended 30 June 2021, in connection with the incurred tax loss, the Company created tax loss assets in the amount of PLN 12.6 million. As at 30 June 2021, the value of the tax loss assets was PLN 79.5 million. Based on the long-term financial forecasts developed by the Company, these assets were not impaired as at the balance sheet date.

- provisions for employee benefits

As at 30 June 2021, the Company performed an actuarial valuation of its provisions for employee benefits mainly in connection with a change of the discount rate. The discount rate adopted for the valuation of provisions for employee benefits as at 30 June 2021 was 2.1% (1.4% as at 31 December 2020). This change of the discount rate caused a decrease in provisions for employee benefits by PLN 38.2 million, out of which PLN 9.9 million reduced the cost of employee benefits in the Company. The other key assumptions adopted for the actuarial valuation were consistent with the assumptions used as at 31 December 2020. The movement in provisions for employee benefits was also affected by the increase in the provision for unused holidays in the amount of PLN 13.5 million.

During the 6 months ended 30 June 2021, no other changes were made to the assumptions adopted by the Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

(in PLN million) (translation of a document originally issued in Polish)

2. Notes to the statement of profit or loss and other comprehensive income

2.1 Revenues from contracts with customers

Structure of revenues from contracts with customers

The Company conducts its business within one segment only, i.e. domestic and international cargo freight and provision of comprehensive logistics services related to rail freight.

The Company's Management Board does not evaluate the Company's performance and does not make decisions concerning allocation of resources to groups of services provided account being taken of the structure of revenues from contracts with customers, as presented below. Therefore, the specific service groups may not be treated as the Company's operating segments. The Company's Management Board analyzes financial data in the layout in which they are presented in these Interim Condensed Standalone Financial Statements.

6 months ended 30/06/2021	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	135.7	124.9	384.4	774.2	**1,419.2**
Revenue from siding and traction services	-	20.6	0.3	10.5	**31.4**
Revenue from sales of materials	-	0.8	0.1	8.0	**8.9**
Other revenues	-	15.7	2.4	5.3	**23.4**
Total	**135.7**	**162.0**	**387.2**	**798.0**	**1,482.9**
Revenue recognition date					
At a point of time	-	0.8	0.1	8.0	**8.9**
Over a period	135.7	161.2	387.1	790.0	**1,474.0**
Total	**135.7**	**162.0**	**387.2**	**798.0**	**1,482.9**

3 months ended 30/06/2021	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	64.2	66.9	201.4	399.2	**731.7**
Revenue from siding and traction services	-	9.8	0.1	5.4	**15.3**
Revenue from sales of materials	-	0.1	0.1	2.6	**2.8**
Other revenues	-	7.6	1.2	2.6	**11.4**
Total	**64.2**	**84.4**	**202.8**	**409.8**	**761.2**
Revenue recognition date					
At a point of time	-	0.1	0.1	2.6	**2.8**
Over a period	64.2	84.3	202.7	407.2	**758.4**
Total	**64.2**	**84.4**	**202.8**	**409.8**	**761.2**

(in PLN million) (translation of a document originally issued in Polish)

2.1 Revenues from contracts with customers (cont.)

6 months ended 30/06/2020	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	119.9	116.9	397.6	722.9	**1,357.3**
Revenue from siding and traction services	-	17.7	0.2	3.9	**21.8**
Revenue from sales of materials	-	1.9	-	9.0	**10.9**
Other revenues	-	17.3	2.7	4.1	**24.1**
Total	**119.9**	**153.8**	**400.5**	**739.9**	**1,414.1**
Revenue recognition date					
At a point of time	-	1.9	-	9.0	**10.9**
Over a period	119.9	151.9	400.5	730.9	**1,403.2**
Total	**119.9**	**153.8**	**400.5**	**739.9**	**1,414.1**

3 months ended 30/06/2020	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	40.7	57.5	177.2	368.5	**643.9**
Revenue from siding and traction services	-	8.5	0.1	2.2	**10.8**
Revenue from sales of materials	-	0.8	-	3.8	**4.6**
Other revenues	-	7.8	1.5	1.9	**11.2**
Total	**40.7**	**74.6**	**178.8**	**376.4**	**670.5**
Revenue recognition date					
At a point of time	-	0.8	-	3.8	**4.6**
Over a period	40.7	73.8	178.8	372.6	**665.9**
Total	**40.7**	**74.6**	**178.8**	**376.4**	**670.5**

Geography

The Company defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision.

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the period of 6 months ended 30 June 2021 and 30 June 2020 did not exceed 15% of total revenues from contracts with customers. There is no single geographic area (outside of Poland) which generates more than 8% of revenues from contracts with customers.

Revenues from contracts with customers generated on external customers and broken down based on country of their headquarters is presented below:

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Poland	1,268.1	651.9	1,232.5	565.6
Germany	115.1	57.9	94.3	63.5
Czech Republic	51.5	27.9	49.0	25.9
Slovakia	15.3	6.6	11.9	4.3
Other countries	32.9	16.9	26.4	11.2
Total	**1,482.9**	**761.2**	**1,414.1**	**670.5**

Information on key customers

In the period of 6 months ended 30 June 2021 and 30 June 2020, there was no group, to which sales exceeded 10% of total revenues from contracts with customers.

(in PLN million) (translation of a document originally issued in Polish)

2.1 Revenues from contracts with customers (cont.)

Assets from contracts with customers

	6 months ended 30/06/2021	6 months ended 30/06/2020
As at the beginning of the reporting period	**20.0**	**19.7**
Recognition of revenue before the payment due date	34.9	33.6
Reclassification to receivables	(19.7)	(19.7)
As at the end of the reporting period	**35.2**	**33.6**

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Consumption of traction fuel	(48.2)	(24.9)	(43.5)	(18.1)
Consumption of traction electricity	(186.3)	(101.5)	(167.6)	(83.3)
Total	**(234.5)**	**(126.4)**	**(211.1)**	**(101.4)**

Other services

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Repair and maintenance services for non-current assets	(45.9)	(23.7)	(42.7)	(21.4)
Rent and fees for the use of real properties and rolling stock	(20.7)	(9.7)	(20.3)	(9.5)
Transport services	(48.4)	(26.4)	(33.8)	(12.9)
Telecommunications services	(1.9)	(0.9)	(2.0)	(0.9)
Legal, consulting and similar services	(2.7)	(1.2)	(2.8)	(1.5)
IT services	(19.7)	(10.1)	(21.3)	(10.7)
Transshipment services	(4.1)	(2.5)	(3.1)	(1.5)
Other services	(25.6)	(14.3)	(14.0)	(7.3)
Total	**(169.0)**	**(88.8)**	**(140.0)**	**(65.7)**

Employee benefits

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Payroll	(475.9)	(237.2)	(490.4)	(237.2)
Social security expenses	(92.4)	(46.0)	(95.9)	(46.5)
Expenses for contributions to the Company Social Benefits Fund	(13.6)	(6.8)	(14.5)	(6.3)
Other employee benefits during employment	(14.2)	(7.1)	(16.8)	(7.2)
Post-employment benefits	(1.1)	(0.5)	(1.6)	(0.7)
Movement in provisions for employee benefits	(16.1)	(1.1)	(35.6)	(18.0)
Total	**(613.3)**	**(298.7)**	**(654.8)**	**(315.9)**

Other expenses

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Consumption of non-traction fuel	(2.9)	(1.3)	(2.8)	(1.0)
Consumption of electricity, gas and water	(15.8)	(5.3)	(13.4)	(4.7)
Consumption of materials	(21.1)	(10.4)	(20.2)	(9.5)
Taxes and charges	(14.7)	(7.8)	(14.1)	(7.1)
Cost of materials sold	(4.0)	(0.9)	(6.8)	(2.9)
Business trips	(10.5)	(5.3)	(11.2)	(5.1)
Other	(7.0)	(4.2)	(6.5)	(2.3)
Total	**(76.0)**	**(35.2)**	**(75.0)**	**(32.6)**

(in PLN million) (translation of a document originally issued in Polish)

2.2 Operating expenses (cont.)

Depreciation, amortization and impairment losses

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Depreciation of rolling stock	(226.6)	(114.4)	(249.4)	(124.0)
Depreciation of other property, plant and equipment	(15.4)	(7.5)	(20.0)	(9.8)
Depreciation of rights-of-use assets	(33.9)	(16.8)	(37.6)	(18.5)
Amortization of intangible assets	(3.8)	(2.0)	(5.8)	(2.8)
Total	**(279.7)**	**(140.7)**	**(312.8)**	**(155.1)**

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Profit on sales of non-financial non-current assets	1.8	0.2	3.3	3.1
Reversed impairment losses on trade receivables	5.0	0.7	2.9	1.1
Penalties and compensations	3.8	1.5	6.8	4.1
Interest on trade and other receivables	0.9	0.4	1.4	1.1
Reversal of other provisions	0.5	(0.4)	1.2	0.2
Income from the Anti-Crisis Shield	-	-	34.1	34.1
Other	2.5	1.9	2.5	0.9
Total other operating revenue	**14.5**	**4.3**	**52.2**	**44.6**
Recognized impairment losses on trade receivables	(1.4)	(1.0)	(1.6)	(1.3)
Penalties and compensations	(3.3)	(2.4)	(3.9)	(1.1)
Costs of liquidation of non-current and current assets	(2.3)	(1.1)	(2.6)	(1.5)
Other	(2.4)	(1.8)	(2.4)	(1.7)
Total other operating expenses	**(9.4)**	**(6.3)**	**(10.5)**	**(5.6)**
Other operating revenue and (expenses)	**5.1**	**(2.0)**	**41.7**	**39.0**

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Interest income	0.7	0.4	1.4	0.3
Dividend income	15.8	15.8	58.3	58.3
Other				
Net result on FX differences	1.3	1.3	-	-
Other	0.4	-	-	-
Total financial revenue	**18.2**	**17.5**	**59.7**	**58.6**
Interest expenses	(20.0)	(9.6)	(27.0)	(12.2)
Other				
Settlement of the discount on provisions for employee benefits	(4.5)	(2.3)	(6.1)	(3.0)
Net result on FX differences	-	0.1	(3.3)	0.5
Other	(0.8)	(0.4)	(0.9)	(0.3)
Total financial expenses	**(25.3)**	**(12.2)**	**(37.3)**	**(15.0)**
Financial revenue and (expenses)	**(7.1)**	**5.3**	**22.4**	**43.6**

(in PLN million) (translation of a document originally issued in Polish)

3. Notes on taxation

3.1 Income tax

Income tax recognized in profit or loss

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Current income tax				
Current tax charge	(0.1)	-	(0.1)	-
Adjustments recognized in the current year relating to tax from previous years	-	-	1.6	-
Deferred tax				
Deferred income tax of the reporting period	28.6	12.8	35.6	15.3
Income tax recognized in profit or loss	**28.5**	**12.8**	**37.1**	**15.3**

According to the legal provisions in effect, no differentiation of rates is expected in the future periods. Frequent differences of opinions as to legal interpretation of the tax regulations, both within the State bodies, and between the State bodies and enterprises, entail lack of certainty and give rise to conflicts. Therefore, the tax risk in Poland is much higher than usually observed in the countries with better developed tax systems. Tax returns may be subject to control for a period of five years, starting from the end of the year of the tax payment. As a result of such controls, the Company's tax settlements may be increased by additional tax liabilities.

Deferred income tax recognized in other comprehensive income

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Deferred tax on the measurement of hedging instruments	(3.2)	(3.9)	5.6	(2.8)
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	(6.6)	(6.6)	9.9	9.9
Deferred income tax recognized in other comprehensive income	**(9.8)**	**(10.5)**	**15.5**	**7.1**

Table of movements in deferred tax before the set-off

6 months ended 30/06/2021	1/01/2021	Recognized in profit or loss	Recognized in other comprehensive income	30/06/2021
Temporary differences relating to deferred tax (liabilities) / assets:				
Non-financial non-current assets	**(83.8)**	13.6	-	**(70.2)**
Rights-of-use assets and lease liabilities	**6.1**	(0.5)	-	**5.6**
Other provisions and liabilities	**9.0**	1.8	-	**10.8**
Inventories	**(10.2)**	-	-	**(10.2)**
Trade receivables	**(5.1)**	(2.2)	-	**(7.3)**
Provisions for employee benefits	**133.0**	0.5	(6.6)	**126.9**
Other	**15.7**	2.8	(3.2)	**15.3**
Unused tax losses	**66.9**	12.6	-	**79.5**
Total	**131.6**	**28.6**	**(9.8)**	**150.4**

6 months ended 30/06/2020	1/01/2020	Recognized in profit or loss	Recognized in other comprehensive income	30/06/2020
Temporary differences relating to deferred tax (liabilities) / assets:				
Non-financial non-current assets	**(98.2)**	1.2	-	**(97.0)**
Rights-of-use assets and lease liabilities	**6.2**	(1.0)	-	**5.2**
Other provisions and liabilities	**10.0**	(2.6)	-	**7.4**
Inventories	**(5.1)**	(0.1)	-	**(5.2)**
Trade receivables	**(3.7)**	(1.8)	-	**(5.5)**
Provisions for employee benefits	**130.3**	4.7	9.9	**144.9**
Other	**1.0**	0.6	5.6	**7.2**
Unused tax losses	**26.8**	34.6	-	**61.4**
Total	**67.3**	**35.6**	**15.5**	**118.4**

(in PLN million) (translation of a document originally issued in Polish)

4. Notes on debt

4.1 Reconciliation of debt liabilities

The Company's debt liabilities consist of the following two main categories: bank loans and borrowings and leases. Loan agreements were signed mainly to finance current activity, finance and refinance the investment plan and acquisitions. Liabilities contracted under the signed loan agreements are repaid in PLN and EUR. Lease agreements are signed in PLN, CZK and EUR and pertain mainly to property and rolling stock.

Items in foreign currencies

30/06/2021	In the functional currency – PLN	In a foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	1,077.8	548.5	-	**1,626.3**
Leases	577.8	37.2	0.2	**615.2**
Total	**1,655.6**	**585.7**	**0.2**	**2,241.5**

31/12/2020	In the functional currency – PLN	In a foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	993.3	599.1	-	**1,592.4**
Leases	606.5	52.2	0.2	**658.9**
Total	**1,599.8**	**651.3**	**0.2**	**2,251.3**

Reconciliation of debt liabilities

6 months ended 30/06/2021	Bank loans and borrowings	Leases	Total
1/01/2021	**1,592.4**	**658.9**	**2,251.3**
New liabilities contracted	179.7	-	**179.7**
Modifications of existing agreements	-	22.0	**22.0**
Transaction costs	0.8	-	**0.8**
Accrual of interest	6.4	11.3	**17.7**
Payments under debt, including:			
Repayments of the principal	(134.3)	(39.8)	**(174.1)**
Interest paid	(6.4)	(13.7)	**(20.1)**
Transaction costs	(0.4)	-	**(0.4)**
Other	-	(22.4)	**(22.4)**
FX valuation	(11.9)	(1.1)	**(13.0)**
30/06/2021	**1,626.3**	**615.2**	**2,241.5**
Long-term	1,177.4	542.2	**1,719.6**
Short-term	448.9	73.0	**521.9**
Total	**1,626.3**	**615.2**	**2,241.5**

6 months ended 30/06/2020	Bank loans and borrowings	Leases	Total
1/01/2020	**1,543.7**	**712.8**	**2,256.5**
New liabilities contracted	285.5	9.1	**294.6**
Modifications of existing agreements	-	5.7	**5.7**
Transaction costs	0.8	-	**0.8**
Accrual of interest	12.5	12.7	**25.2**
Payments under debt, including:			
Repayments of the principal	(171.7)	(41.3)	**(213.0)**
Interest paid	(13.0)	(12.4)	**(25.4)**
Transaction costs	(0.8)	-	**(0.8)**
Other	-	(9.5)	**(9.5)**
FX valuation	24.0	3.0	**27.0**
30/06/2020	**1,681.0**	**680.1**	**2,361.1**
Long-term	1,438.6	600.2	**2,038.8**
Short-term	242.4	79.9	**322.3**
Total	**1,681.0**	**680.1**	**2,361.1**

(in PLN million) (translation of a document originally issued in Polish)

4.1 Reconciliation of debt liabilities (cont.)

Other amounts under leases recognized in the statement of profit or loss and other comprehensive income:

	Presentation in the statement of profit or loss and other comprehensive income	6 months ended 30/06/2021	6 months ended 30/06/2020
Revenues from operating leases	Revenues from contracts with customers	15.9	17.3
Interest income from leases	Financial revenue	0.6	0.4
Costs on account of:			
Short-term leases	Other services	(4.9)	(3.2)
Leases of low-value assets	Other services	(0.9)	(1.1)

Terms and conditions of loan agreements

As described in more details in Note 4.1. of the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2020, contracts signed with banks impose legal and financial obligations on the Company that are standard in such transactions. The key ratios indicating the performance of the agreements signed by the Company include: the Net Debt/EBITDA ratio and the total debt ratio.

According to the provisions of most of the agreements signed by the Company, compliance with the terms and conditions of loan agreements is reviewed at the end of each financial year. In the case of three such agreements, the above-mentioned ratios are reviewed semi-annually.

Before the balance sheet date of 30 June 2021, the Company obtained from the creditors a waiver of the covenant to maintain the net debt/EBITDA ratios calculated on the basis of standalone and consolidated financial data at a level not greater than 3.0. The waiver was contingent on the maintenance of the net debt/EBITDA ratio calculated on the basis of the PKP CARGO Group's consolidated financial statements as at 30 June 2021 at a level not greater than 3.5. This condition was met as at 30 June 2021 and therefore the liabilities under the loans did not have to be reclassified from the long to the short part.

The economic situation associated, among others, with the effects of the COVID-19 pandemic, may have an important effect on the value of the ratios from the loan agreements in successive periods. In the event of a further economic slowdown, there is a risk that the terms and conditions of loan agreements may not be satisfied in the future.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	30/06/2021	31/12/2020
Investment loan	European Investment Bank [1)]	16/06/2024	EUR	271.2	-
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/12/2021	PLN	12.1	99.9
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2022	PLN	8.1	100.0
Overdraft	Bank Gospodarstwa Krajowego [2)]	18/06/2022	PLN	100.0	-
Leasing facility	Millennium Leasing Sp. z o.o.	02/12/2021	PLN	11.7	11.7
Leasing facility	PKO Leasing S.A. [3)]	18/06/2022	PLN	100.0	-
Total				**503.1**	**211.6**

[1)] On 16 June 2021, the Company signed an investment loan agreement with the European Investment Bank up to the total amount of EUR 60 million to be used to co-finance investments associated with the purchase and modernization of the rolling stock. The availability period of the loan expires on 16 June 2024.
[2)] On 18 June 2021, the Company signed an overdraft agreement with Bank Gospodarstwa Krajowego up to the total maximum amount of PLN 100 million. The subject matter of the loan agreement is financing the Company's current activity. The availability period expires and the final repayment date is 18 June 2022.
[3)] On 18 June 2021, the Company signed a master leasing agreement with PKO Leasing S.A. up to the total value of leased assets not exceeding PLN 100 million. The limit is available for the term of 12 months with a 12-month extension option.

(in PLN million) (translation of a document originally issued in Polish)

4.2 Equity

Share capital

	30/06/2021	31/12/2020
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 30 June 2021 and 31 December 2020, the share capital consisted of ordinary shares with a par value of PLN 50 each. Fully paid up ordinary shares with the par value of PLN 50 are equivalent to one vote at the shareholder meeting and entail the right to dividend.

PKP S.A. is the parent company of PKP CARGO S.A. Pursuant to articles of association of the Company, PKP S.A. holds special personal rights to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board plus one. PKP S.A. has a personal right to appoint the Supervisory Board Chairperson and to determine the number of Supervisory Board Members. Additionally, in the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have an exclusive personal right to propose candidates for the President of the Management Board. The personal rights of PKP S.A. shall be vested always when PKP S.A. holds at least 25% of the Company's share capital.

In the period of 6 months ended 30 June 2021 and 30 June 2020, there were no movements in the Company's share capital.

Movement in supplementary capital and retained earnings

On 28 June 2021, the Company's Ordinary Shareholder Meeting adopted a resolution to cover the net loss incurred in 2020 in the amount of PLN 173.9 million with retained earnings from previous years.

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	30/06/2021	31/12/2020
Cash on hand and on bank accounts	16.2	27.7
Bank deposits up to 3 months	-	152.4
Other cash	-	0.4
Total	**16.2**	**180.5**
including restricted cash	*15.6*	*33.0*

Restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.

(in PLN million) (translation of a document originally issued in Polish)

5. Notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Movement in rolling stock and other property, plant and equipment

6 months ended 30/06/2021	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2021	**6,254.9**	**565.8**	**219.7**	**28.7**	**25.1**	**20.2**	**859.5**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	182.5	**182.5**
Purchase of new assets / modernization	-	-	-	-	-	205.8	**205.8**
Settlement of fixed assets under construction	376.2	-	0.5	-	0.2	(376.9)	**(376.2)**
Grant for non-current assets	(29.7)	-	-	-	-	-	**-**
Sales	(0.1)	(0.3)	-	(0.8)	-	-	**(1.1)**
Liquidation	(110.6)	(1.7)	(4.0)	(0.1)	(0.5)	(0.7)	**(7.0)**
Reclassified to assets held for sale[1)]	(25.1)	-	-	-	-	-	**-**
Other	1.0	-	-	-	-	-	**-**
30/06/2021	**6,466.6**	**563.8**	**216.2**	**27.8**	**24.8**	**30.9**	**863.5**
Accumulated depreciation							
1/01/2021	**(2,370.5)**	**(150.1)**	**(179.1)**	**(28.1)**	**(22.9)**	**-**	**(380.2)**
(Increases) / decreases:							
Depreciation	(226.6)	(9.1)	(5.7)	(0.2)	(0.4)	-	**(15.4)**
Sales	0.1	0.3	-	0.8	-	-	**1.1**
Liquidation	105.6	1.7	4.0	0.1	0.5	-	**6.3**
Reclassified to assets held for sale[1)]	10.9	-	-	-	-	-	**-**
Other	(0.6)	-	-	-	-	-	**-**
30/06/2021	**(2,481.1)**	**(157.2)**	**(180.8)**	**(27.4)**	**(22.8)**	**-**	**(388.2)**
Accumulated impairment							
1/01/2021	**(75.2)**	**(1.5)**	**(0.1)**	**-**	**-**	**(3.0)**	**(4.6)**
(Increases) / decreases:							
Liquidation	0.4	-	-	-	-	0.7	**0.7**
Reclassified to assets held for sale[1)]	0.1	-	-	-	-	-	**-**
30/06/2021	**(74.7)**	**(1.5)**	**(0.1)**	**-**	**-**	**(2.3)**	**(3.9)**
Net value							
1/01/2021	**3,809.2**	**414.2**	**40.5**	**0.6**	**2.2**	**17.2**	**474.7**
30/06/2021	**3,910.8**	**405.1**	**35.3**	**0.4**	**2.0**	**28.6**	**471.4**

[1)] On 30 June 2021, the Supervisory Board of PKP CARGO S.A. gave its consent to sign agreements with business partners for the sale of 988 freight cars with the total book value of PLN 14.1 million.

(in PLN million) (translation of a document originally issued in Polish)

5.1 Rolling stock and other property, plant and equipment (cont.)

6 months ended 30/06/2020	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2020	**6,110.8**	**560.4**	**212.8**	**31.0**	**24.7**	**16.1**	**845.0**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	138.0	**138.0**
Other acquisitions	-	-	-	-	-	163.9	**163.9**
Purchase of leased items	-	-	0.7	-	-	-	**0.7**
Settlement of fixed assets under construction	291.0	-	3.6	-	0.1	(294.7)	**(291.0)**
Grant for non-current assets	(11.4)	-	-	-	-	-	**-**
Sales	(11.0)	-	(0.3)	(1.5)	-	-	**(1.8)**
Liquidation	(80.8)	(2.4)	(0.1)	-	-	(0.6)	**(3.1)**
Reclassified to assets held for sale	(40.0)	-	-	-	-	-	**-**
Other	-	(0.1)	0.1	-	-	-	-
30/06/2020	**6,258.6**	**557.9**	**216.8**	**29.5**	**24.8**	**22.7**	**851.7**
Accumulated depreciation							
1/01/2020	**(2,114.3)**	**(135.0)**	**(161.7)**	**(29.6)**	**(21.5)**	**-**	**(347.8)**
(Increases) / decreases:							
Depreciation	(249.4)	(8.7)	(9.9)	(0.4)	(1.0)	-	**(20.0)**
Purchase of leased items	-	-	(0.6)	-	-	-	**(0.6)**
Sales	5.0	-	0.3	1.5	-	-	**1.8**
Liquidation	77.6	2.3	0.1	-	-	-	**2.4**
Reclassified to assets held for sale	14.8	-	-	-	-	-	**-**
Other	-	-	(0.1)	-	-	-	**(0.1)**
30/06/2020	**(2,266.3)**	**(141.4)**	**(171.9)**	**(28.5)**	**(22.5)**	**-**	**(364.3)**
Accumulated impairment							
1/01/2020	**(104.2)**	**(1.5)**	**-**	**-**	**-**	**(2.8)**	**(4.3)**
(Increases) / decreases:							
Utilization	3.0	-	-	-	-	0.6	**0.6**
Reclassified to assets held for sale	3.1	-	-	-	-	-	**-**
30/06/2020	**(98.1)**	**(1.5)**	**-**	**-**	**-**	**(2.2)**	**(3.7)**
Net value							
1/01/2020	**3,892.3**	**423.9**	**51.1**	**1.4**	**3.2**	**13.3**	**492.9**
30/06/2020	**3,894.2**	**415.0**	**44.9**	**1.0**	**2.3**	**20.5**	**483.7**

(in PLN million) (translation of a document originally issued in Polish)

5.2 Rights-of-use assets

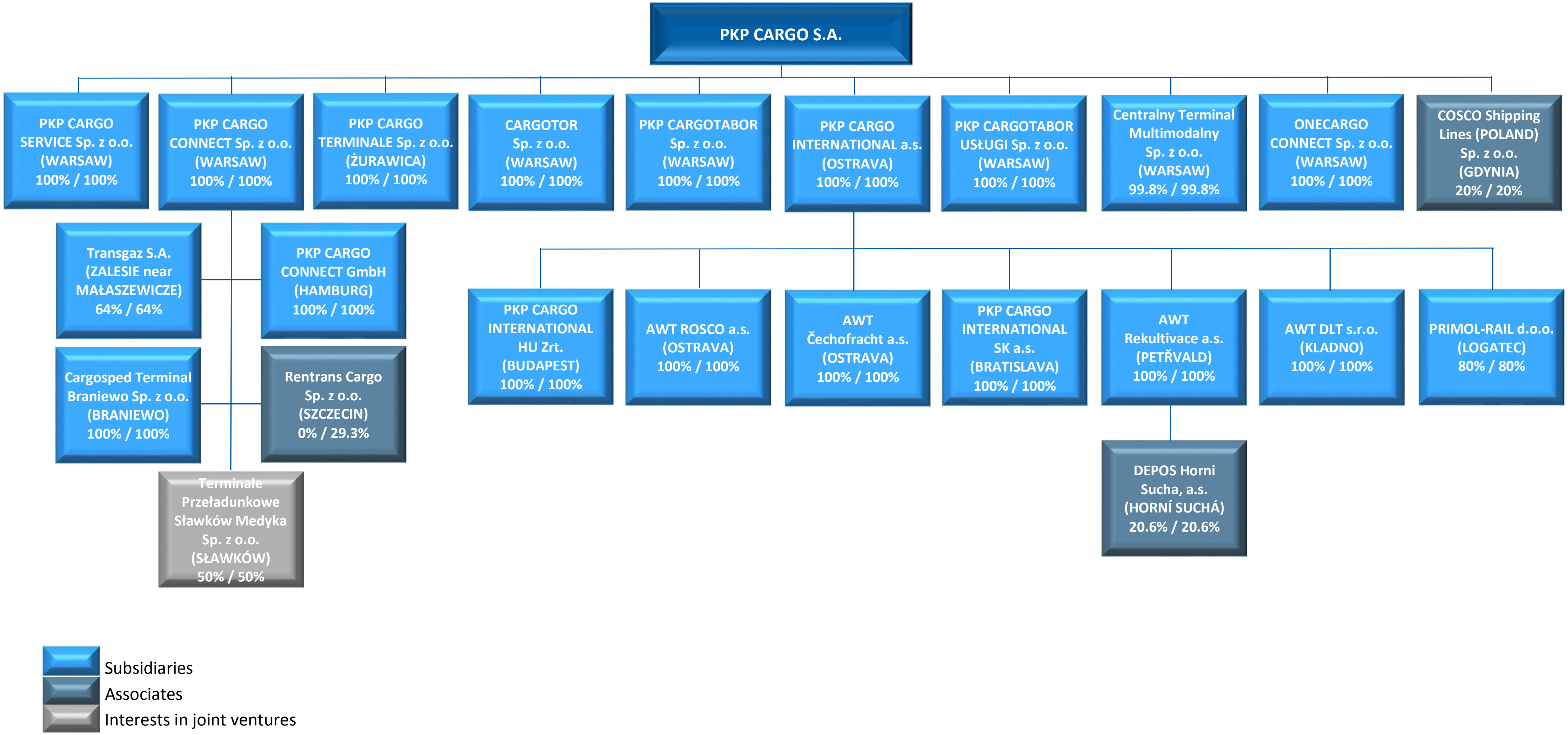
Movement in rights-of-use assets

6 months ended 30/06/2021	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2021	**171.6**	**583.2**	**8.7**	**7.9**	**0.7**	**772.1**
Increases / (decreases):						
Modifications of existing agreements	-	21.3	0.1	-	-	**21.4**
Return of leased items	(12.5)	(28.2)	(0.1)	(0.1)	-	**(40.9)**
30/06/2021	**159.1**	**576.3**	**8.7**	**7.8**	**0.7**	**752.6**
Accumulated depreciation						
1/01/2021	**(41.7)**	**(83.0)**	**(1.7)**	**(3.9)**	**(0.3)**	**(130.6)**
(Increases) / decreases:						
Depreciation	(10.1)	(21.8)	(0.8)	(1.1)	(0.1)	**(33.9)**
Return of leased items	12.5	8.5	-	0.1	-	**21.1**
Other	(0.1)	(0.6)	-	-	-	**(0.7)**
30/06/2021	**(39.4)**	**(96.9)**	**(2.5)**	**(4.9)**	**(0.4)**	**(144.1)**
Net value						
1/01/2021	**129.9**	**500.2**	**7.0**	**4.0**	**0.4**	**641.5**
30/06/2021	**119.7**	**479.4**	**6.2**	**2.9**	**0.3**	**608.5**

6 months ended 30/06/2020	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2020	**184.3**	**570.5**	**8.8**	**7.4**	**0.7**	**771.7**
Increases / (decreases):						
New leases	0.3	8.0	0.6	0.2	-	**9.1**
Modifications of existing agreements	(4.9)	10.3	-	-	-	**5.4**
Return of leased items	(2.1)	(9.5)	(0.1)	-	-	**(11.7)**
Purchase of leased items	-	-	(0.7)	-	-	**(0.7)**
Other	-	0.1	-	-	-	**0.1**
30/06/2020	**177.6**	**579.4**	**8.6**	**7.6**	**0.7**	**773.9**
Accumulated depreciation						
1/01/2020	**(24.8)**	**(40.4)**	**(0.7)**	**(1.7)**	**(0.1)**	**(67.7)**
(Increases) / decreases:						
Depreciation	(13.8)	(21.8)	(0.8)	(1.1)	(0.1)	**(37.6)**
Return of leased items	2.1	1.5	-	-	-	**3.6**
Purchase of leased items	-	-	0.6	-	-	**0.6**
Other	(0.8)	(0.3)	-	-	-	**(1.1)**
30/06/2020	**(37.3)**	**(61.0)**	**(0.9)**	**(2.8)**	**(0.2)**	**(102.2)**
Net value						
1/01/2020	**159.5**	**530.1**	**8.1**	**5.7**	**0.6**	**704.0**
30/06/2020	**140.3**	**518.4**	**7.7**	**4.8**	**0.5**	**671.7**

5.3 Investments in related parties

Detailed information about members of the Group as at 30 June 2021 and 31 December 2020 is as follows:



Changes in the group's structure

On 22 March 2021, the subsidiary PKP CARGO CONNECT Sp. z o.o. signed an agreement to sell the shares it held in Rentrans Cargo Sp. z o.o. for the price of PLN 7.0 million, as a result of which Rentrans Cargo Sp. z o.o. ceased to be a related party of the PKP CARGO Group.

(in PLN million) (translation of a document originally issued in Polish)

5.3 Investments in related parties (cont.)

List of investments in related parties

	30/06/2021	31/12/2020
CARGOTOR Sp. z o.o.	20.2	20.2
Centralny Terminal Multimodalny Sp. z o.o.	1.5	1.5
COSCO Shipping Lines (Poland) Sp. z o.o.	1.1	1.1
PKP CARGO CONNECT Sp. z o.o.	123.2	123.2
PKP CARGO INTERNATIONAL a.s.	499.7	499.7
PKP CARGO SERVICE Sp. z o.o.	15.4	15.4
PKP CARGO TERMINALE Sp. z o.o.	51.1	51.1
PKP CARGOTABOR Sp. z o.o.	117.7	117.7
PKP CARGOTABOR USŁUGI Sp. z o.o.	10.1	10.1
Total	**840.0**	**840.0**

In the period of 6 months ended 30 June 2021, no changes were made to the value of investments in related parties.

5.4 Inventories

Structure of inventories

	30/06/2021	31/12/2020
Strategic inventories	23.9	27.7
Rolling stock during liquidation	41.8	39.8
Other inventories	28.5	28.8
Impairment losses	(2.5)	(1.3)
Net inventories	**91.7**	**95.0**

5.5 Trade receivables

Structure of trade receivables

	30/06/2021	31/12/2020
Trade receivables	415.4	406.8
Impairment loss on receivables	(32.6)	(40.3)
Total	**382.8**	**366.5**
Current assets	382.8	366.5
Total	**382.8**	**366.5**

5.6 Financial assets

Structure of financial assets

	30/06/2021	31/12/2020
Shares in unlisted companies	4.9	4.9
Cash pool	-	2.3
Total	**4.9**	**7.2**
Non-current assets	4.9	4.9
Current assets	-	2.3
Total	**4.9**	**7.2**

(in PLN million) (translation of a document originally issued in Polish)

5.7 Other assets

Structure of other assets

	30/06/2021	31/12/2020
Non-financial assets		
Costs settled in time		
Prepayments for purchase of electricity	28.1	23.2
Insurance	7.9	4.9
IT services	4.7	7.3
Other costs settled over time	6.1	0.4
Other[1)]	33.7	0.4
Other receivables		
VAT settlements	22.9	16.7
Receivables on account of transfer of receivables	5.9	-
Other	5.5	6.2
Intangible assets		
Licenses	21.0	19.2
Intangible assets under development	0.7	0.8
Total	**136.5**	**79.1**
Non-current assets	55.4	22.6
Current assets	81.1	56.5
Total	**136.5**	**79.1**

[1)] On 16 June 2021, PKP CARGO S.A. and Forespo Poland S.A. signed a conditional purchase agreement and a conditional preliminary purchase agreement for the properties remaining after the former Gniewczyna Rail Car Factory in Gniewczyna Łańcucka. The agreement transferring the ownership of those properties to the Company will be signed immediately after all the conditions precedent are satisfied, among others the Tryńcza Township waiving its right of first refusal for the property. In order to secure the above transaction, the Company paid in a notary deposit (including VAT) in the amount of EUR 7.4 million, which is equivalent to PLN 33.3 million as at 30 June 2021.

5.8 Investment liabilities

Structure of investment liabilities

	30/06/2021	31/12/2020
Investment liabilities related to rolling stock	394.7	275.5
Investment liabilities related to real properties	0.8	4.8
Other	1.0	4.0
Total	**396.5**	**284.3**
Long-term liabilities	141.8	143.0
Short-term liabilities	254.7	141.3
Total	**396.5**	**284.3**

(in PLN million) (translation of a document originally issued in Polish)

5.9 Provisions for employee benefits

Movement in provisions for employee benefits

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2021	**208.4**	**165.2**	**37.3**	**5.5**	**267.3**	**16.1**	**699.8**
Current service cost	3.6	1.6	0.4	0.1	6.0	-	**11.7**
Interest expenses	1.3	1.2	0.2	-	1.8	-	**4.5**
Actuarial (profits)/ losses recognized in comprehensive income	(8.6)	(18.0)	(8.1)	-	-	-	**(34.7)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	(10.9)	-	**(10.9)**
Recognition of provisions	-	-	-	-	-	15.3	**15.3**
Benefits paid out	(5.0)	(2.5)	(0.4)	(0.5)	(9.4)	-	**(17.8)**
30/06/2021	**199.7**	**147.5**	**29.4**	**5.1**	**254.8**	**31.4**	**667.9**
Long-term provisions	162.6	142.2	28.5	4.4	211.6	-	**549.3**
Short-term provisions	37.1	5.3	0.9	0.7	43.2	31.4	**118.6**
Total	**199.7**	**147.5**	**29.4**	**5.1**	**254.8**	**31.4**	**667.9**

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2020	**210.6**	**128.8**	**34.7**	**6.6**	**287.1**	**17.8**	**685.6**
Current service cost	3.5	1.3	0.4	0.1	6.1	-	**11.4**
Interest expense	1.8	1.3	0.3	0.1	2.6	-	**6.1**
Actuarial (profits)/ losses recognized in comprehensive income	7.7	42.1	2.0	0.2	-	-	**52.0**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	9.3	-	**9.3**
Recognition of provisions	-	-	-	-	-	14.9	**14.9**
Benefits paid out	(3.8)	(2.5)	(0.5)	(0.4)	(9.6)	-	**(16.8)**
30/06/2020	**219.8**	**171.0**	**36.9**	**6.6**	**295.5**	**32.7**	**762.5**
Long-term provisions	180.5	166.0	35.9	5.5	251.0	-	**638.9**
Short-term provisions	39.3	5.0	1.0	1.1	44.5	32.7	**123.6**
Total	**219.8**	**171.0**	**36.9**	**6.6**	**295.5**	**32.7**	**762.5**

5.10 Other provisions

Structure of other provisions

	30/06/2021	31/12/2020
Other provisions	6.6	13.0
Total	**6.6**	**13.0**
Short-term provisions	6.6	13.0
Total	**6.6**	**13.0**

Other provisions

A decrease in this item was mainly due to utilization of provisions in connection with the fulfillment of the terms and conditions of the arrangement between the Company and contractors regulating disputed claims in litigation.

(in PLN million) (translation of a document originally issued in Polish)

5.11 Other financial liabilities

Structure of other financial liabilities

	30/06/2021	31/12/2020
FX forwards	0.1	2.7
Cash pool	61.8	-
Total	**61.9**	**2.7**
Short-term liabilities	61.9	2.7
Total	**61.9**	**2.7**

5.12 Other liabilities

Structure of other liabilities

	30/06/2021	31/12/2020
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	18.1	31.7
Liabilities on the purchase of shares	-	33.0
Public law liabilities	79.2	96.3
Settlements with employees	64.7	71.8
Other settlements	18.2	7.1
VAT settlements	-	1.6
Total	**180.2**	**241.5**
Short-term liabilities	180.2	241.5
Total	**180.2**	**241.5**

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	30/06/2021	31/12/2020
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	4.9	4.9
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	382.8	366.5
Cash pool	*Note 5.6*	-	2.3
Cash and cash equivalents	*Note 4.3*	16.2	180.5
Receivables on account of sale of non-financial non-current assets		0.1	0.1
Receivables on account of transfer of receivables	*Note 5.7*	5.9	-
Financial assets excluded from the scope of IFRS 9		26.0	27.2
Total		**435.9**	**581.5**

Financial liabilities by categories and classes	Note	30/06/2021	31/12/2020
Hedging financial instruments			
Derivatives	*Note 5.11*	0.1	2.7
Bank loans and borrowings	*Note 4.1*	548.5	599.0
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	1,077.8	993.4
Trade liabilities		223.3	215.6
Investment liabilities	*Note 5.8*	396.5	284.3
Cash pool	*Note 5.11*	61.8	-
Liabilities on the purchase of shares	*Note 5.12*	-	33.0
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	615.2	658.9
Total		**2,923.2**	**2,786.9**

Impairment losses on trade receivables are presented in **Note 5.5** to these Interim Condensed Standalone Financial Statements.

(in PLN million) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

Hedge accounting

In the period from 1 January 2021 to 30 June 2021, the Company applied hedge accounting to its cash flows. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly likely probable cash flow denominated in EUR.

As at 30 June 2021, the following hedging instruments were established:

- investment loans denominated in EUR. The hedged cash flows will be realized until January 2035. As at 30 June 2021, the nominal amount of the hedging instrument was EUR 121.3 million, which is an equivalent of PLN 548.5 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 30 June 2021, the value of liabilities from measurement of hedging instruments was PLN 0.1 million.

Fair value hierarchy

As at 30 June 2021 and 31 December 2020, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	30/06/2021		31/12/2020	
	Level 2	Level 3	Level 2	Level 3
Assets				
Investments in equity instruments - shares in unlisted companies	-	4.9	-	4.9
Liabilities				
Derivatives – FX forward contracts	0.1	-	2.7	-

Measurement methods for financial instruments measured at fair value

a) FX forward contracts

The fair value of FX forward contracts is determined on the basis of discounted future cash flows on account of executed transactions calculated based on the difference between the forward price and the transaction price. A forward price is calculated based on NBP fixing and the interest rate curve derived from FX swap transactions.

b) Investments in financial instruments

This line item includes predominantly an equity stake in Euroterminal Sławków Sp. z o.o. worth PLN 4.9 million, the value of which was measured by an independent adviser using the modified Swiss method. The Swiss method is a mixed measurement method as it combines the asset value aspect with the ability to generate future cash flows. According to the Swiss method, the value of the enterprise is calculated as the weighted average of the values determined by the asset-based approach and the income-based approach. This method attaches a greater weight (twice as large) to the value determined by the income-based approach. The adoption of the Swiss method is justified on the grounds that Euroterminal Sławków Sp. z o.o. has a moderate ability to generate profits in the future but owns material assets in the form of land plots and property.

c) Other financial instruments

For the category of financial instruments which are not carried at fair value as at the balance sheet date, the Company does not disclose fair value because the fair values of these financial instruments as at 30 June 2021 and 31 December 2020 were not materially different from their values presented in the statement of financial position.

Changes to the measurement of financial instruments for Level 3 of the fair value hierarchy

	6 months ended 30/06/2021	6 months ended 30/12/2020
As at the beginning of the reporting period	**4.9**	**5.6**
Profits/ (losses) for the period recognized in other comprehensive income	-	(0.7)
As at the end of the reporting period	**4.9**	**4.9**

In the period of 6 months ended 30 June 2021 and 30 June 2020, there were no transfers between level 2 and level 3 of the fair value hierarchy.

(in PLN million) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

Revenues, costs, profits and losses in the standalone statement of profit or loss and other comprehensive income by categories of financial instruments

6 months ended 30/06/2021	Hedging financial instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(0.9)	0.9	0.6	(7.8)	(11.3)	**(18.5)**
FX differences	-	(1.0)	-	0.3	1.2	**0.5**
Impairment losses / revaluation	-	3.6	-	-	-	**3.6**
Transaction costs related to bank loans	-	-	-	(0.8)	-	**(0.8)**
Effect of settlement of cash flow hedge accounting	(3.0)	-	-	-	-	**(3.0)**
Profit / (loss) before tax	**(3.9)**	**3.5**	**0.6**	**(8.3)**	**(10.1)**	**(18.2)**
Revaluation	16.6	-	-	-	-	**16.6**
Other comprehensive income	**16.6**	**-**	**-**	**-**	**-**	**16.6**

In the period of 6 months ended 30 June 2021, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (3.0) million. The change in the measurement of hedging financial instruments included a change in the measurement of derivatives in the amount of PLN 2.6 million and bank loans in the amount of PLN 14.0 million, recognized as part of the hedge accounting applied by the Company.

6 months ended 30/06/2020	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(1.2)	-	2.4	0.4	(13.3)	(12.7)	**(24.4)**
FX differences	(0.6)	-	2.9	-	(1.3)	(3.3)	**(2.3)**
Impairment losses / revaluation	(0.1)	-	1.3	-	-	-	**1.2**
Transaction costs related to bank loans	-	-	-	-	(0.8)	-	**(0.8)**
Effect of settlement of cash flow hedge accounting	(0.6)	-	-	-	-	-	**(0.6)**
Profit / (loss) before tax	**(2.5)**	**-**	**6.6**	**0.4**	**(15.4)**	**(16.0)**	**(26.9)**
Revaluation	(29.3)	(0.7)	-	-	-	-	**(30.0)**
Other comprehensive income	**(29.3)**	**(0.7)**	**-**	**-**	**-**	**-**	**(30.0)**

In the period of 6 months ended 30 June 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (0.6) million. The change in the measurement of hedging financial instruments included a change in the measurement of derivatives in the amount of PLN (6.8) million and bank loans in the amount of PLN (22.5) million, recognized as part of the hedge accounting applied by the Company.

(in PLN million) (translation of a document originally issued in Polish)

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 6 months ended 30 June 2021 and 30 June 2020, the State Treasury was a upper level parent of the Company. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Company's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Interim Condensed Standalone Financial Statements, the Management Board has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the period of 6 months ended 30 June 2021 and 30 June 2020, there were no individual transactions effected between the Company and the other parties related to the State Treasury which would be significant due to a non-standard scope and amount. In the periods covered by these Interim Condensed Standalone Financial Statements, the Company's most important clients among other parties related to the State Treasury were members of the following groups: PGE, JSW, Azoty and ENEA. Orlen Group entities were the Company's most important suppliers related to the State Treasury.

Transactions with PKP Group related parties

In the period covered by these Interim Condensed Standalone Financial Statements, the Company entered into the following commercial transactions with PKP Group related parties:

	6 months ended 30/06/2021		30/06/2021	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	29.6	0.1	475.6
Subsidiaries / co-subsidiaries	154.0	218.8	65.1	96.3
Associates	-	-	-	-
Other PKP Group related parties	7.8	244.1	1.7	56.3

	6 months ended 30/06/2020		31/12/2020	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.3	30.6	1.0	495.5
Subsidiaries / co-subsidiaries	143.6	182.2	70.2	57.8
Associates	2.4	-	-	-
Other PKP Group related parties	7.5	227.1	1.9	58.7

Purchase transactions with the parent company (PKP S.A.) pertained in particular to lease agreements, the supply of utilities and occupational medicine services.

In the PKP CARGO Group, sales transactions covered freight transport services, lease of equipment and sub-lease of real estate. Purchase transactions comprised, among other maintenance and repair of rolling stock, freight forwarding services, transshipment services and intermodal transport.

Sales transactions with other PKP Group related parties comprised, among others, train traction services, lease and operation of locomotives, services related to financial settlements with foreign rail freight companies, rolling stock maintenance services and sub-lease of property. Purchase transactions comprised, among others, access to rail infrastructure, lease of property, supply of utilities, maintenance of rail traffic facilities, purchase of network maintenance services, operation of IT systems.

In addition to commercial transactions, the Company had cash pooling settlements disclosed in **Note 5.6** and **5.11**. In addition the Company granted sureties to its subsidiaries described in **Note 7.3** to these Interim Condensed Standalone Financial Statements.

(in PLN million) (translation of a document originally issued in Polish)

7.1 Related party transactions (cont.)

Loans granted to / received from related parties

In the period of 6 months ended 30 June 2021 and 30 June 2020, the Company did not grant or take any loans from its related parties.

Remunerations of key management personnel

Remunerations of key management personnel presented in this note include the amounts of benefits disbursed in the relevant period.

Remunerations of Management Board members	6 months ended 30/06/2021	6 months ended 30/06/2020
Short-term benefits	2.4	1.2
Post-employment benefits	-	0.1
Termination benefits	-	0.1
Total	**2.4**	**1.4**

Remunerations of Supervisory Board Members	6 months ended 30/06/2021	6 months ended 30/06/2020
Short-term benefits	0.6	0.6
Total	**0.6**	**0.6**

Remunerations of other members of key management personnel	6 months ended 30/06/2021	6 months ended 30/06/2020
Short-term benefits	3.2	3.5
Total	**3.2**	**3.5**

In the period of 6 months ended 30 June 2021 and 30 June 2020, members of key management personnel did not enter into any loan or guarantee transactions with the Company.

All related party transactions were effected on an arm's length basis.

7.2 Liabilities to incur expenditures for non-financial non-current assets

Structure of liabilities to incur expenditures for non-financial non-current assets

	30/06/2021	31/12/2020
Contractual liabilities relating to the purchase of non-financial non-current assets	807.5	932.0
Total	**807.5**	**932.0**

On 26 January 2021, the Company signed two agreements with PKP CARGOTABOR Sp. z o.o. for periodic inspections and repairs of wagons up to the total amount of PLN 221.9 million, to be performed by the end of 2021.

(in PLN million) (translation of a document originally issued in Polish)

7.3 Contingent liabilities

Structure of contingent liabilities

	30/06/2021	31/12/2020
Sureties for subsidiaries	1.5	1.5
Guarantees issued at PKP CARGO S.A.'s request	37.5	35.4
Other contingent liabilities	108.8	111.3
Total	**147.8**	**148.2**

Sureties granted for subsidiaries

As at 30 June 2021 and 31 December 2020, there was an outstanding loan agreement surety granted by the Company for PKP CARGOTABOR Sp. z o.o. The surety was secured with a blank promissory note.

Guarantees issued at PKP CARGO S.A.'s request

As at 30 June 2021, there were outstanding guarantees issued by banks at the Company's request for commercial business partners. The guarantees comprised mainly performance bonds (for PLN 26.7 million), payment guarantees (for PLN 7.5 million) and tender bonds (for PLN 3.0 million).

As at 31 December 2020, the guarantees included performance bonds (for PLN 26.3 million), payment guarantees (for PLN 7.6 million) and tender bonds (for PLN 1.5 million).

Other contingent liabilities

This line item comprises the claims made against the Company in court proceedings in the case of which the probability of outflow of cash is assessed as low, and claims in the case of which it is not possible to make a reliable estimate of the payment amount to be made by the Company in the future. The amounts presented in this Note correspond to the value of the full claims reported by external entities. Assessment of the estimates may change in subsequent periods as a result of future events.

7.4 Subsequent events

Events after the balance sheet date are described in **Chapter 4.6** of the Management Board Report on the Activity of the PKP CARGO Group for H1 2021.

7.5 Approval of the financial statements

These Interim Condensed Standalone Financial Statements were approved for publication by the Company's Management Board on 19 August 2021.

Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 19 August 2021

Report on Review of the Condensed Interim Consolidated Financial Statements

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For the Shareholders of PKP CARGO S.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of a Group (the Group), in which the parent entity is PKP CARGO S.A. (the Parent) with its registered office in Warsaw, Grójecka 17 Street, which comprise the condensed consolidated statement of financial position as of June 30, 2021, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows for the period from January 1, 2021 to June 30, 2021 and selected explanatory notes.

The Management Board of the Parent is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* published in the form of European Commission regulations.

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Standard on Review Engagements 2410 consistent with International Standard on Review Engagements 2410 *Review of Interim Information Performed by the Independent Auditor of the Entity* adopted by the National Council of Statutory Auditors' resolution No. 3436/52e/2019 of April 8, 2019, as amended. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than audit conducted in accordance with National Standards on Auditing consistent with International Standards on Auditing adopted by the National Council of Statutory Auditors' resolution No. 3430/52a/2019 of March 21, 2019 (as amended), and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* published in the form of European Commission regulations.

Marcin Diakonowicz

Statutory Auditor No. 10524
Key Audit Partner performing the review on behalf of
Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k.,
Poznań, ul. Abpa Antoniego Baraniaka 88 E, Audit Firm No. 4055

Warsaw, August 19, 2021.

THIS IS TRANSLATION ONLY. The Polish language version of the report is the only valid and legally binding version. This translation into English is provided to facilitate understanding of the report.

PKPCARGO

Interim Condensed Consolidated Financial Statements of the **PKP CARGO GROUP** for the period of 6 months ended 30 June 2021

prepared in accordance with EU IFRS

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(in PLN million) (translation of a document originally issued in Polish)

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020	
Revenues from contracts with customers	2,046.0	1,050.0	1,964.6	928.9	*Note 2.1*
Consumption of traction electricity and traction fuel	(258.6)	(138.4)	(234.6)	(111.5)	*Note 2.2*
Services of access to infrastructure	(266.1)	(138.6)	(243.6)	(116.0)	
Transport services	(174.2)	(89.9)	(160.6)	(66.0)	
Other services	(176.9)	(91.0)	(176.6)	(85.6)	*Note 2.2*
Employee benefits	(813.7)	(399.3)	(853.2)	(411.6)	*Note 2.2*
Other expenses	(136.3)	(66.6)	(133.1)	(59.2)	*Note 2.2*
Other operating revenue and (expenses)	6.6	(3.8)	43.8	37.7	*Note 2.3*
Operating profit without depreciation (EBITDA)	**226.8**	**122.4**	**206.7**	**116.7**	
Depreciation, amortization and impairment losses	(355.1)	(179.7)	(388.7)	(193.1)	*Note 2.2*
Profit / (loss) on operating activities (EBIT)	**(128.3)**	**(57.3)**	**(182.0)**	**(76.4)**	
Financial revenue and (expenses)	(29.2)	(13.6)	(49.8)	(16.0)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	2.5	1.1	0.8	0.3	*Note 5.3*
Profit / (loss) before tax	**(155.0)**	**(69.8)**	**(231.0)**	**(92.1)**	
Income tax	25.0	11.1	39.1	14.6	*Note 3.1*
NET PROFIT / (LOSS)	**(130.0)**	**(58.7)**	**(191.9)**	**(77.5)**	
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	19.6	22.9	(30.0)	15.8	*Note 6.1*
Income tax	(3.7)	(4.3)	5.7	(3.0)	*Note 3.1*
FX differences resulting from translation of financial statements	8.6	(2.8)	(5.8)	1.2	
Total other comprehensive income subject to reclassification in the financial result	**24.5**	**15.8**	**(30.1)**	**14.0**	
Actuarial profits / (losses) on post-employment benefits	36.4	36.4	(52.1)	(52.1)	*Note 5.8*
Income tax	(6.9)	(6.9)	9.9	9.9	*Note 3.1*
Measurement of equity instruments at fair value	-	-	(0.7)	(0.7)	*Note 6.1*
Total other comprehensive income not subject to reclassification in the financial result	**29.5**	**29.5**	**(42.9)**	**(42.9)**	
Total other comprehensive income	**54.0**	**45.3**	**(73.0)**	**(28.9)**	
TOTAL COMPREHENSIVE INCOME	**(76.0)**	**(13.4)**	**(264.9)**	**(106.4)**	
Net profit / (loss) attributable:					
Net profit / (loss) attributable to shareholders of the Parent Company	(130.0)	(58.7)	(191.9)	(77.5)	
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the Parent Company	(76.0)	(13.4)	(264.9)	(106.4)	
Earnings / (losses) per share (PLN per share)					
Weighted average number of ordinary shares	44,786,917	44,786,917	44,786,917	44,786,917	
Basic and diluted earnings / (losses) per share	**(2.90)**	**(1.31)**	**(4.28)**	**(1.72)**	

In the periods covered by these Interim Condensed Consolidated Financial Statements, there was no non-controlling interest.

(in PLN million) (translation of a document originally issued in Polish)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30/06/2021	31/12/2020	
ASSETS			
Rolling stock	4,336.2	4,245.0	*Note 5.1*
Other property, plant and equipment	858.5	875.6	*Note 5.1*
Rights-of-use assets	965.1	1,008.6	*Note 5.2*
Investments in entities accounted for under the equity method	34.4	42.0	*Note 5.3*
Trade receivables	3.5	3.0	*Note 5.5*
Lease receivables	9.7	10.3	
Other assets	67.9	35.1	*Note 5.6*
Deferred tax assets	195.8	177.8	*Note 3.1*
Total non-current assets	**6,471.1**	**6,397.4**	
Inventories	166.5	165.8	*Note 5.4*
Trade receivables	598.5	585.8	*Note 5.5*
Lease receivables	0.9	0.7	
Income tax receivables	3.1	2.9	
Other assets	115.3	88.1	*Note 5.6*
Cash and cash equivalents	108.9	306.0	*Note 4.3*
Total current assets	**993.2**	**1,149.3**	
Non-current assets classified as held for sale	14.3	12.7	
TOTAL ASSETS	**7,478.6**	**7,559.4**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	760.8	782.4	
Other items of equity	(114.8)	(160.2)	
FX differences resulting from translation of financial statements	113.4	104.8	
Retained earnings	69.1	177.5	
Total equity	**3,067.8**	**3,143.8**	
Debt liabilities	1,922.5	2,101.8	*Note 4.1*
Trade liabilities	1.6	1.5	
Investment liabilities	143.9	145.5	*Note 5.7*
Provisions for employee benefits	624.6	684.3	*Note 5.8*
Other provisions	5.9	5.7	*Note 5.9*
Deferred tax liability	89.4	90.7	*Note 3.1*
Total long-term liabilities	**2,787.9**	**3,029.5**	
Debt liabilities	634.9	478.5	*Note 4.1*
Trade liabilities	357.4	347.5	
Investment liabilities	196.3	133.5	*Note 5.7*
Provisions for employee benefits	149.9	116.3	*Note 5.8*
Other provisions	18.0	24.1	*Note 5.9*
Other liabilities	266.4	286.2	*Note 5.10*
Total short-term liabilities	**1,622.9**	**1,386.1**	
Total liabilities	**4,410.8**	**4,415.6**	
TOTAL EQUITY AND LIABILITIES	**7,478.6**	**7,559.4**	

(in PLN million) (translation of a document originally issued in Polish)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

			Other items of equity					
	Share capital	Supplementary capital	Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Measurement of hedging instruments	FX differences resulting from translation of financial statements	Retained earnings	Total equity
1/01/2021	**2,239.3**	**782.4**	**(12.9)**	**(115.7)**	**(31.6)**	**104.8**	**177.5**	**3,143.8**
Net result for the period	-	-	-	-	-	-	(130.0)	**(130.0)**
Other comprehensive income for the period (net)	-	-	-	29.5	15.9	8.6	-	**54.0**
Total comprehensive income	-		-	29.5	15.9	8.6	(130.0)	**(76.0)**
Other changes for the period	-	(21.6)	-	-	-	-	21.6	**-**
30/06/2021	**2,239.3**	**760.8**	**(12.9)**	**(86.2)**	**(15.7)**	**113.4**	**69.1**	**3,067.8**
1/01/2020	**2,239.3**	**781.4**	**(12.2)**	**(75.0)**	**9.5**	**77.5**	**402.8**	**3,423.3**
Net result for the period	-	-	-	-	-	-	(191.9)	**(191.9)**
Other comprehensive income for the period (net)	-	-	(0.7)	(42.2)	(24.3)	(5.8)	-	**(73.0)**
Total comprehensive income	-	-	(0.7)	(42.2)	(24.3)	(5.8)	(191.9)	**(264.9)**
30/06/2020	**2,239.3**	**781.4**	**(12.9)**	**(117.2)**	**(14.8)**	**71.7**	**210.9**	**3,158.4**

(in PLN million) (translation of a document originally issued in Polish)

INTERIM CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30/06/2021	6 months ended 30/06/2020	
Cash flows from operating activities			
Profit / (loss) before tax	**(155.0)**	**(231.0)**	
Adjustments			
Depreciation, amortization and impairment losses	355.1	388.7	*Note 2.2*
(Profits) / losses on the sale and liquidation of non-financial non-current assets	(4.1)	(4.2)	
(Profits) / losses on FX differences	4.7	12.6	
(Profits) / losses on interest, dividends	24.3	30.0	
Received / (paid) interest	0.6	1.5	
Received / (paid) income tax	(3.7)	47.0	
Movement in working capital	(60.3)	36.4	
Other adjustments	29.1	(63.0)	
Net cash from operating activities	**190.7**	**218.0**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(367.5)	(379.9)	
Proceeds from the sale of non-financial non-current assets	21.4	27.0	
Other investment expenditures	(27.0)	-	
Other inflows from investing activities	1.4	1.9	
Net cash from investing activities	**(371.7)**	**(351.0)**	
Cash flows from financing activities			
Payments on lease liabilities	(66.5)	(75.3)	*Note 4.1*
Proceeds from bank loans and borrowings	189.4	285.5	*Note 4.1*
Repayment of bank loans and borrowings	(145.1)	(182.1)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(24.7)	(30.6)	*Note 4.1*
Grants received	32.0	14.0	
Inflow / (outflow) as part of cash pool	-	1.5	
Other outflows from financing activities	(1.8)	(3.1)	
Net cash from financing activities	**(16.7)**	**9.9**	
Net increase / (decrease) in cash and cash equivalents	(197.7)	(123.1)	
Cash and cash equivalents at the beginning of the reporting period	306.0	550.4	
Impact exerted by FX rate movements on the cash balance in foreign currencies	0.6	(0.3)	
Cash and cash equivalents as at the end of the reporting period, including:	**108.9**	**427.0**	
Restricted cash	*26.5*	*32.3*	

(in PLN million) (translation of a document originally issued in Polish)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

PKP CARGO S.A. ("Company", "Parent Company") was established pursuant to a Notary Deed of 29 June 2001 (Rep. A No. 1287/2001). Key information about the Parent Company is presented in the table below.

Basic information about the Parent Company	
Name	PKP CARGO S.A.
Domicile	Poland
Address of the registered office of the Parent Company	02-021 Warsaw at Grójecka Street no 17
KRS	0000027702 – District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, Poland
REGON statistical number	277586360
NIP tax identification number	954-23-81-960

The financial year of the Parent Company and the companies from the PKP CARGO Group is a calendar year.

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 30 June 2021 are presented in the Management Board Report on the Activity of the PKP CARGO Group for H1 2021, in **Chapters 3.1** and **3.3**, respectively.

Information about the Group

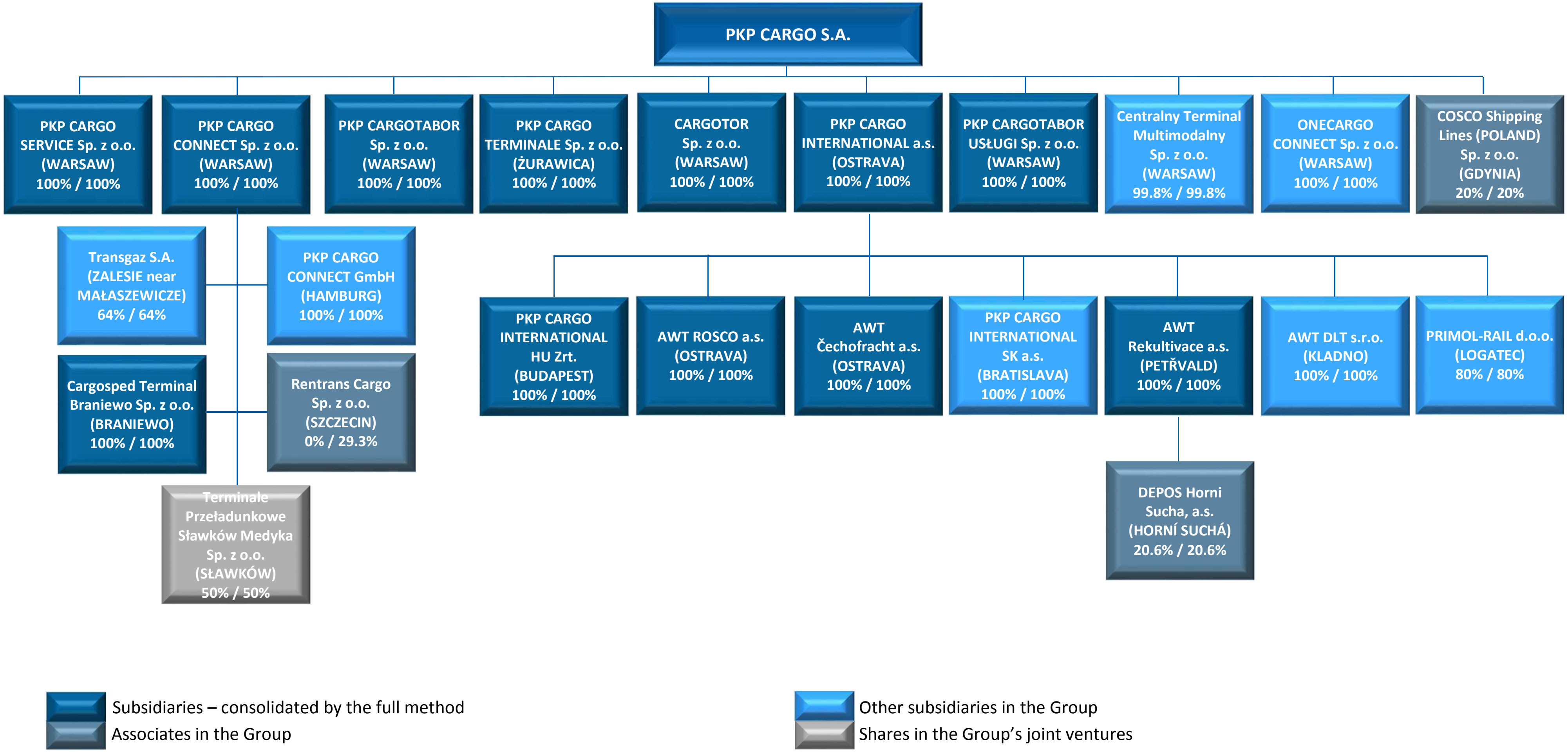
The Group's core business is rail freight transport. In addition to rail freight transport services, the Group also provides additional services:

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 19 subsidiaries. In addition, the Group held shares in 2 associated entities and 1 joint venture.

The duration of individual Group companies is unlimited.

1.1 Key information about the Group's business (cont.)

Detailed information about members of the Group as at 30 June 2021 and 31 December 2020 is as follows:



On 22 March 2021, the subsidiary PKP CARGO CONNECT Sp. z o.o. signed an agreement to sale the shares it held in Rentrans Cargo Sp. z o.o. for the price of PLN 7.0 million, as a result of which Rentrans Cargo Sp. z o.o. ceased to be a related party of the PKP CARGO Group.

1.2 Basis for preparation of the Interim Condensed Consolidated Financial Statements

These Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of these Consolidated Financial Statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757, "Regulation").

These Interim Condensed Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2020 prepared according to EU IFRS.

These Interim Condensed Consolidated Financial Statements for the period of 6 months ended 30 June 2021 have been prepared based on the assumption that the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these Interim Condensed Financial Statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue its business as a going concern for a period of at least 12 months from the end of the reporting period.

These Interim Condensed Consolidated Financial Statements have been prepared in accordance with the historic cost principle, except for measured at fair value derivatives and investments in equity instruments.

In the interim period, the Group's business does not show any material seasonal or cyclical trends.

These Interim Condensed Consolidated Financial Statements consist of the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and selected notes.

These Interim Condensed Consolidated Financial Statements have been prepared in Polish zloty (PLN). The data in the financial statements are presented in millions of PLN.

Transactions in foreign currencies are converted to the functional currency at the exchange rate from the date of the transaction or valuation upon their initial revaluation. As at the balance sheet date, cash assets and liabilities denominated in foreign currencies are converted according to the average NBP exchange rate binding on that date. Foreign exchange gains and losses obtained as a result of settlements of those transactions and balance sheet valuation of assets and liabilities denominated in foreign currencies are recognized in the profit or loss, provided they are not deferred in other comprehensive income when they are eligible for recognition as cash flows' hedging. Non-cash items measured at historical cost expressed in a foreign currency are converted using the exchange rate from the transaction date.

The financial data of foreign entities have been translated into the Polish currency for consolidation purposes in the following manner:

a) assets and liabilities items at the exchange rate at the end of the reporting period,
b) items of the statement of profit or loss and other comprehensive income and of the cash flow statement at the average exchange rate in the reporting period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period.

FX differences resulting from the above conversions are presented in the equity as FX differences resulting from translation of financial statements.

In these Interim Condensed Consolidated Financial Statements, for the needs of valuation of the financial statements of foreign operations subject to consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of profit or loss and other comprehensive income and the cash flow statement	
	30/06/2021	31/12/2020	6 months ended 30/06/2021	6 months ended 30/06/2020
EUR	4.5208	4.6148	4.5472	4.4413
CZK	0.1773	0.1753	0.1758	0.1677

These Interim Condensed Consolidated Financial Statements have been reviewed by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 2020 were audited by a statutory auditor during the audit of the Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2020 prepared according to EU IFRS.

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 19 August 2021.

(in PLN million) (translation of a document originally issued in Polish)

1.3 Applied International Financial Reporting Standards platform

Standards and interpretations adopted by the IASB and EU which have entered into effect

When approving these Interim Condensed Consolidated Financial Statements, the Group applied the following amendments to the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

Standard / Interpretation	Effective date
Amendments to IFRS 4 "Insurance contracts" – deferral of IFRS 9	1 January 2021
Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance", IFRS 16 "Leases" - IBOR Reform - phase 2	1 January 2021

The above standards and interpretations had no material influence on the Accounting Policy applied by the Group.

Standards and Interpretations adopted by the IASB and EU which have not yet entered into effect

In the opinion of the Parent Company's Management Board, the standards and interpretations mentioned below will not result in any major amendments to the Accounting Policy applied by the Group in the successive reporting periods:

Standard / Interpretation	Effective date
Amendments to IFRS 3 "Business combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	1 January 2022
Annual Improvements to IFRS 2018-2020 Cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022

Standards and interpretations adopted by the IASB and not endorsed by the EU

IFRSs as endorsed by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 30 June 2021 were not yet endorsed by the EU and did not enter into effect. In the opinion of the Parent Company's Management Board, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Group:

Standard / Interpretation	Effective date
Amendments to IFRS 16 "Leases" – COVID-19-Related Rent Concessions after 30 June 2021	1 April 2021
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term	1 January 2023
IFRS 17 "Insurance contracts" and amendments to IFRS 17	1 January 2023
Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023
Amendments to IAS 12 "Income Tax" – deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

1.4 Impact of the COVID-19 pandemic on the Group's business

Impairment of the Group's non-current assets

As at 31 December 2020 the Group performed out impairment tests for three cash-generating units defined at the level of assets of the Parent Company, PKP CARGOTABOR Sp. z o.o. and the PKP CARGO INTERNATIONAL Group. The results of tests did not show any need for revaluation of the non-current assets held by the Group.

In H1 2021, the Group achieved lower than expected financial results due to the protracted COVID-19 pandemic, which affected, among other things, lower production volumes in the steel and coal mining sector and delays in the execution of construction and infrastructure projects. This resulted in lower demand for cargo transport and increasing price competition leading to a decline in prices. At the same time, the Group expects the negative trend in terms of freight rates and volumes will improve in the coming months. The Management Board of the Parent Company believes that short-term deviations from the accepted assumptions have no significant effect on the results of the conducted tests and will not require recognition of additional impairment losses on assets owned by the Group as at 30 June 2021. This judgment is based on best estimates, knowledge and data available as at the balance date. Nevertheless, there still exists uncertainty regarding long-term economic forecasts and consequently, the Parent Company's Management Board is analyzing the situation on an ongoing basis and these estimates may change in subsequent reporting periods as a result if future events.

1.4 Impact of the COVID - 19 pandemic on the Group's business (cont.)

Assessment of expected credit losses

The Group has conducted an analysis of the impact of the COVID-19 pandemic on the calculation of expected credit losses, by incorporating the additional credit risk related to the current economic situation, which may cause deterioration of liquidity of business partners and consequently affect the ratio of recovery of trade receivables. Based on analysis of the payments of receivables to date, the Group observed that the levels of overdue trade receivables presented in the statement of financial position as at 30 June 2021 did not differ significantly from the rates in previous periods. Additionally, some trade receivables are secured. The Group remains in touch with key contractors and has received no signals indicating an increased risk of non-payment of receivables. The Group analyzes the situation on an ongoing basis and if such indications arise it will update the assumptions adopted in the model for calculating the expected credit losses.

Impact on other expenses

Other expenses incurred by the Group in H1 2021 for COVID-19 preventive measures amounted to PLN 1.8 million and included mainly the costs incurred for personal protection equipment.

Liquidity standing of the Group

In H1 2021, the Group continued its activities aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the medium term. In order to secure its liquidity position, the Parent Company signed an investment loan agreement with the European Investment Bank up to the maximum amount of EUR 60 million, an overdraft agreement with Bank Gospodarstwa Krajowego up to the total maximum amount of PLN 100 million and a master leasing agreement with PKO Leasing S.A. up to the total amount of PLN 100 million. The obtained financing sources enabled ongoing payment of short-term liabilities as at 30 June 2021. Risks associated with the ongoing COVID-19 pandemic persist, and if materialized - may have an additional adverse effect on the Group's financial standing.

Before the balance sheet date of 30 June 2021, the Parent Company obtained a waiver from the creditors to meet one of the ratios defined in the loan agreements, an issue further described in **Note 4.1** of these Interim Condensed Consolidated Financial Statements.

Detailed information on the impact of the COVID-19 pandemic on the Group's activity are described in The Management Board Report on the Activity of the PKP CARGO Group for H1 2021 in **Chapters 5.4** and **6.1**.

1.5 Significant values based on professional judgment and estimates

In the period of 6 months ended 30 June 2021, changes to significant values based on professional judgment and estimation related the following items:

- rolling stock – as at 31 December 2020, the Group remeasured the residual value of rolling stock in connection with the observed increase in scrap metal prices used for measurement of the residual value of rolling stock. The increase in the residual value and the decrease in the base for calculating depreciation charges caused the decrease of depreciation costs in the 6-month period ended 30 June 2021 by approximately PLN 8.0 million.
- deferred tax assets – in the period of 6 months ended 30 June 2021, in connection with the incurred tax loss, the Group created tax loss assets in the amount of PLN 10.1 million. As at 30 June 2021, the value of the tax loss assets was PLN 85.6 million. Based on the long-term financial forecasts developed by the Group, these assets are not impaired as at the balance sheet date.
- provisions for employee benefits – as at 30 June 2021, the Parent Company and selected subsidiaries performed an actuarial valuation of its provisions for employee benefits mainly in connection with a change of the discount rate. The discount rate adopted for the valuation of provisions for employee benefits as at 30 June 2021 was 2.1% (1.4% as at 31 December 2020). This change of the discount rate caused a decrease in provisions for employee benefits by PLN 41.8 million, out of which PLN 11.1 million reduced the cost of employee benefits in the Group. The other key assumptions adopted for the actuarial valuation were consistent with the assumptions used as at 31 December 2020. The movement in provisions for employee benefits was also affected by the increase in the provision for unused holidays in the amount of PLN 20.8 million.

During the 6 months ended 30 June 2021, no other changes were made to the assumptions adopted by the Parent Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

(in PLN million) (translation of a document originally issued in Polish)

2. Notes to the statement of profit or loss and other comprehensive income

2.1 Revenues from contracts with customers

Structure of revenues from contracts with customers

The Group conducts its business within one segment only, i.e. domestic and international cargo freight and provision of comprehensive logistics services related to rail freight.

The Parent Company's Management Board does not evaluate the Group's performance and does not make decisions concerning allocation of resources to groups of services provided account being taken of the structure of revenues from contracts with customers, as presented below. Therefore, the specific service groups may not be treated as the Group's operating segments. The Management Board of the Parent Company analyzes financial data in the layout in which they are presented in these Interim Condensed Consolidated Financial Statements.

6 months ended 30/06/2021	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	140.0	1.4	394.8	1,102.7	**1,638.9**
Revenue from other transportation activity	0.4	-	0.4	73.6	**74.4**
Revenue from siding and traction services	-	5.7	72.8	79.6	**158.1**
Revenue from transshipment services	-	-	-	62.7	**62.7**
Revenue from reclamation services	-	0.6	0.4	26.6	**27.6**
Revenue from sales of goods and materials	-	-	0.1	25.8	**25.9**
Other revenues	0.6	9.2	4.8	43.8	**58.4**
Total	**141.0**	**16.9**	**473.3**	**1,414.8**	**2,046.0**
Revenue recognition date					
At a point of time	-	-	0.1	30.0	**30.1**
Over a period	141.0	16.9	473.2	1,384.8	**2,015.9**
Total	**141.0**	**16.9**	**473.3**	**1,414.8**	**2,046.0**

3 months ended 30/06/2021	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	66.8	1.0	205.8	573.1	**846.7**
Revenue from other transportation activity	0.1	-	0.2	35.7	**36.0**
Revenue from siding and traction services	-	3.0	34.3	40.2	**77.5**
Revenue from transshipment services	-	-	-	30.6	**30.6**
Revenue from reclamation services	-	0.5	0.4	17.2	**18.1**
Revenue from sales of goods and materials	-	-	0.1	12.5	**12.6**
Other revenues	0.3	4.1	2.2	21.9	**28.5**
Total	**67.2**	**8.6**	**243.0**	**731.2**	**1,050.0**
Revenue recognition date					
At a point of time	-	-	0.1	13.9	**14.0**
Over a period	67.2	8.6	242.9	717.3	**1,036.0**
Total	**67.2**	**8.6**	**243.0**	**731.2**	**1,050.0**

(in PLN million) (translation of a document originally issued in Polish)

2.1 Revenues from contracts with customers (cont.)

6 months ended 30/06/2020	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	127.0	3.0	407.0	1,031.5	**1,568.5**
Revenue from other transportation activity	0.4	0.1	0.5	64.4	**65.4**
Revenue from siding and traction services	-	4.0	67.4	64.8	**136.2**
Revenue from transshipment services	0.8	-	0.1	72.3	**73.2**
Revenue from reclamation services	-	-	0.9	40.1	**41.0**
Revenue from sales of goods and materials	-	-	-	25.4	**25.4**
Other revenues	0.6	7.0	5.5	41.8	**54.9**
Total	**128.8**	**14.1**	**481.4**	**1,340.3**	**1,964.6**
Revenue recognition date					
At a point of time	-	-	-	27.5	**27.5**
Over a period	128.8	14.1	481.4	1,312.8	**1,937.1**
Total	**128.8**	**14.1**	**481.4**	**1,340.3**	**1,964.6**

3 months ended 30/06/2020	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	42.3	2.7	180.9	512.0	**737.9**
Revenue from other transportation activity	0.1	-	0.3	32.2	**32.6**
Revenue from siding and traction services	-	2.3	31.2	31.1	**64.6**
Revenue from transshipment services	0.4	-	0.1	34.1	**34.6**
Revenue from reclamation services	-	-	0.3	20.7	**21.0**
Revenue from sales of goods and materials	-	-	-	11.1	**11.1**
Other revenues	0.2	3.6	3.0	20.3	**27.1**
Total	**43.0**	**8.6**	**215.8**	**661.5**	**928.9**
Revenue recognition date					
At a point of time	-	-	-	11.2	**11.2**
Over a period	43.0	8.6	215.8	650.3	**917.7**
Total	**43.0**	**8.6**	**215.8**	**661.5**	**928.9**

Geography

The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity. Revenues from contracts with customers of the Group broken down by their country of headquarters are presented below:

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Poland	1,412.6	725.5	1,362.9	620.5
Czech Republic	253.8	134.0	272.8	141.0
Germany	146.2	75.9	127.1	73.6
Slovakia	41.0	19.7	37.4	18.1
Austria	39.1	20.7	27.4	12.2
Denmark	34.6	17.9	27.6	13.9
Other countries	118.7	56.3	109.4	49.6
Total	**2,046.0**	**1,050.0**	**1,964.6**	**928.9**

(in PLN million) (translation of a document originally issued in Polish)

2.1 Revenues from contracts with customers (cont.)

Non-current assets net of financial instruments and deferred tax assets, broken down by location

	30/06/2021	31/12/2020
Poland	5,494.7	5,415.6
Czech Republic	750.7	779.6
Other countries	6.3	5.5
Total	**6,251.7**	**6,200.7**

Information on key customers

In the period of 6 months ended 30 June 2021 and 30 June 2020, revenue from any single customer of the Group did not exceed 10% of the total revenues from contracts with customers.

Assets from contracts with customers

	6 months ended 30/06/2021	6 months ended 30/06/2020
As at the beginning of the reporting period	**24.2**	**18.6**
Recognition of revenue before the payment due date	38.8	38.3
Reclassification to receivables	(24.2)	(18.6)
FX differences from valuation	-	0.1
As at the end of the reporting period	**38.8**	**38.4**

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Consumption of traction fuel	(64.1)	(32.7)	(58.5)	(24.4)
Consumption of traction electricity	(194.5)	(105.7)	(176.1)	(87.1)
Total	**(258.6)**	**(138.4)**	**(234.6)**	**(111.5)**

Other services

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Repair and maintenance services for non-current assets	(45.2)	(24.7)	(41.7)	(20.3)
Rent and fees for the use of real properties and rolling stock	(34.8)	(16.8)	(31.2)	(13.7)
Telecommunications services	(3.1)	(1.5)	(3.2)	(1.5)
Legal, consulting and similar services	(4.9)	(2.3)	(4.9)	(2.4)
IT services	(21.6)	(11.0)	(23.0)	(11.3)
Transshipment services	(6.1)	(3.0)	(6.7)	(2.5)
Reclamation services	(25.5)	(12.3)	(37.5)	(18.9)
Other services	(35.7)	(19.4)	(28.4)	(15.0)
Total	**(176.9)**	**(91.0)**	**(176.6)**	**(85.6)**

Employee benefits

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Payroll	(619.1)	(312.6)	(633.4)	(309.4)
Social security expenses	(130.0)	(65.6)	(133.9)	(66.3)
Expenses for contributions to the Company Social Benefits Fund	(15.8)	(8.0)	(16.9)	(7.5)
Other employee benefits during employment	(20.6)	(10.1)	(23.8)	(10.3)
Post-employment benefits	(1.7)	(0.9)	(2.3)	(1.0)
Movement in provisions for employee benefits	(26.5)	(2.1)	(42.9)	(17.1)
Total	**(813.7)**	**(399.3)**	**(853.2)**	**(411.6)**

(in PLN million) (translation of a document originally issued in Polish)

2.2 Operating expenses (cont.)

Other expenses

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Consumption of non-traction fuel	(11.8)	(6.1)	(10.6)	(4.3)
Consumption of electricity, gas and water	(22.5)	(7.6)	(20.2)	(6.8)
Consumption of materials	(36.4)	(18.0)	(46.6)	(23.1)
Taxes and charges	(18.9)	(10.1)	(17.8)	(9.0)
Cost of goods and materials sold	(19.6)	(9.8)	(13.7)	(5.6)
Business trips	(13.1)	(6.7)	(13.7)	(6.3)
Other	(14.0)	(8.3)	(10.5)	(4.1)
Total	**(136.3)**	**(66.6)**	**(133.1)**	**(59.2)**

Depreciation, amortization and impairment losses

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Depreciation of rolling stock	(248.9)	(124.9)	(271.4)	(135.0)
Depreciation of other property, plant and equipment	(35.3)	(16.7)	(40.0)	(19.8)
Depreciation of rights-of-use assets	(60.2)	(29.4)	(70.9)	(35.1)
Amortization of intangible assets	(4.3)	(2.3)	(6.3)	(3.1)
(Recognized) / reversed impairment losses:				
Other property, plant and equipment	(6.4)	(6.4)	(0.1)	(0.1)
Total	**(355.1)**	**(179.7)**	**(388.7)**	**(193.1)**

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Profit on sales of non-financial non-current assets	3.0	-	4.5	3.8
Reversed impairment losses on trade receivables	6.7	1.0	4.0	1.3
Penalties and compensations	5.3	2.9	8.2	4.5
Reversal of other provisions	1.1	(0.2)	1.4	0.4
Interest on trade and other receivables	1.2	0.5	2.6	1.2
Net result on FX differences on trade receivables and liabilities	-	-	2.3	(1.1)
Income from the Anti-Crisis Shield	-	-	34.1	34.1
Other	4.5	2.7	2.3	1.2
Total other operating revenue	**21.8**	**6.9**	**59.4**	**45.4**
Recognized impairment losses on trade receivables	(2.3)	(1.5)	(2.7)	(1.7)
Penalties and compensations	(3.7)	(2.4)	(5.3)	(1.5)
Costs of liquidation of non-current and current assets	(2.8)	(1.6)	(3.2)	(2.0)
Recognized other provisions	(2.4)	(1.9)	(0.9)	(0.6)
Net result on FX differences on trade receivables and liabilities	(1.8)	(1.6)	-	-
Other	(2.2)	(1.7)	(3.5)	(1.9)
Total other operating expenses	**(15.2)**	**(10.7)**	**(15.6)**	**(7.7)**
Other operating revenue and (expenses)	**6.6**	**(3.8)**	**43.8**	**37.7**

(in PLN million) (translation of a document originally issued in Polish)

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Interest income	0.6	0.4	1.5	0.4
Net result on FX differences	0.7	0.7	-	-
Other	0.4	-	-	(0.1)
Total financial revenue	**1.7**	**1.1**	**1.5**	**0.3**
Interest expenses	(24.6)	(11.5)	(32.2)	(14.4)
Settlement of the discount on provisions for employee benefits	(5.2)	(2.6)	(7.0)	(3.5)
Net result on FX differences	-	-	(10.9)	2.0
Other	(1.1)	(0.6)	(1.2)	(0.4)
Total financial expenses	**(30.9)**	**(14.7)**	**(51.3)**	**(16.3)**
Financial revenue and (expenses)	**(29.2)**	**(13.6)**	**(49.8)**	**(16.0)**

3. Notes on taxation

3.1 Income tax

Income tax recognized in profit or loss

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Current income tax				
Current tax charge	(6.3)	(3.3)	(3.6)	(1.7)
Adjustments recognized in the current year relating to tax from previous years	-	-	1.6	-
Deferred tax				
Deferred income tax of the reporting period	31.3	14.4	41.1	16.3
Income tax recognized in profit or loss	**25.0**	**11.1**	**39.1**	**14.6**

According to the legal provisions in effect, no differentiation of rates is expected in the future periods. Frequent differences of opinions as to legal interpretation of the tax regulations, both within the State bodies, and between the State bodies and enterprises, entail lack of certainty and give rise to conflicts. Therefore, the tax risk in Poland is much higher than usually observed in the countries with better developed tax systems. Tax returns may be subject to control for a period of five years, starting from the end of the year of the tax payment. As a result of such controls, the Group's tax settlements may be increased by additional tax liabilities.

Deferred income tax recognized in other comprehensive income

	6 months ended 30/06/2021	3 months ended 30/06/2021	6 months ended 30/06/2020	3 months ended 30/06/2020
Deferred tax on the measurement of hedging instruments	(3.7)	(4.3)	5.7	(3.0)
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	(6.9)	(6.9)	9.9	9.9
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income [1]	(1.4)	0.1	1.1	(0.2)
Deferred income tax recognized in other comprehensive income	**(12.0)**	**(11.1)**	**16.7**	**6.7**

[1] This item is disclosed under equity as FX differences from translation of financial statements of foreign operations.

(in PLN million) (translation of a document originally issued in Polish)

3.1 Income tax (cont.)

Balance of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset at the level of the financial statements of each Group company. Accordingly, the following values are presented in these Interim Condensed Consolidated Financial Statements:

	30/06/2021	31/12/2020
Deferred tax assets	195.8	177.8
Deferred tax liabilities	(89.4)	(90.7)
Total	**106.4**	**87.1**

Table of movements in deferred tax before the set-off

6 months ended 30/06/2021	1/01/2021	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	30/06/2021
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(151.2)**	18.5	-	(1.3)	**(134.0)**
Rights-of-use assets and lease liabilities	**(9.7)**	(0.9)	-	(0.1)	**(10.7)**
Other provisions and liabilities	**13.3**	1.9	-	-	**15.2**
Inventories	**(9.3)**	0.6	-	-	**(8.7)**
Lease receivables	**(2.1)**	-	-	-	**(2.1)**
Trade receivables	**2.9**	(2.1)	-	-	**0.8**
Provisions for employee benefits	**152.0**	1.7	(6.9)	-	**146.8**
Other	**15.7**	1.5	(3.7)	-	**13.5**
Unused tax losses	**75.5**	10.1	-	-	**85.6**
Total	**87.1**	**31.3**	**(10.6)**	**(1.4)**	**106.4**

6 months ended 30/06/2020	1/01/2020	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	30/06/2020
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(167.0)**	3.3	-	1.1	**(162.6)**
Rights-of-use assets and lease liabilities	**(6.0)**	(1.4)	-	-	**(7.4)**
Other provisions and liabilities	**14.4**	(2.3)	-	-	**12.1**
Inventories	**(4.7)**	(0.2)	-	-	**(4.9)**
Lease receivables	**(2.1)**	(0.1)	-	-	**(2.2)**
Trade receivables	**1.7**	0.1	-	-	**1.8**
Provisions for employee benefits	**148.9**	4.4	9.9	-	**163.2**
Other	**0.6**	0.5	5.7	-	**6.8**
Unused tax losses	**35.6**	36.8	-	-	**72.4**
Total	**21.4**	**41.1**	**15.6**	**1.1**	**79.2**

Maturity analysis of deferred tax assets from tax losses

Expiration dates of the tax losses to which deferred tax assets were recognized as at 30 June 2021

Year	2023	2024	2025	2026	Total
Unused tax losses	74.3	191.5	148.9	35.2	**449.9**

Expiration dates of the tax losses to which deferred tax assets were recognized as at 31 December 2020

Year	2022	2023	2024	2025	Total
Unused tax losses	0.7	85.3	195.4	115.5	**396.9**

(in PLN million) (translation of a document originally issued in Polish)

3.1 Income tax (cont.)

Tax loss not recognized in calculation of deferred tax assets

The amount of tax losses not included in the calculation of deferred tax asset results from tax losses generated by the following companies:

	30/06/2021	31/12/2020
PKP CARGO INTERNATIONAL HU Zrt.	11.9	11.7
AWT Čechofracht a.s.	14.9	14.6
PKP CARGOTABOR USŁUGI Sp. z o.o.	3.7	3.8
Total	**30.5**	**30.1**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 30 June 2021:

Year	2021	2022	2023	2024	2025	2026	Total
Unused tax losses	8.7	6.5	6.8	4.8	3.6	0.1	**30.5**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2020

Year	2021	2022	2023	2024	2025	2026	Total
Unused tax losses	8.6	6.4	6.7	4.8	3.6	-	**30.1**

4. Notes on debt

4.1 Reconciliation of debt liabilities

The Group's debt liabilities consist of the following two main categories: bank loans and borrowings and leases. Loan agreements were signed mainly to finance current activity, finance and refinance the investment plan and acquisitions. The repayment of liabilities contracted under the executed loan agreements is made in PLN and EUR.

Lease agreements are signed in PLN, CZK and EUR and pertain mainly to property and rolling stock.

Items in foreign currencies

30/06/2021	In the functional currency PLN	In a foreign currency EUR	In a foreign currency CZK	Total
Bank loans and borrowings	1,090.3	600.6	-	**1,690.9**
Leases	752.8	78.8	34.9	**866.5**
Total	**1,843.1**	**679.4**	**34.9**	**2,557.4**

31/12/2020	In the functional currency PLN	In a foreign currency EUR	In a foreign currency CZK	Total
Bank loans and borrowings	999.2	660.1	-	**1,659.3**
Leases	772.6	113.7	34.7	**921.0**
Total	**1,771.8**	**773.8**	**34.7**	**2,580.3**

(in PLN million) (translation of a document originally issued in Polish)

4.1 Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

6 months ended 30/06/2021	Bank loans and borrowings	Leases	Total
1/01/2021	**1,659.3**	**921.0**	**2,580.3**
New liabilities contracted	189.4	14.0	**203.4**
Modifications of existing agreements	-	22.1	**22.1**
Leaseback	-	7.4	**7.4**
Transaction costs	0.8	-	**0.8**
Accrual of interest	7.0	15.5	**22.5**
Payments under debt, including:			
Repayments of the principal	(145.1)	(66.5)	**(211.6)**
Interest paid	(7.1)	(17.6)	**(24.7)**
Transaction costs	(0.4)	-	**(0.4)**
Other	-	(24.8)	**(24.8)**
FX valuation	(11.3)	(1.5)	**(12.8)**
FX resulting from translation	(1.7)	(3.1)	**(4.8)**
30/06/2021	**1,690.9**	**866.5**	**2,557.4**
Long-term	1,185.1	737.4	**1,922.5**
Short-term	505.8	129.1	**634.9**
Total	**1,690.9**	**866.5**	**2,557.4**

6 months ended 30/06/2020	Bank loans and borrowings	Leases	Total
1/01/2020	**1,626.2**	**996.5**	**2,622.7**
New liabilities contracted	285.5	30.3	**315.8**
Modifications of existing agreements	-	16.3	**16.3**
Transaction costs	0.9	-	**0.9**
Accrual of interest	13.2	17.4	**30.6**
Payments under debt, including:			
Repayments of the principal	(182.1)	(75.3)	**(257.4)**
Interest paid	(13.8)	(16.8)	**(30.6)**
Transaction costs	(0.9)	-	**(0.9)**
Other	-	(13.8)	**(13.8)**
FX valuation	27.9	7.1	**35.0**
FX resulting from translation	(0.6)	(1.3)	**(1.9)**
30/06/2020	**1,756.3**	**960.4**	**2,716.7**
Long-term	1,493.0	813.7	**2,306.7**
Short-term	263.3	146.7	**410.0**
Total	**1,756.3**	**960.4**	**2,716.7**

Other amounts under leases recognized in the statement of profit or loss and other comprehensive income:

	Presentation in the statement of profit or loss and other comprehensive income	30/06/2021	30/06/2020
Revenues from operating leases	Revenues from contracts with customers	14.4	18.3
Interest income from leases	Financial revenue	0.2	0.3
Costs on account of:			
Short-term leases	Other services	(19.6)	(13.6)
Leases of low-value assets	Other services	(1.8)	(1.1)
Variable lease payments not included in the measurement of lease liabilities	Other services	(1.7)	(1.0)

(in PLN million) (translation of a document originally issued in Polish)

4.1 Reconciliation of debt liabilities (cont.)

Terms and conditions of loan agreements

As described in more details in Note 4.1. of the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020, contracts signed with banks impose legal and financial obligations on the Group that are standard in such transactions. The key ratios indicating the performance of the agreements signed by the Group include: the Net Debt/EBITDA ratio and the total debt ratio.

According to the provisions of most of the agreements signed by the Group, compliance with the terms and conditions of loan agreements is reviewed at the end of each financial year. In the case of three such agreements, the above-mentioned ratios are reviewed semi-annually.

Before the balance sheet date of 30 June 2021, the Parent Company obtained from the creditors a waiver of the covenant to maintain the net debt/EBITDA ratios calculated on the basis of standalone and consolidated financial data at a level not greater than 3.0. The waiver was contingent on the maintenance of the net debt/EBITDA ratio calculated on the basis of the PKP CARGO Group's consolidated financial statements as at 30 June 2021 at a level not greater than 3.5. This condition was met as at 30 June 2021 and therefore the liabilities under the loans did not have to be reclassified from the long to the short part.

In the case of other subsidiaries, the covenants under loan agreements were satisfied as at 30 June 2021.

The economic situation associated, among others, with the effects of the COVID-19 pandemic, may have an important effect on the value of the ratios from the loan agreements in successive periods. In the event of a further economic slowdown, there is a risk that the terms and conditions of loan agreements may not be satisfied in the future.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	30/06/2021	31/12/2020
Investment loan	Bank Polska Kasa Opieki S.A.	31/05/2021	PLN	-	10.0
Investment loan	European Investment Bank [1)]	16/06/2024	EUR	271.2	-
Overdraft	Bank Polska Kasa Opieki S.A.	25/06/ 2021	PLN	-	10.0
Overdraft	Bank Polska Kasa Opieki S.A.	09/07/2021	PLN	1.6	1.6
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/12/2021	PLN	12.1	99.9
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2022	PLN	8.1	100.0
Overdraft	Bank Gospodarstwa Krajowego [2)]	18/06/2022	PLN	100.0	-
Leasing facility	Millennium Leasing Sp. z o.o.	02/12/2021	PLN	26.5	38.7
Leasing facility	PKO Leasing S.A. [3)]	18/06/2022	PLN	100.0	-
Total				**519.5**	**260.2**

[1)] On 16 June 2021, the Parent Company signed an investment loan agreement with the European Investment Bank up to the total amount of EUR 60 million to be used to co-finance investments associated with the purchase and modernization of the rolling stock. The availability period of the loan expires on 16 June 2024.

[2)] On 18 June 2021, the Parent Company signed an overdraft agreement with Bank Gospodarstwa Krajowego up to the total maximum amount of PLN 100 million. The subject matter of the loan agreement is financing current activity. The availability period expires and the final repayment date is 18 June 2022.

[3)] On 18 June 2021, the Parent Company signed a master leasing agreement with PKO Leasing S.A. up to the total value of leased assets not exceeding PLN 100 million. The limit is available for the term of 12 months with a 12-month extension option.

(in PLN million) (translation of a document originally issued in Polish)

4.2 Equity

Share capital

	30/06/2021	31/12/2020
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 30 June 2021 and 31 December 2020, the share capital consisted of ordinary shares with a par value of PLN 50 each. Fully paid up ordinary shares with a par value of PLN 50 are equivalent to one vote at the shareholder meeting and carry the right to a dividend.

PKP S.A. is the parent company of PKP CARGO S.A. Pursuant to the articles of association of the Parent Company, PKP S.A. holds special personal rights to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board plus one. PKP S.A. has a personal right to appoint the Supervisory Board Chairperson and to determine the number of Supervisory Board Members. Additionally, in the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have an exclusive personal right to propose candidates for the President of the Parent Company's Management Board. The personal rights of PKP S.A. shall be vested always when PKP S.A. holds at least 25% of the Parent Company's share capital.

In the period of 6 months ended 30 June 2021 and 30 June 2020, there were no movements in the share capital of the Parent Company.

Movement in supplementary capital and retained earnings

On 28 June 2021, the Parent Company's Ordinary Shareholder Meeting adopted a resolution to cover the net loss incurred in 2020 in the amount of PLN 173.9 million with retained earnings from previous years.

In the period of 6 months ended 30 June 2021, changes in the Group's supplementary capital resulted from a resolution of 31 May 2021 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of a partial allocation of the net profit of PLN 8.3 million generated in 2020 to supplementary capital, and a resolution of 31 May 2021 adopted by the Ordinary Shareholder Meeting of PKP CARGOTABOR Sp. z o.o. on covering the 2020 net loss in the amount of PLN 29.9 million from supplementary capital.

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	30/06/2021	31/12/2020
Cash on hand and on bank accounts	98.7	134.0
Bank deposits up to 3 months	10.2	171.6
Other cash	-	0.4
Total	**108.9**	**306.0**
including restricted cash	*26.5*	*49.1*

Restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.

(in PLN million) (translation of a document originally issued in Polish)

5. Notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Movement in rolling stock and other property, plant and equipment

6 months ended 30/06/2021	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2021	**7,044.0**	**945.2**	**479.4**	**100.7**	**44.6**	**78.3**	**1,648.2**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	173.3	**173.3**
Other acquisitions	-	-	-	-	-	242.8	**242.8**
Purchase of leased items	4.6	-	-	-	-	-	**-**
Settlement of fixed assets under construction	376.8	3.7	6.3	0.8	0.4	(388.0)	**(376.8)**
Grant for non-current assets	(29.7)	(1.1)	(1.3)	-	-	(2.0)	**(4.4)**
Sales	(4.1)	(0.3)	(0.3)	(1.9)	-	-	**(2.5)**
Leaseback	-	-	(8.0)	-	-	-	**(8.0)**
Liquidation	(135.4)	(2.2)	(4.2)	(0.2)	(0.7)	(0.7)	**(8.0)**
Reclassified to assets held for sale [1)]	(25.1)	-	-	-	-	-	**-**
FX differences	13.0	0.6	0.3	0.6	-	0.3	**1.8**
Other	1.4	-	-	(0.4)	-	-	**(0.4)**
30/06/2021	**7,245.5**	**945.9**	**472.2**	**99.6**	**44.3**	**104.0**	**1,666.0**
Accumulated depreciation							
1/01/2021	**(2,612.9)**	**(295.9)**	**(345.3)**	**(84.7)**	**(38.9)**	**-**	**(764.8)**
(Increases) / decreases:							
Depreciation	(248.9)	(18.4)	(14.4)	(1.6)	(0.9)	-	**(35.3)**
Purchase of leased items	(1.2)	-	-	-	-	-	**-**
Sales	3.3	0.3	0.3	1.9	-	-	**2.5**
Leaseback	-	-	0.1	-	-	-	**0.1**
Liquidation	126.6	2.2	4.1	0.1	0.7	-	**7.1**
Reclassified to assets held for sale [1)]	10.9	-	-	-	-	-	**-**
FX differences	(2.7)	(1.7)	(1.5)	(0.6)	-	-	**(3.8)**
Other	(0.5)	(0.1)	(0.3)	-	-	-	**(0.4)**
30/06/2021	**(2,725.4)**	**(313.6)**	**(357.0)**	**(84.9)**	**(39.1)**	**-**	**(794.6)**
Accumulated impairment							
1/01/2021	**(186.1)**	**(2.4)**	**(1.7)**	**-**	**-**	**(3.7)**	**(7.8)**
(Increases) / decreases:							
Recognition	-	-	(0.6)	-	-	(5.8)	**(6.4)**
Utilization	0.4	-	0.6	-	-	0.7	**1.3**
Reclassified to assets held for sale [1)]	0.1	-	-	-	-	-	**-**
FX differences	1.7	-	-	-	-	-	**-**
30/06/2021	**(183.9)**	**(2.4)**	**(1.7)**	**-**	**-**	**(8.8)**	**(12.9)**
Net value							
1/01/2021	**4,245.0**	**646.9**	**132.4**	**16.0**	**5.7**	**74.6**	**875.6**
30/06/2021	**4,336.2**	**629.9**	**113.5**	**14.7**	**5.2**	**95.2**	**858.5**

[1)] On 30 June 2021, the Supervisory Board of the Parent Company gave its consent to sign agreements with business partners for the sale of 988 freight cars with the total book value of PLN 14.1 million.

(in PLN million) (translation of a document originally issued in Polish)

5.1 Rolling stock and other property, plant and equipment (cont.)

6 months ended 30/06/2020	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2020	**6,847.0**	**916.4**	**435.8**	**99.6**	**43.9**	**73.2**	**1,568.9**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	175.7	**175.7**
Other acquisitions	-	-	-	-	-	192.3	**192.3**
Purchase of leased items	-	-	2.9	1.9	-	-	**4.8**
Settlement of fixed assets under construction	314.4	8.0	14.9	0.7	0.4	(338.4)	**(314.4)**
Grant for non-current assets	(11.4)	-	-	-	-	-	**-**
Sales	(11.4)	(0.4)	(0.3)	(2.3)	-	-	**(3.0)**
Liquidation	(84.9)	(2.4)	(1.4)	(0.1)	(0.2)	(0.6)	**(4.7)**
Reclassified to assets held for sale	(40.0)	-	-	-	-	-	**-**
FX differences	(2.0)	(0.5)	(0.3)	(0.2)	-	(0.2)	**(1.2)**
Other	(0.5)	(0.1)	0.1	-	(0.2)	(0.8)	**(1.0)**
30/06/2020	**7,011.2**	**921.0**	**451.7**	**99.6**	**43.9**	**101.2**	**1,617.4**
Accumulated depreciation							
1/01/2020	**(2,310.2)**	**(262.0)**	**(309.7)**	**(81.0)**	**(36.8)**	**-**	**(689.5)**
(Increases) / decreases:							
Depreciation	(271.4)	(16.9)	(19.0)	(2.6)	(1.5)	-	**(40.0)**
Purchase of leased items	-	-	(1.7)	(1.4)	-	-	**(3.1)**
Sales	5.5	-	0.3	2.3	-	-	**2.6**
Liquidation	81.1	2.3	1.3	0.1	0.2	-	**3.9**
Reclassified to assets held for sale	14.8	-	-	-	-	-	**-**
FX differences	1.5	0.1	0.1	0.2	-	-	**0.4**
Other	(0.1)	(0.1)	(0.4)	(0.1)	0.1	-	**(0.5)**
30/06/2020	**(2,478.8)**	**(276.6)**	**(329.1)**	**(82.5)**	**(38.0)**	**-**	**(726.2)**
Accumulated impairment							
1/01/2020	**(207.2)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.9)**	**(7.0)**
(Increases) / decreases:							
Recognition	-	-	-	-	-	(0.1)	**(0.1)**
Utilization	3.0	-	-	-	-	0.6	**0.6**
Reclassified to assets held for sale	3.1	-	-	-	-	-	**-**
FX differences	(4.1)	-	-	-	-	-	**-**
30/06/2020	**(205.2)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.4)**	**(6.5)**
Net value							
1/01/2020	**4,329.6**	**652.0**	**124.4**	**18.6**	**7.1**	**70.3**	**872.4**
30/06/2020	**4,327.2**	**642.0**	**120.9**	**17.1**	**5.9**	**98.8**	**884.7**

(in PLN million) (translation of a document originally issued in Polish)

5.2 Rights-of-use assets

Movement in rights-of-use assets

6 months ended 30/06/2021	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2021	**467.2**	**792.1**	**29.1**	**17.6**	**1.9**	**1,307.9**
Increases / (decreases):						
New leases	4.2	2.4	6.5	0.9	-	**14.0**
Modifications of existing agreements	0.1	21.9	0.1	-	-	**22.1**
Leaseback	-	-	7.3	-	-	**7.3**
Periodic repairs of rolling stock	0.2	-	-	-	-	**0.2**
Return of leased items	(20.5)	(29.0)	(0.1)	(0.1)	-	**(49.7)**
Purchase of leased items	(4.6)	-	-	-	-	**(4.6)**
Other	(11.7)	0.2	0.8	-	(0.8)	**(11.5)**
FX differences	1.7	0.6	0.2	-	-	**2.5**
30/06/2021	**436.6**	**788.2**	**43.9**	**18.4**	**1.1**	**1,288.2**
Accumulated depreciation						
1/01/2021	**(157.5)**	**(122.8)**	**(8.7)**	**(9.7)**	**(0.6)**	**(299.3)**
(Increases) / decreases:						
Depreciation	(26.2)	(28.5)	(3.1)	(2.3)	(0.1)	**(60.2)**
Return of leased items	18.3	9.3	-	-	-	**27.6**
Purchase of leased items	1.2	-	-	-	-	**1.2**
Other	10.9	(2.4)	-	-	-	**8.5**
FX differences	(0.7)	(0.2)	-	-	-	**(0.9)**
30/06/2021	**(154.0)**	**(144.6)**	**(11.8)**	**(12.0)**	**(0.7)**	**(323.1)**
Net value						
1/01/2021	**309.7**	**669.3**	**20.4**	**7.9**	**1.3**	**1,008.6**
30/06/2021	**282.6**	**643.6**	**32.1**	**6.4**	**0.4**	**965.1**

6 months ended 30/06/2020	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2020	**450.6**	**767.0**	**23.7**	**18.5**	**1.7**	**1,261.5**
Increases / (decreases):						
New leases	17.9	10.7	0.6	1.1	-	**30.3**
Modifications of existing agreements	0.5	15.5	0.2	-	-	**16.2**
Periodic repairs of rolling stock	2.1	-	-	-	-	**2.1**
Return of leased items	(4.3)	(12.0)	(0.1)	(0.1)	-	**(16.5)**
Purchase of leased items	-	-	(2.9)	(1.9)	-	**(4.8)**
Other	(8.2)	(1.5)	1.4	(0.2)	(0.6)	**(9.1)**
FX differences	(0.8)	(0.3)	(0.1)	-	-	**(1.2)**
30/06/2020	**457.8**	**779.4**	**22.8**	**17.4**	**1.1**	**1,278.5**
Accumulated depreciation						
1/01/2020	**(109.2)**	**(61.8)**	**(4.9)**	**(6.4)**	**(0.4)**	**(182.7)**
(Increases) / decreases:						
Depreciation	(33.6)	(32.2)	(2.3)	(2.7)	(0.1)	**(70.9)**
Return of leased items	3.9	3.0	-	-	-	**6.9**
Purchase of leased items	-	-	1.7	1.4	-	**3.1**
Other	5.5	(0.6)	(0.1)	(0.1)	0.1	**4.8**
FX differences	0.2	0.1	-	-	-	**0.3**
30/06/2020	**(133.2)**	**(91.5)**	**(5.6)**	**(7.8)**	**(0.4)**	**(238.5)**
Net value						
1/01/2020	**341.4**	**705.2**	**18.8**	**12.1**	**1.3**	**1,078.8**
30/06/2020	**324.6**	**687.9**	**17.2**	**9.6**	**0.7**	**1,040.0**

(in PLN million) (translation of a document originally issued in Polish)

5.3 Investments in entities accounted for under the equity method

Investments in entities accounted for under the equity method

	Carrying amount	
	30/06/2021	31/12/2020
COSCO Shipping Lines (POLAND) Sp. z o.o.	0.6	1.2
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	21.3	21.2
Transgaz S.A.	6.2	6.3
Rentrans Cargo Sp. z o.o.	-	7.0
PKP CARGO CONNECT GmbH	0.3	0.2
PKP CARGO INTERNATIONAL SK a. s.	2.7	2.8
PRIMOL-RAIL d.o.o.	2.1	2.1
Centralny Terminal Multimodalny Sp. z o.o.	1.2	1.2
Total	**34.4**	**42.0**

Statement of changes in investments in entities accounted for under the equity method

	6 months ended 30/06/2021	6 months ended 30/06/2020
As at the beginning of the reporting period	**42.0**	**40.4**
Sale of shares	(7.0)	-
Share in the profit / (loss) of entities accounted for under the equity method	2.5	0.8
Movement in equity on account of dividends	(2.9)	-
FX differences from translation of financial statements	(0.2)	0.2
As at the end of the reporting period	**34.4**	**41.4**

5.4 Inventories

Structure of inventories

	30/06/2021	31/12/2020
Strategic inventories	30.3	33.7
Rolling stock during liquidation	42.2	40.3
Other inventories	98.6	97.2
Impairment losses	(4.6)	(5.4)
Net inventories`	**166.5**	**165.8**

5.5 Trade receivables

Structure of trade receivables

	30/06/2021	31/12/2020
Trade receivables	738.9	738.0
Impairment loss on receivables	(136.9)	(149.2)
Total	**602.0**	**588.8**
Non-current assets	3.5	3.0
Current assets	598.5	585.8
Total	**602.0**	**588.8**

(in PLN million) (translation of a document originally issued in Polish)

5.6 Other assets

Structure of other assets

	30/06/2021	31/12/2020
Financial assets		
Shares in unlisted companies	5.6	5.6
Non-financial assets		
Costs settled in time		
Prepayments for purchase of electricity	28.3	24.0
Insurance	12.5	7.0
IT services	6.0	8.1
Purchase of transportation benefits	6.3	0.2
Other costs settled over time	3.6	2.3
Other[1)]	36.3	1.9
Other receivables		
VAT settlements	34.9	35.6
Receivables from the sale of shares	5.9	-
Other	16.4	12.6
Intangible assets		
Licenses	22.2	20.8
Other intangible assets	0.3	0.3
Intangible assets under development	4.9	4.8
Total	**183.2**	**123.2**
Non-current assets	67.9	35.1
Current assets	115.3	88.1
Total	**183.2**	**123.2**

[1)] On 16 June 2021, Parent Company and Forespo Poland S.A. signed a conditional purchase agreement and a conditional preliminary purchase agreement for the properties remaining after the former Gniewczyna Rail Car Factory in Gniewczyna Łańcucka. The agreement transferring the ownership of those properties to the Parent Company will be signed immediately after all the conditions precedent are satisfied, among others the Tryńcza Township waiving its right of first refusal for the property. In order to secure the above transaction, the Parent Company paid in a notary deposit (including VAT) in the amount of EUR 7.4 million, which is equivalent to PLN 33.3 million as at 30 June 2021.

5.7 Investment liabilities

Structure of investment liabilities

	30/06/2021	31/12/2020
Investment liabilities related to rolling stock	332.3	260.5
Investment liabilities related to real properties	3.3	9.8
Other	4.6	8.7
Total	**340.2**	**279.0**
Long-term liabilities	143.9	145.5
Short-term liabilities	196.3	133.5
Total	**340.2**	**279.0**

(in PLN million) (translation of a document originally issued in Polish)

5.8 Provisions for employee benefits

Movement in provisions for employee benefits

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2021	**234.5**	**179.3**	**40.3**	**7.3**	**310.5**	**28.7**	**800.6**
Current service cost	4.2	2.0	0.4	0.2	7.4	-	**14.2**
Interest expenses	1.5	1.2	0.3	0.1	2.1	-	**5.2**
Actuarial (profits)/ losses recognized in other comprehensive income	(9.1)	(19.0)	(8.3)	-	-	-	**(36.4)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	(12.0)	-	**(12.0)**
Recognition of provisions	-	-	-	-	-	30.0	**30.0**
Reversal of provisions	-	-	-	-	-	(5.7)	**(5.7)**
Benefits paid out	(5.4)	(2.7)	(0.5)	(0.7)	(11.3)	(1.0)	**(21.6)**
FX differences	-	-	-	-	0.1	0.1	**0.2**
30/06/2021	**225.7**	**160.8**	**32.2**	**6.9**	**296.8**	**52.1**	**774.5**
Long-term provisions	185.8	155.3	31.2	6.0	246.3	-	**624.6**
Short-term provisions	39.9	5.5	1.0	0.9	50.5	52.1	**149.9**
Total	**225.7**	**160.8**	**32.2**	**6.9**	**296.8**	**52.1**	**774.5**

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2020	**234.6**	**139.7**	**36.9**	**8.8**	**329.4**	**34.8**	**784.2**
Current service cost	4.1	1.6	0.4	0.2	7.4	-	**13.7**
Interest expenses	2.1	1.4	0.4	0.1	3.0	-	**7.0**
Actuarial (profits)/ losses recognized in other comprehensive income	7.8	42.1	2.0	0.2	-	-	**52.1**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	9.2	-	**9.2**
Recognition of provisions	-	-	-	-	-	25.8	**25.8**
Reversal of provisions	-	-	-	-	-	(5.8)	**(5.8)**
Benefits paid out	(4.4)	(2.7)	(0.6)	(0.4)	(11.2)	(5.5)	**(24.8)**
FX differences	(0.1)	-	-	-	0.1	-	**-**
30/06/2020	**244.1**	**182.1**	**39.1**	**8.9**	**337.9**	**49.3**	**861.4**
Long-term provisions	202.0	176.7	38.1	7.5	287.8	-	**712.1**
Short-term provisions	42.1	5.4	1.0	1.4	50.1	49.3	**149.3**
Total	**244.1**	**182.1**	**39.1**	**8.9**	**337.9**	**49.3**	**861.4**

5.9 Other provisions

Structure of other provisions

	30/06/2021	31/12/2020
Provision for penalties imposed by anti-monopoly authorities	-	0.4
Provision for land reclamation	6.6	6.4
Other provisions[1]	17.3	23.0
Total	**23.9**	**29.8**
Long-term provisions	5.9	5.7
Short-term provisions	18.0	24.1
Total	**23.9**	**29.8**

[1] A decrease in this item was mainly due to utilization of provisions in connection with the fulfillment of the terms and conditions of the arrangement between the Parent Company and contractors regulating disputed claims in litigation.

(in PLN million) (translation of a document originally issued in Polish)

5.10 Other liabilities

Structure of other liabilities

	30/06/2021	31/12/2020
Financial liabilities		
FX forwards	0.1	2.7
Cash pool	1.2	1.1
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	32.5	46.5
Public law liabilities	108.1	121.5
Settlements with employees	90.9	97.0
VAT settlements	4.1	5.3
Current income tax liabilities	4.5	1.7
Other settlements	25.0	10.4
Total	**266.4**	**286.2**
Short-term liabilities	266.4	286.2
Total	**266.4**	**286.2**

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	30/06/2021	31/12/2020
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	5.6	5.6
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	602.0	588.8
Receivables on account of sale of non-financial non-current assets		0.1	0.1
Receivables from the sale of shares	*Note 5.6*	5.9	-
Cash and cash equivalents	*Note 4.3*	108.9	306.0
Financial assets excluded from the scope of IFRS 9		10.6	11.0
Total		**733.1**	**911.5**

Financial liabilities by categories and classes	Note	30/06/2021	31/12/2020
Hedging financial instruments			
Derivatives	*Note 5.10*	0.1	2.7
Bank loans and borrowings	*Note 4.1*	600.5	660.0
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	41.6	53.1
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	1,090.4	999.3
Trade liabilities		359.0	349.0
Investment liabilities	*Note 5.7*	340.2	279.0
Cash pool	*Note 5.10*	1.2	1.1
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	824.9	867.9
Total		**3,257.9**	**3,212.1**

Impairment losses on trade receivables are presented in **Note 5.5** to these Interim Condensed Consolidated Financial Statements.

(in PLN million) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

Hedge accounting

In the period from 1 January 2021 to 30 June 2021, the Group applied hedge accounting to its cash flows. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 30 June 2021, the following hedging instruments had been established by the Group:

- investment loans denominated in EUR. The hedged cash flows will be realized until January 2035. As at 30 June 2021, the nominal amount of the hedging instrument was EUR 132.8 million, which is an equivalent of PLN 600.5 million.
- leases denominated in EUR. The hedged cash flows will be realized until May 2024. As at 30 June 2021, the nominal amount of the hedging instrument was EUR 9.2 million, which is an equivalent of PLN 41.6 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 30 June 2021, the value of liabilities from measurement of hedging instruments was PLN 0.1 million.

Fair value hierarchy

As at 30 June 2021 and 31 December 2020, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	30/06/2021		31/12/2020	
	Level 2	Level 3	Level 2	Level 3
Assets				
Investments in equity instruments - shares in unlisted companies	-	5.6	-	5.6
Liabilities				
Derivatives – FX forward contracts	0.1	-	2.7	-

Measurement methods for financial instruments carried at fair value

a) FX forward contracts

The fair value of FX forward contracts is determined on the basis of discounted future cash flows on account of executed transactions calculated based on the difference between the forward price and the transaction price. A forward price is calculated based on NBP fixing and the interest rate curve derived from FX swap transactions.

b) Investments in financial instruments

This line item includes predominantly an equity stake in Euroterminal Sławków Sp. z o.o. worth PLN 4.9 million, the value of which was measured by an independent adviser using the modified Swiss method. The Swiss method is a mixed measurement method as it combines the asset value aspect with the ability to generate future cash flows. According to the Swiss method, the value of the enterprise is calculated as the weighted average of the values determined by the asset-based approach and the income-based approach. This method attaches a greater weight (twice as large) to the value determined by the income-based approach. The adoption of the Swiss method is justified on the grounds that Euroterminal Sławków Sp. z o.o. has a moderate ability to generate profits in the future but owns material assets in the form of land plots and property.

c) Other financial instruments

For the category of financial instruments which are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because the fair values of these financial instruments as at 30 June 2021 and 31 December 2020 were not materially different from their values presented in the statement of financial position.

Changes to the measurement of financial instruments for Level 3 of the fair value hierarchy

	6 months ended 30/06/2021	6 months ended 30/06/2020
As at the beginning of the reporting period	**5.6**	**6.3**
Profits / (losses) for the period recognized in other comprehensive income	-	(0.7)
As at the end of the reporting period	**5.6**	**5.6**

In the period of 6 months ended 30 June 2021 and 30 June 2020, there were no transfers between level 2 and level 3 of the fair value hierarchy.

(in PLN million) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

Revenues, costs, profits and losses in the consolidated statement of profit or loss and other comprehensive income by categories of financial instruments

6 months ended 30/06/2021	Hedging financial instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(2.2)	1.5	0.2	(7.7)	(14.7)	**(22.9)**
FX differences	-	(3.7)	-	1.3	1.2	**(1.2)**
Impairment losses / revaluation	-	4.4	-	-	-	**4.4**
Transaction costs related to bank loans	-	-	-	(0.8)	-	**(0.8)**
Effect of settlement of cash flow hedge accounting	(6.0)	-	-	-	-	**(6.0)**
Profit / (loss) before tax	**(8.2)**	**2.2**	**0.2**	**(7.2)**	**(13.5)**	**(26.5)**
Revaluation	19.6	-	-	-	-	**19.6**
Other comprehensive income	**19.6**	**-**	**-**	**-**	**-**	**19.6**

In the period of 6 months ended 30 June 2021, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (6.0) million.
In the period of 6 months ended 30 June 2021, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN 2.6 million, bank loans in the amount of PLN 15.7 million and lease liabilities in the amount of PLN 1.3 million, recognized as part of the hedge accounting applied by the Group.

6 months ended 30/06/2020	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(1.2)	-	2.8	0.3	(13.8)	(17.4)	**(29.3)**
FX differences	(0.6)	-	7.1	-	(7.6)	(7.4)	**(8.5)**
Impairment losses / revaluation	(0.1)	-	1.3	-	-	-	**1.2**
Transaction costs related to bank loans	-	-	-	-	(0.9)	-	**(0.9)**
Effect of settlement of cash flow hedge accounting	(0.8)	-	-	-	-	-	**(0.8)**
Profit / (loss) before tax	**(2.7)**	**-**	**11.2**	**0.3**	**(22.3)**	**(24.8)**	**(38.3)**
Revaluation	(30.0)	(0.7)	-	-	-	-	**(30.7)**
Other comprehensive income	**(30.0)**	**(0.7)**	**-**	**-**	**-**	**-**	**(30.7)**

In the period of 6 months ended 30 June 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (0.8) million.
In the period of 6 months ended 30 June 2020, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (7.5) million and bank loans in the amount of PLN (22.5) million, recognized as part of the hedge accounting applied by the Group.

(in PLN million) (translation of a document originally issued in Polish)

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 6 months ended 30 June 2021 and 30 June 2020, the State Treasury was an upper level parent entity of the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Interim Condensed Consolidated Financial Statements, the Parent Company's Management Board has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the period of 6 months ended 30 June 2021 and 30 June 2020, there were no individual transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope and amount. In the periods covered by these Interim Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: PGE, JSW, Azoty and ENEA. In the period of 6 months ended 30 June 2021, the Group's most important suppliers related to the State Treasury were Orlen Group entities.

Transactions with PKP Group related parties

In the period covered by these Interim Condensed Consolidated Financial Statements, the Group entered into the following commercial transactions with PKP Group related parties:

	6 months ended 30/06/2021		30/06/2021	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	36.2	0.1	567.9
Subsidiaries/co-subsidiaries – unconsolidated	3.2	11.2	0.6	1.7
Associates	0.8	0.1	0.2	-
Other PKP Group related parties	12.7	254.4	2.6	57.8

	6 months ended 30/06/2020		31/12/2020	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.3	36.9	1.2	589.4
Subsidiaries/co-subsidiaries – unconsolidated	2.7	6.5	0.1	1.7
Associates	2.5	0.2	-	0.2
Other PKP Group related parties	8.6	236.4	2.5	61.1

Purchase transactions with the parent company (PKP S.A.) pertained in particular to lease agreements, the supply of utilities and occupational medicine services.

Sales transactions within the PKP Group included freight transport services, lease of equipment and sub-lease of real estate. Purchase transactions comprised, among others, maintenance and repair of rolling stock, freight forwarding services, transshipment services and intermodal transport.
Sales transactions with other PKP Group related parties comprised, among others, train traction services, lease and operation of locomotives, services related to financial settlements with foreign rail freight companies, rolling stock maintenance services and sub-lease of real estate. Purchase transactions comprised, among others, access to rail infrastructure, lease of real estate, supply of utilities, maintenance of rail traffic facilities, purchase of network maintenance services, operation of IT systems.

In addition to commercial transactions, the Group had cash pooling settlements disclosed in **Note 5.10** of these Interim Condensed Consolidated Financial Statements.

(in PLN million) (translation of a document originally issued in Polish)

7.1 Related party transactions (cont.)

Remunerations of key management personnel

Remunerations of key management personnel presented in this note include the amounts of benefits disbursed in the relevant period.

Remunerations of Management Board members	Parent Company		Subsidiaries	
	6 months ended 30/06/2021	6 months ended 30/06/2020	6 months ended 30/06/2021	6 months ended 30/06/2020
Short-term benefits	2.4	1.2	2.8	3.0
Post-employment benefits	-	0.1	0.1	0.1
Termination benefits	-	0.1	0.1	-
Total	**2.4**	**1.4**	**3.0**	**3.1**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	6 months ended 30/06/2021	6 months ended 30/06/2020	6 months ended 30/06/2021	6 months ended 30/06/2020
Short-term benefits	0.6	0.6	0.1	0.4
Total	**0.6**	**0.6**	**0.1**	**0.4**

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	6 months ended 30/06/2021	6 months ended 30/06/2020	6 months ended 30/06/2021	6 months ended 30/06/2020
Short-term benefits	3.2	3.5	8.5	9.0
Post-employment benefits	-	-	0.2	0.6
Total	**3.2**	**3.5**	**8.7**	**9.6**

In the period of 6 months ended 30 June 2021 and 30 June 2020, members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan or guarantee transactions with the Group.

All related party transactions were effected on an arm's length basis.

7.2 Liabilities to incur expenditures for non-financial non-current assets

Structure of liabilities to incur expenditures for non-financial non-current assets

	30/06/2021	31/12/2020
Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment	664.2	856.4
Contractual liabilities on account of non-commenced lease contracts	3.3	5.9
Total	**667.5**	**862.3**

Contractual liabilities relating to the purchase of non-financial non-current assets resulted mainly from the performance of agreements concluded in previous periods. The Group was awarded co-financing from aid funds of the European Union for the performance of the contractual liabilities presented as at 30 June 2021 in the amount of approx. PLN 105.4 million.

(in PLN million) (translation of a document originally issued in Polish)

7.3 Contingent liabilities

Structure of contingent liabilities

	30/06/2021	31/12/2020
Guarantees issued on the Group's request	106.9	93.9
Other contingent liabilities	112.9	114.9
Total	**219.8**	**208.8**

Guarantees issued on the Group's order

As at 30 June 2021, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, excise tax guarantees and customs guarantees.

Other contingent liabilities

This line item comprises the claims made against the Group in court proceedings in the case of which the probability of outflow of cash is assessed as low, and claims in the case of which it is not possible to make a reliable estimate of the payment amount to be made by the Group in the future. The amounts presented in this note correspond to the value of the full claims reported by external entities. Assessment of the estimates may change in subsequent periods as a result of future events.

7.4 Subsequent events

Events after the balance sheet date are described in **Chapter 4.6** of the Management Board Report on the Activity of the PKP CARGO Group for H1 2021.

7.5 Approval of the financial statements

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 19 August 2021.

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 19 August 2021

PKPCARGO

Management Board Report On The Activity of the **PKP CARGO GROUP** for H1 2021

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP IN THE FIRST HALF OF 2021

LIST OF TABLES

LIST OF FIGURES

1. Introduction

Dear Stakeholders,

The financial performance of the PKP CARGO Group in the first half of 2021, as compared to the same period in 2020, was better in terms of all key indicators. This was a consequence of a two-digit rate of growth in the provision of transport services in terms of both freight volume and freight turnover. We hope that the country's GDP growth rate will support the economic upturn in the rail freight sector in the second half of the year and will translate into an increase the prices of transport services.

REVENUES FROM CONTRACTS	EBITDA	NET RESULT
2,046.0 PLN million	226.8 PLN million	-130.0 PLN million

2. Organization of the PKP CARGO Group

2.1 Highlights on the Company and the PKP CARGO Group[1]

The PKP CARGO Group is the biggest rail freight operator in Poland and one of the biggest in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to UTK[2]) and is a leading operator on the Czech market (according to SZDC[3]).

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.

The Group offers domestic and international transport of cargo as well as comprehensive logistics services for rail freight. In addition, the following services are provided by the Group to support clients and supplement the offering:

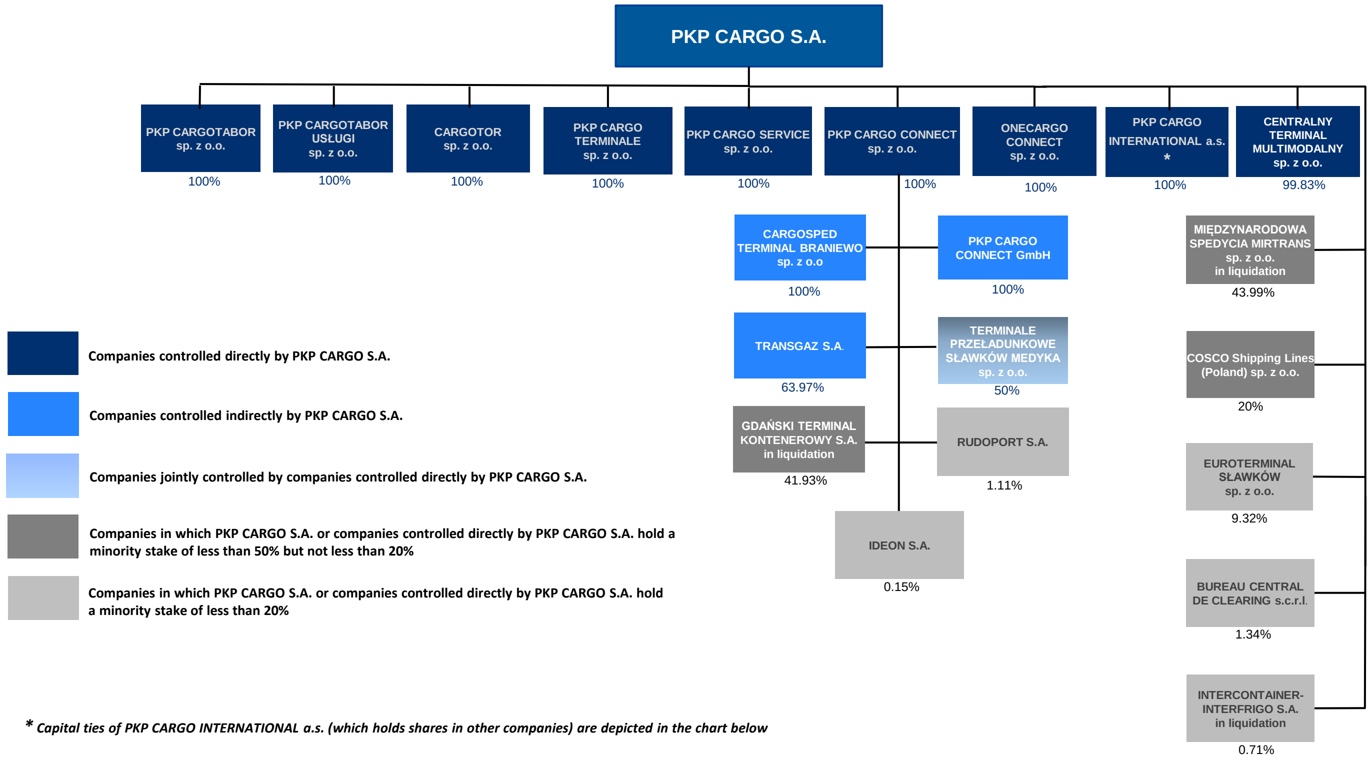
[1] Whenever the Report mentions:
- the Company or the Parent Company, it should be construed to mean PKP CARGO S.A.,
- the PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

[2] Office of Rail Transport

[3] Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)

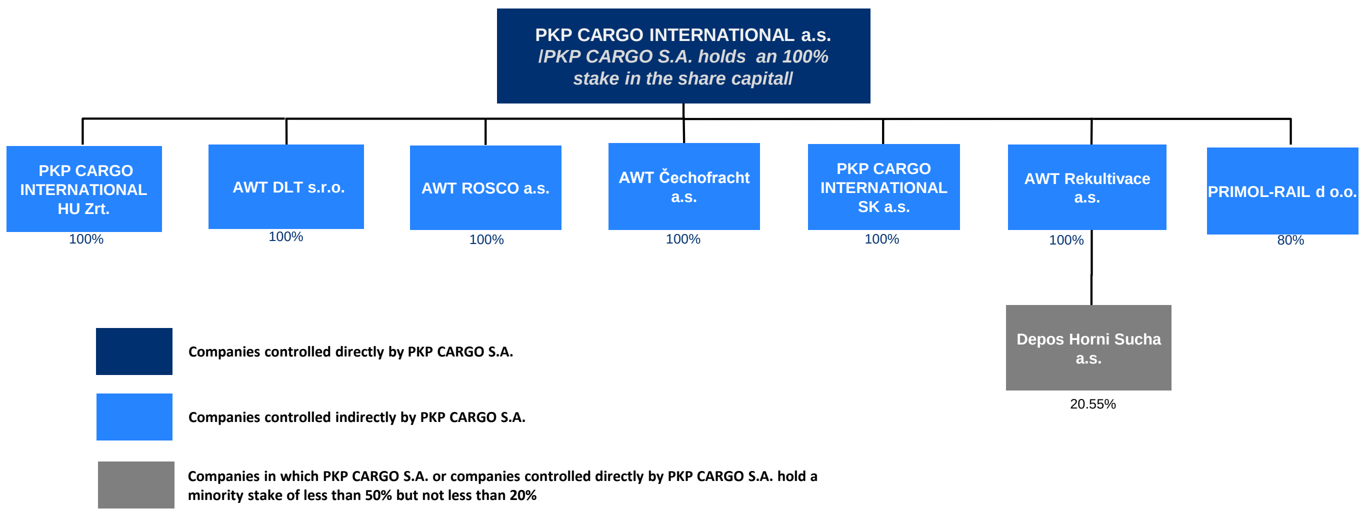
The chart below presents the structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 30 June 2021:

Figure 1 Structure of capital links with the companies in which PKP CARGO S.A. or its subsidiaries hold shares – as at 30 June 2021



Source: Proprietary material

Figure 2 Structure of the PKP CARGO INTERNATIONAL Group as at 30 June 2021



Source: Proprietary material

In H1 2021, the following changes were made to the structure of capital ties:

- On 22 March 2021, PKP CARGO CONNECT Sp. z o.o. and RENTRANS CARGO Sp. z o.o. entered into a conditional agreement on the purchase of shares for redemption, under which PKP CARGO CONNECT Sp. z o.o. sold all 249 shares held by it in RENTRANS CARGO Sp. z o.o. (accounting for a 29.26% stake in the share capital of RENTRANS CARGO Sp. z o.o.). As a result of this transaction, on 22 March 2021 the title to 249 shares in RENTRANS CARGO Sp. z o.o. was transferred to this company itself, meaning that, as of 22 March 2021, PKP CARGO CONNECT Sp. z o.o. ceased to be a shareholder of RENTRANS CARGO Sp. z o.o., and therefore RENTRANS CARGO Sp. z o.o. ceased to be a related party of PKP CARGO S.A.

2.2 Consolidated entities

The Interim Consolidated Financial Statements of the PKP CARGO Group as at 30 June 2021 encompass PKP CARGO S.A. and 12 subsidiaries consolidated by the full method:

Table 1 Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o. ("PKP CARGO SERVICE")	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o. ("PKP CARGOTABOR")	Repair and maintenance of rolling stock and 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. ("PKP CARGOTABOR USŁUGI")	Collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of this report, the company does not conduct any operating activity.
PKP CARGO TERMINALE Sp. z o.o. ("PKP CARGO TERMINALE")	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company also has the ability to offer rail gauge switching services and as the only company on the country's eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o. ("CARGOSPED TERMINAL BRANIEWO")	Transshipment of goods and buying and selling of coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.
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 Group.
PKP CARGO INTERNATIONAL a.s. ("PKP CARGO INTERNATIONAL")	Comprehensive handling of rail freight transport (the Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile"). Rolling stock management in the PKP CARGO INTERNATIONAL Group.
AWT Rosco a.s. ("AWT Rosco")	Cleaning of rail and automobile cisterns.
AWT Čechofracht a.s. ("AWT Čechofracht")	International freight forwarding services.
AWT Rekultivace a.s. ("AWT Rekultivace")	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
PKP CARGO INTERNATIONAL HU Zrt. ("PKP CARGO INTERNATIONAL HU")	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

Additionally, the list of companies accounted for under the equity method is presented in **Note 5.3**[2] to the Interim Consolidated Financial Statements of the PKP CARGO Group prepared as at 30 June 2021.

[2] Any reference herein to a Note should be construed as a Note to the Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the period of 6 months ended 30 June 2021 prepared according to EU IFRS, unless indicated otherwise.

3. Information about the Parent Company

3.1 Composition of the Management Board and Supervisory Board of PKP CARGO S.A.

MANAGEMENT BOARD

In H1 2021, the Management Board of PKP CARGO S.A. with its registered office in Warsaw operated in compliance with the applicable laws, in particular:

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws No. 94, Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84, Item 948, as amended);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 62/VII/2020 of the PKP CARGO S.A. Supervisory Board of 24 August 2020)[3];
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018 and approved by Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018;
5. other internal and external regulations.

Management Board's powers

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

Operation of the Management Board

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

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

Table 2 Composition of the PKP CARGO S.A. Management Board from 1 January 2021 to the delivery date of this report

Name	Position	Period in office	
		from	to
Czesław Warsewicz	**President of the Management Board**	27 March 2018	to date
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Piotr Wasaty	Management Board Member in charge of Commerce	1 September 2020	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date

Source: Proprietary material

[3] The consolidated text of the Articles of Association of PKP Cargo S.A. was adopted by Resolution No. 61/VII/2021 of the PKP CARGO S.A. Supervisory Board of 12 July 2021.

The internal allocation of tasks and functions discharged by Management Board members, resulting from the provisions of the Management Board Bylaws, is as follows:

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

- business strategy,
- business security and internal audit.

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

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

- finance management,
- purchase and sale of assets.

Special powers of the Management Board Member in charge of Finance include the performance, on behalf of

PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.

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

- commercial policy,
- sales of transportation services.

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

- execution of transports,
- maintenance of rolling stock.

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

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

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Vice-Chairperson) appointed for a joint term of office. The number of Supervisory Board members in a specific term of office is set by PKP S.A. (in the 7th term: 11 members). The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

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

Operation of the Supervisory Board

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

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

Table 3 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2021 to the delivery date of this report

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	Chairman of the Supervisory Board	26 June 2019	to date
	Supervisory Board Member	26 June 2019	to date
Marcin Kowalczyk	Supervisory Board Member	14 January 2021	to date
	Supervisory Board Deputy Chairman	25 January 2021	to date
Krzysztof Czarnota	Supervisory Board Member	26 June 2019	to date
Zofia Dzik	Supervisory Board Member	26 June 2019	to date
Dariusz Górski	Supervisory Board Member	26 June 2019	to date
Paweł Sosnowski	Supervisory Board Member	26 June 2019	to date
Jerzy Sośnierz	Supervisory Board Member	26 June 2019	to date
Tadeusz Stachaczyński	Supervisory Board Member	26 June 2019	to date
Władysław Szczepkowski	Supervisory Board Member	26 June 2019	to date
Izabela Wojtyczka	Supervisory Board Member	16 July 2020	to date
Antoni Duda	Supervisory Board Member	21 August 2020	to date

Source: Proprietary material

SUPERVISORY BOARD'S AUDIT COMMITTEE

The Supervisory Board's Audit Committee is appointed by the Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Audit Committee members, including its Chairperson, meet the independence criteria specified in § 20 and § 21 of the Company's Articles of Association and in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, Item 1089, as amended). At least one Member of the Audit Committee has qualifications in the area of accounting or audit of financial statements and at least one Member of the Audit Committee has knowledge and skills in the specific industry in which the Company operates. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the firm authorized to audit financial statements, also when it provides to the Company other services than financial audit and review, assessing the independence of a statutory auditor and giving consent for it to provide permitted non-financial audit services, recommending a firm authorized to audit financial statements to the Shareholder Meeting to perform financial audit activities in the Company, in compliance with the policies in force in the Company: *Policy and procedure for the selection of an audit firm to audit the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group* and *Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network.*

Table 4 Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 January 2021 to the delivery date of this report

Name	Position	Period in office	
		from	to
Dariusz Górski	Committee Member Committee Chairman	1 July 2019	to date
Zofia Dzik	Committee Member	1 July 2019	to date
Władysław Szczepkowski	Committee Member	24 August 2020	to date

Source: Proprietary material

NOMINATION COMMITTEE

The Nomination Committee is appointed by the Supervisory Board. It consists of three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association, to discharge the function of Nomination Committee Chairman. The Nomination Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company's Management Board members and over the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and compensation for the Company's employees, including in particular the Company's Management Board Members and upper level management.

Table 5 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2021 to the delivery date of this report

Name	Position	Period in office	
		from	to
Zofia Dzik	Committee Chairwoman	1 July 2019	to date
Władysław Szczepkowski	Committee Member	1 July 2019	to date
Izabela Wojtyczka	Committee Member	21 September 2020	to date

Source: Proprietary material

STRATEGY COMMITTEE

The Strategy Committee is appointed by the Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. The Strategy Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategy Committee supports the Supervisory Board in overseeing the development of the strategy, as well as the appropriate implementation of the strategy and annual and long-term activity plans for the Company and the Group.

Table 6 Composition of the Strategy Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2021 to the delivery date of this report

Name	Position	Period in office	
		from	to
Władysław Szczepkowski	Committee Member Committee Chairman	1 July 2019 23 September 2020	to date to date
Dariusz Górski	Committee Member	1 July 2019	to date
Paweł Sosnowski	Committee Member	21 September 2020	to date
Antoni Duda	Committee Member	21 December 2020	to date

Source: Proprietary material

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

The structure of PKP CARGO S.A.'s share capital as at the delivery date of this report is presented in the table below:

Table 7 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

3.3 Shareholders holding at least 5% of the total votes

Table 8 Shareholder structure of PKP CARGO S.A. as at 30 June 2021 and as at the delivery date of this report

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,832,083	15.25%	6,832,083	15.25%
Aviva OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	20,832,269	46.52%	20,832,269	46.52%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 3 June 2020.
(3) According to a notice sent by the shareholder on 13 August 2014.
Source: Proprietary material

3.4 Listing of shares held by management and supervisory board members

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 21 May 2021, i.e. the delivery date of the Q1 2021 report, to the delivery date of this report, was as follows:

Table 9 PKP CARGO S.A. shares held by Management Board members

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Czesław Warsewicz	3,700
Leszek Borowiec	0
Piotr Wasaty	500
Witold Bawor	46
Zenon Kozendra	46
as at 21 May 2021	
Czesław Warsewicz	3,700
Leszek Borowiec	0
Piotr Wasaty	500
Witold Bawor	46
Zenon Kozendra	46

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 21 May 2021, i.e. the delivery date of the Q1 2021 report, to the delivery date of this report, was as follows:

Table 10 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Krzysztof Mamiński	0
Marcin Kowalczyk	0
Krzysztof Czarnota	70
Zofia Dzik	0
Dariusz Górski	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0
Izabela Wojtyczka	0
Antoni Duda	0
as at 21 May 2021	
Krzysztof Mamiński	0
Marcin Kowalczyk	0
Krzysztof Czarnota	70
Zofia Dzik	0
Dariusz Górski	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0
Izabela Wojtyczka	0
Antoni Duda	0

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1 Macroeconomic environment

Polish economy

The key factor which determines the results of the Polish economy in the most recent quarters is COVID-19 pandemic and its dynamics, manifesting itself not only by changes in the absolute number of infections and hospitalizations but also by loosening or tightening the economic and social restrictions introduced to counteract it. According to data published by Statistics Poland, in 2020, the Polish economy has seen the first economic recession since the beginning of the 1990s, and the growth rate of real GDP was -2.7% yoy compared to a 4.7% yoy growth in 2019. Although in Q1 2021, the growth rate of the Polish GDP remained negative (-0.9% yoy), then at the same time the scale of the decrease was clearly lower compared to Q4 2020 (-2.7% yoy) and the market consensus expectations (-1.1% yoy). On a quarterly basis (having excluded the influence of calendar and seasonal factors), the domestic GDP increased in the period by 1.1% qoq (compared to a decline of -0.5% qoq in Q4 2020), which shows a relatively high resilience of the economy to another wave of the COVID-19 pandemic and the extension of the period of prevailing anti-epidemic restrictions in numerous sectors (including trade, accommodation and catering, culture and entertainment). [4]

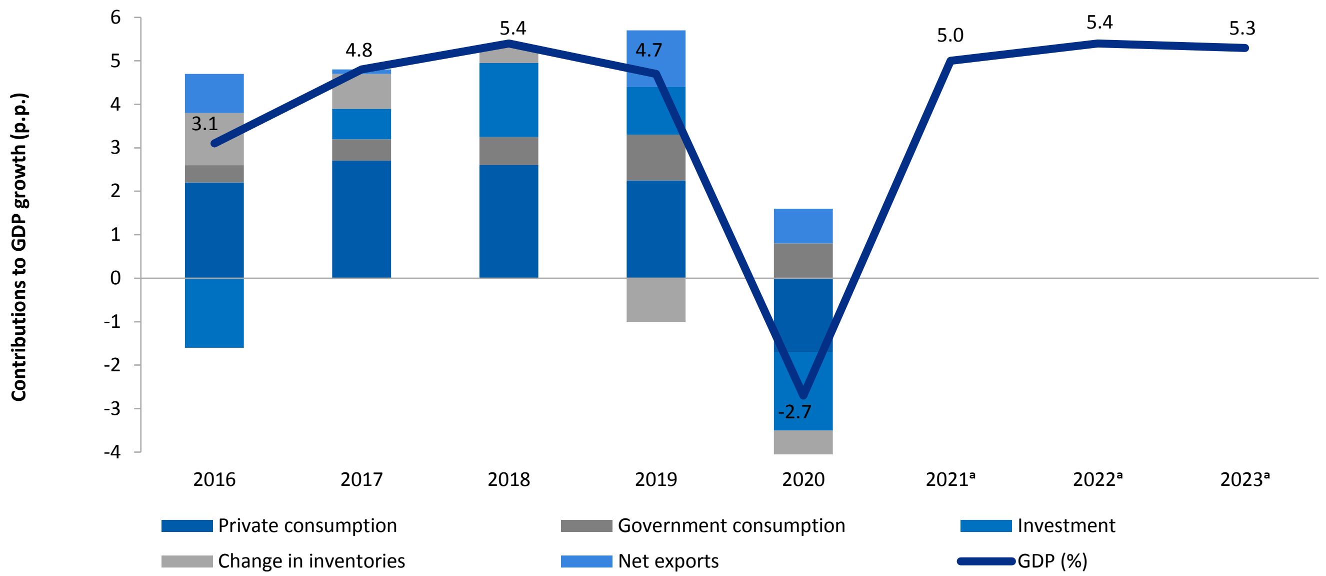
The major factor for the decrease of the Polish GDP in Q1 2021 was the balance of trade (contribution to the increase was -1.9 p.p. yoy), as a result of a stronger growth rate of imports (+10.0% yoy) than exports (+5.7% yoy). In this period, a positive contribution to the GDP was, on the other hand, made by domestic demand, including in particular public consumption (+2.5% yoy and contribution of +0.4 p.p. yoy) and capital expenditures (+1.3% yoy and +0.2 p.p. yoy). A positive contribution was also made by the balance of inventories (+0.3 p.p. yoy) and household consumption (+0.2% yoy and +0.1 p.p. yoy) in spite of a prolonged period when a considerable number of service sectors were locked down. [5]

Economists expect that in Q2 2021, the Polish GDP recorded a strong recovery year over year, to which the following factors were conducive, among others: the effect of a very low statistical reference base for 2020, a decrease in the number of infections and the progress in the vaccination process allowing for gradual loosening of previously introduced restrictions and a further adaptation of businesses and consumers to the pandemic reality of economic life. Also, monthly business activity data (industrial output, construction, real retail sales) for April-June 2021 remain consistent with a systematic improvement of economic situation in Poland. Economists predict that the growth rate of the domestic GDP for Q2 2021 will be close to 10-11% yoy (reflecting a strong effect of the statistical base), although they believe that the Polish economy will grow strongly also against the previous quarter (by approx. +2.0% qoq).[6]

In the baseline scenario, a high GDP growth rate in Poland can be expected to continue in H2 2021 due to, among other things, the still visible effect of the low statistical base for 2020 and a favorable current economic situation in the country and the macroeconomic environment. According to the forecasts of the International Monetary Fund from April 2021, the global GDP in 2021 will rise by 6.0% yoy compared to the decline by -3.3% yoy in 2020, including the GDP growth rate in the euro area (the major trade partner of Poland) to be 4.4% yoy against the decrease by 6.6% yoy in 2020. The key medium-term risk factor for the above scenarios remains a further development of the COVID-19 pandemic in Poland and in the global economy, including in particular the spread of new virus variants (with increased transmission and/or greater resistance to the vaccines currently in use).[7] This could potentially make it necessary to restore some of the already loosened or completely lifted restrictions of economic and social nature and, consequently, have an adverse impact on, among others, the Polish GDP growth rate.

[4] Statistics Poland
[5] Statistics Poland
[6] "Gazeta Giełdy Parkiet"
[7] International Monetary Fund

Figure 3 Real GDP growth rate in Poland in 2016-2020, its decomposition and forecasts for 2021-2023 – data not adjusted for seasonality



a – macroeconomic forecasts of the National Bank of Poland – July 2021; data without decomposition

Source: Proprietary material based on data published by Statistics Poland and the National Bank of Poland

The pace of the vaccination process, faster than expected in Poland and the macroeconomic environment (allowing for loosening the restrictions systematically) with good data coming from the domestic economy from the beginning of 2021 and a systematic improvement of the economic situation abroad (supported, among others, by the adoption of another significant fiscal package in the US) translated into a positive revision of medium-term forecasts of the NBP published in July 2021 against the projection from March 2021. Economists from the NBP expect that in 2021, the Polish GDP will record a strong recovery and increase by 5.0% yoy (compared to the growth rate of +4.1% yoy assumed in the projection from March 2021) and that also in next years, the domestic economy will remain on a path of a dynamic growth with the GDP growth rate of 5.4% yoy in 2022 (+5.4% yoy in the March projection) and 5.3% yoy in 2023 (+5.4% yoy in the March projection).[8]

In the baseline scenario, NBP analysts predict that the major factor of the GDP growth in the coming quarters will be domestic demand, including in particular household consumption supported by a gradual withdrawal of anti-pandemic restrictions, improvement of consumers' moods, a good situation on the labor market and a relatively high current level of the savings rate (satisfaction of delayed demand). As assessed by NBP economists, an important determinant of the Polish GDP growth will be also capital expenditures as a result of, among others, reduced uncertainty associated with a future demand and economic standing, rising labor costs making up an additional stimulus for increasing the still low level of automation and robotization of the national economy, a stable housing demand as well as – in a further part of the projection – performance of projects within the National Reconstruction Plan. In the entire period of the forecast, a positive contribution to the GDP will be also made by public consumption. At the same time, according to NBP analysts, what should be expected in next quarters is a negative contribution of net exports to the GDP because of their counter-cyclical nature, and a higher growth rate of imports compared to exports (including an assumed strong increase in capital expenditures, which are characterized by high import absorption).[9]

NBP economists also expect a clearly higher (than that assumed in the projection from March 2021) path of consumer price index (CPI) in the horizon of next quarters. In their assessment, the average annual CPI will be +4.2% yoy in 2021 (against +3.1% yoy in the projection from March 2021), +3.3% yoy in 2022 (+2.8% yoy in the March projection) and +3.4% yoy in 2023 (+3.2% yoy in the March projection). A higher inflation path reflects, among others, energy price increases (emission allowances becoming more expensive and the introduction of capacity fee), clearly increasing prices of raw materials (including crude oil) in global markets, a stronger and faster than previously expected recovery of demand in Poland and the macroeconomic

[8] National Bank of Poland
[9] National Bank of Poland

environment, persisting breakdowns in global supply chains (resulting in the occurrence of periodical imbalances between supply and demand) and the expected intensification of wage pressure in 2022 and 2023.[10]

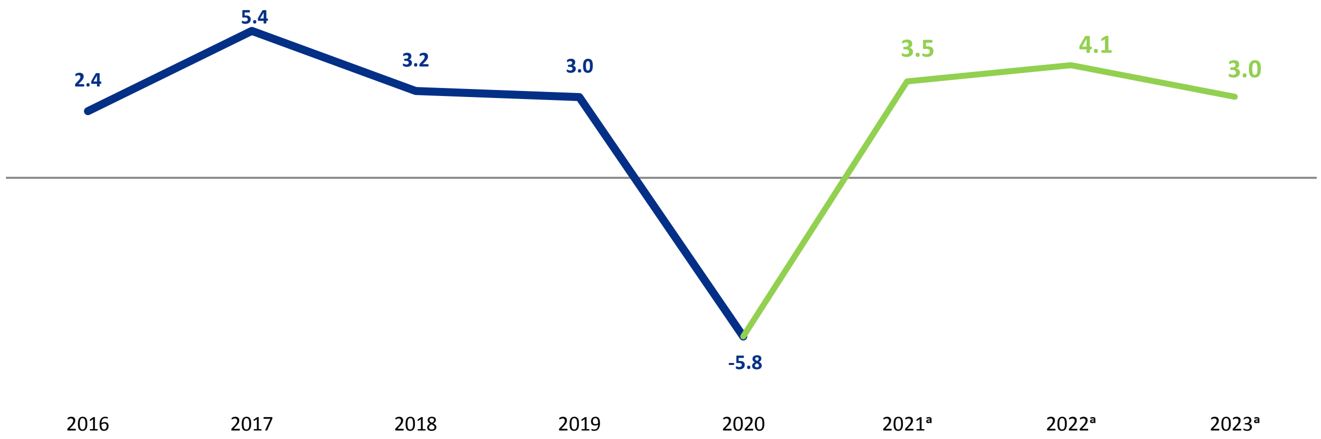
Czech economy

According to preliminary estimates of the Czech Statistical Office (CzSO), in Q2 2021, the real growth rate of the Czech GDP was +7.8% yoy vs. -2.4% yoy in Q1 2021, i.e. it was the highest in the history of statistical studies conducted by the CzSO.[11] Compared to the previous quarter, the Czech economy grew in the period by 0.6% qoq (against the decline by -0.3% qoq in Q1 2021).[12]

A strong rise of the GDP growth rate yoy in Q2 2021 resulted both from the economic recovery observed in the Czech Republic and the macroeconomic environment (associated, among others, with gradual loosening of restrictions of the economic and social activity introduced to counteract the COVID-19 pandemic) as well as from the statistical effect of a very low reference base for 2020.[13] In Q2 2020, the Czech economy experienced temporary freezing of activity in a considerable number of service and industrial sectors, and the GDP growth rate in that period was -10.9% yoy, i.e. it reached the minimum level in the history.[14]

Detailed data on the GDP structure in the Czech Republic for Q2 2021 (and growth rate of each of its components) will be published by the CzSO at the end of August or the beginning of September 2021. At the same time, according to a preliminary release by the CzSO, the major factors determining the GDP growth year-over-year included a positive contribution of the balance of trade and the gross accumulation, and positive contribution to the GDP was also made by household consumption and public consumption. Simultaneously, in terms of added value, the strongest increase of activity yoy in Q2 2021 was recorded in the industrial sector.[15]

Figure 4 Real GDP growth rate in the Czech Republic in 2016-2020 and forecasts for 2021-2023 – data adjusted for seasonality



a Macroeconomic forecast of the Czech National Bank – August 2021

Source: Proprietary material based on data from the Czech Statistical Office and the Czech National Bank

[10] National Bank of Poland
[11] Czech Statistical Office, seasonally adjusted data
[12] Czech Statistical Office, seasonally adjusted data
[13] Czech Central Bank
[14] Czech Statistical Office
[15] Czech Statistical Office

Gradual loosening of anti-pandemic restrictions with an improvement in the economic situation abroad and progressing adaptation of businesses and consumers to the current reality of economic life resulted in a positive revision of the macroeconomic forecasts published at the beginning of August 2021 by the Czech National Bank (CNB) compared to the previous projections from May 2021. Although CNB economists assess that it is possible that the restrictions will be tightened for a short term in next months (in connection with, among others, the increase in the number of infections observed recently), according to them that will have no significantly adverse influence on the real GDP growth rate. In the baseline scenario, CNB analysts expect that by the end of 2021 all the previously introduced restrictions of activity will be finally lifted (reflecting, among others, the growing percentage of immunized population) and the GDP growth rate will gradually accelerate, which will allow the Czech economy to reach the GDP level from before the COVID-19 pandemic in 2022.[16]

CNB economists predict that in 2021, the Czech GDP will recover, increasing on average by 3.5% yoy (compared to the decrease by -5.8% yoy in 2020) but also the Czech economy will remain on a stable growth path in the coming years, with GDP growing at a rate of 4.1% yoy in 2022 and 3.0% yoy in 2023. As assessed by CNB analysts, the main driver of economic growth in next quarters will be household consumption, supported, among others, by the effect of unfreezing of activity in service sectors, an improvement in the situation on the labor market and the satisfaction of delayed demand (a forecast decline in the savings rate). CNB economists also expect a recovery in capital expenditures both of the government and private sectors, among others, in view of the increased demand for replacement investments or intensification of public investments co-financed from structural funds or cash from the EU reconstruction fund.[17]

CNB analysts also expect the average annual rate of CPI growth to be 3.0% yoy in 2021 compared to 3.2% yoy in 2020. A higher inflation path for 2021 than assumed in the projection from May 2021 reflects rising prices of administered goods, increasingly more expensive raw materials (including fuels) as well as the continuing high growth rate of base inflation (resulting from, among others, the occurring imbalances between supply and demand on commodity markets as well as a pro-inflational effect of accumulation of demand for certain services when the economy opened after loosening the restrictions). At the same time, as of 2022, the CPI index should, according to CNB economists, gradually go down toward the inflation target (2.0%), with the annual average growth rate of CPI at the level of 2.8% yoy in 2022 and 2.1% yoy in 2023. According to CNB economists, the major factors affecting the trend toward a lower inflation rate will include halting the growth rate of base inflation (after periodical distortions of supply and demand cease), a decrease in fuel prices and forecast appreciation of the Czech crown (having a disinflational impact, among others, on prices of imported goods).[18]

Industry in Poland

According to data published by Statistics Poland, in H1 2021 the country's total industrial output sold was +18.2% greater yoy (compared to a decrease by -6.3% yoy in H1 2020). In Q1 2021, growth in production by 7.8% yoy was recorded, while in Q2, it was already 30.3% yoy (compared to a sharp decline in 2020).[19] In this period, the very high rate of growth in industrial output resulted chiefly from the low statistical base effect in 2020 (the period when intensive anti-pandemic restrictions were imposed and had a major impact on the industrial sector), which, combined with the current good economic situation, resulted in a major hike in output growth.

In H1 2021, sold industrial output increased in year-over-year terms in most industrial branches, including most of all in manufacturing by +19.3% yoy (this sector accounts for approx. 90% of total industrial output) and in the production and supply of electricity, gas, steam and hot water by +15.0% yoy, and in water supply, sewage and waste management, land reclamation by +12.4% yoy. On the other hand, a slight decline was recorded in mining and quarrying, by -0.6% (compared to the decline by -9.2% the year before).[20]

In H1 2021, across all major industrial groupings, sold industrial output improved year-over-year. The largest increase in sold output was recorded in durable consumer goods: +38.3%. Increases were also recorded in the production of capital goods and intermediate goods – by +25.8% and +21.3% yoy respectively. In the same period, sales increased the least in the production of energy-related goods by +7.1% yoy and non-durable consumer goods by +5.4% yoy.[21]

In H1 2021, an increase in sold industrial output was recorded in 28 branches, with a decrease in output in 6 industrial branches. Sales in industrial branches where increases are recorded in the period accounted for approx. 91% of the total industrial production sold in Poland. As regards key industrial sectors from the perspective of the PKP CARGO Group's transportation business, an increase in industrial output yoy in H1 2021 was recorded, among others, in: vehicles and auto parts (+42.4%),

[16] Czech National Bank
[17] Czech National Bank
[18] Czech National Bank
[19] Statistics Poland,
[20] Statistics Poland
[21] Statistics Poland

rubber and plastic products (+27.2%), furniture (+26.5%), wooden products, (+20.8%), metal products (+20.5%), machinery and equipment (+18.0%), metals (+17.8%), products made of other non-metallic commodities (+13.4%), paper and products made of paper (+12.5%), chemicals and chemical products (+11.7%) and mining of hard coal and lignite (+7.3%). In turn, the output of coke and refined petroleum products was lower than in H1 2020 (by -6.9% yoy).[22]

What should be noticed is continued clear symptoms of a recovery in the Polish industry and a relatively high resilience of the industrial sector to the economic impact of the COVID-19 pandemic. Although the expected abrupt changes to growth rates of industrial output in 2021 were obviously due to the statistical effect of the low reference base for 2020, then all the same the economic situation in the domestic industry at the end of H1 2021 should deserve a significant credit, especially in the context of the still ongoing economic crisis in the uncertain reality for the operation of businesses caused by the pandemic. At present, no signs of cooling down of the prevailing good economic situation are being observed and the current data rather show stabilization of the level of activity in the industrial sector (after strong growths recorded in H2 2020 and at the beginning of 2021), although the most recent results from June have marked a trend of gradual deceleration of production growths.

The latest values of the Purchasing Managers' Index (PMI) for industrial processing indicate an improvement in the economic situation in the industrial sector in Poland in Q1 2021. In H1 2020, the PMI decreased to an average level of 43.0 points (values below 50.0 points signify an anticipated economic downturn and recession, while values above this mark are indicators of an anticipated recovery in the industrial processing sector), but currently stands at an average of 55.0 points.[23] In Q2 2021 alone, the PMI stood at 56.8 points, which was its highest value historically. In June 2021, the PMI for the industrial processing sector in Poland increased to 59.4 points from 57.2 points In May 2021, having attained the second historic record-breaking value the second month in a row. The current values of the PMI indicate a persisting robust economic situation in the Polish industrial processing sector.

All key components of the PMI contributed to its increase in June 2021. In this period, the sub-indices associated with the levels of current industrial output and new orders increased at the highest rate since February 2014, reflecting a boost in both foreign and especially domestic demand. At the same time, in parallel to the favorable factors related to the growing demand, June 2021 brought some increasing problems on the supply side (related predominantly to the availability and expense of materials and components used in the production process, coupled with delays in transport). In this period, the sub-indices associated with the extended delivery times and the degree of production arrears reached their new historical records. The companies participating in the survey remained optimistic about the level of production in the coming 12 months. In June 2021, the future output component stood at the highest level since the beginning of 2021.[24]

In H1 2021, the business tendency indicator for industrial processing published by Statistics Poland (GUS) stood at -5.0 points on average compared to -15.9 points in H1 2020 (a value below the 0.0 point threshold means that more companies expect a downturn than improvement in the sector).[25] Negative sentiments dominate the current economic climate in industrial processing, yet they are much less pessimistic than in the previous quarter. In Q2 2021, the business tendency indicator calculated by Statistics Poland for the industrial processing sector in Poland stood at an average of -1.6 points (-0.3 points and -0.6 points in May and June, respectively), whereas in the corresponding period of 2020 it dwindled to -33.0 points.[26]

In H1 2021, the situation of the domestic industry remained affected by the consequences of the COVID-19 (especially in Q1) pandemic and the related economic and social restrictions imposed in order to curb the further spread of the epidemic, although the adverse impact of restrictions on the rate of industrial growth was already much weaker than in the spring of 2020. The future evolution of the COVID-19 pandemic in Poland and the global economy will remain a key determinant of the rate of growth of the Polish industry, and the degree of recovery of the industrial output level and its rate of growth will depend on how the epidemic situation develops both domestically and across the world, potential subsequent waves of the pandemic and the percentage of vaccinated citizens. However, taking into account the existing resistance of the industrial sector in Poland to the consequences of the COVID-19 pandemic and the progress made in the vaccination effort in the subsequent months of 2021, it may be expected that the level of activity in the industrial sector will stabilize following the strong increases in H2 2020 and H1 2021. However, the rate of growth in industrial output in Poland will undoubtedly and gradually slow down compared to the previous very steep year-over-year increases.

In H1 2021, other factors significantly affecting the condition of the industries of key importance (from the perspective of the PKP CARGO Group's potential business) included:

[22] Statistics Poland
[23] Markit IHS
[24] Markit IHS
[25] Statistics Poland
[26] Statistics Poland

Mining industry

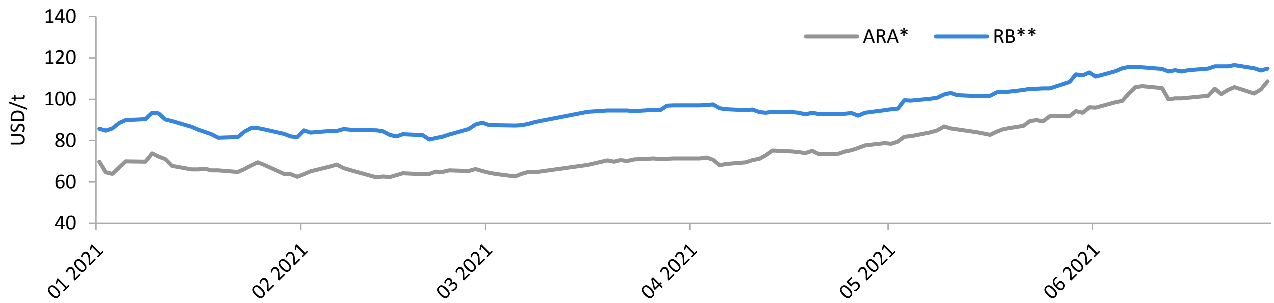
- In H1 2021, a yoy increase was recorded in hard coal output to 27.7 million tons, up by 1.2 million tons (+4.6% yoy). After the first quarter of the year, the negative rate of growth prevailed (with a decrease in coal output by 1.0 million tons, or -6.3% yoy). The months of January and February turned out to be much weaker than the year before, with production figures dwindling at -15.1% yoy in January (output at 4.4 million tons) and -7.3% yoy in February (output at 4.6 million tons). The best month in terms of coal output in H1 2021 was March, when mines extracted 5.2 million tons of this commodity. In Q2 2021, the rate of growth in extraction was steep (+19.4% yoy) due to the low reference base in the corresponding period of the previous year. In H1 2021, the Polish mining industry showed rather balanced performance with output exceeding 4.4 million tons in each month.[27]
- at the same time, in the period under analysis, hard coal sales improved by 4.0 million tons yoy (+16.3% yoy) to 28.2 million tons. Total hard coal sales in H1 2021 turned out to be higher than output by approx. 0.5 million tons, which translated into a reduction in inventories. From January to June 2021, sales of hard coal continued an upward trend compared to the corresponding months of 2020. Also in this case, in March, the volume of domestic coal sales turned out to be the highest this year at 5.4 million tons (as a result of a cold winter);[28]
- decreasing volume of hard coal inventories in storage yards. At the end of 2020, there was still 6.2 million tons of this commodity in storage yards. Currently, after the first half of the year, the inventory level is noticeably lower at 5.3 million tons of coal (compared to 7.2 million tons held in storage yards in the corresponding period 2020). This represents a decrease by 1.9 million tons, or -26.3% yoy.[29] The volume of coal in storage yards kept decreasing with each subsequent month of 2021 (from 6.2 million tons in January), because sales of coal remained greater than output;
- increase in hard coal imports during 4M 2021 to 4.5 million tons (+34.6% yoy). During this period, the commodity was imported predominantly from Russia (up +24.4% yoy to 2.7 million tons, accounting for 60.8% of total imports to Poland) and Australia (up by 130.0% yoy to 1.0 million tons, accounting for 22.4% of total imports to Poland);[30]
- clear upward trend in hard coal prices on the international market (after a year and a half of stagnation caused by the COVID-19 pandemic). Currently, a significant recovery is being observed on the international coal market, with all key coal price indices (Australia, South Africa, Europe, Russia) at the end of June at levels more than double their lowest values in 2020. In H1 2021, the average coal price in the European ARA ports (Amsterdam, Rotterdam, Antwerp) was USD 77.3 per ton (compared to USD 53.0 per ton in H1 2020), up 45.9% yoy. The significant increase in coal prices in Europe at the end of the first half of the year was largely driven by the recovering economies after the COVID-19 pandemic, the limited supply of the commodity (reduced supplies from Colombia, which is the main supplier of coal to the European market, and from Russia), the increase in freight costs and the rising margins for coal-based power sector in Germany (which for coal-fired power plants are much more favorable than in 2020, whereas for gas-fired power plants the opposite is true), translating into an increase in the consumption of coal. The alteration in the balance of power on the German power market was caused by the turmoil on the gas market (because of the margins for coal and gas-fired power plants, it is likely that the existing fuel mix in Germany, with the leading share of gas, will be reversed in favor of coal);[31]
- the most recent forecast by the coal operator association Assocarboni assumes an over 5% yoy increase in the volume of global trade in coal transported via sea routes in 2021, followed by an additional increase in 2022 (despite the ongoing decarbonization programs). According to the forecast, trade in thermal coal will rise by +4% yoy (to 947 million tons, compared to 910 million tons in 2020), and in coking coal by +6% yoy (to 263 million tons, compared to 247 million tons in 2020). This forecasted growth will be driven predominantly by the robust economic upturn and expectations for recovery from the global pandemic. At the same time, despite the significant environmental pressures, coal will remain the most important fuel for energy generation across the world (due to the competitive advantage of this fuel over natural gas).[32]
- in Q2 2021, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 246.81 per ton (-7.2% yoy compared to Q2 2020 and -2.8% qoq compared to Q1 2021). PSCMI 2 for the heating industry in Q2 2021 reached PLN 295.23 per ton (-7.3% yoy and -4.2% qoq).[33]
- increase in electricity consumption in Poland in H1 2021 by 7.1% yoy to 86.4 TWh. Following the -2.3% yoy decrease in demand for electricity in Poland in 2020 (arising from the restrictions imposed on economic activity in response to

[27] Industrial Development Agency (ARP)
[28] Industrial Development Agency (ARP)
[29] Industrial Development Agency (ARP)
[30] Eurostat
[31] Industrial Development Agency (ARP)
[32] Industrial Development Agency (ARP)
[33] Industrial Development Agency (ARP)

the COVID-19 pandemic and the lower demand for electricity generated by industrial enterprises), January 2021 and the following months of the year saw increases in electricity consumption year-over-year;[34]

- major increase in total electricity generation in H1 2021 by 12.2% yoy to 83.1 TWh (compared to a 5.8% yoy increase in Q1 2021). In this context, for hard coal-fired and lignite-fired commercial power plants, a 32.1% and 13.6% yoy increase, respectively, was recorded in H1 2021 (compared to a 26.6% and 12.6% yoy increase, respectively, in Q1 2021). At the same time, generation in gas-fired power plants decreased by -3.0% yoy (compared to a decrease by -4.2% yoy in Q1 2021), whereas in wind power plants generation decreased by -14.0% yoy (compared to a decrease by -29.1% yoy in Q1 2021);[35]
- changes in the national energy mix favorable for hard coal – increase in the share of hard coal in total energy output in H1 2021 to 53.8% (+8.1 p.p. yoy, from a level when the share of hard coal in total energy output was 45.7%);[36]
- dominance of imports over exports in cross-border electricity trade – following the rapid increase in electricity imports, compensating for lower domestic generation in 2020 (+24.5% yoy, with net electricity imports to Poland the highest ever and accounting for as much as 8.0% of the country's total energy consumption), in H1 2021 a significant decline in electricity imports was recorded (foreign trade balance was 3.3 TWh, or -50.0% yoy, compared to approx. 6.5 TWh the year before). In H1 2021, as part of its foreign trade operations, Poland exported 2.27 TWh of electricity (+153% yoy) and at the same time imported 5.5 TWh of electricity (-25% yoy);[37]
- the Polish energy sector is under pressure from record prices of CO_2 emission allowances, which have already exceeded the EUR 50 per ton mark (having remained in the range of EUR 50-56.5 since May). [38] Along with the most recent tightening of the EU climate goals (including a reduction of CO_2 emissions from 40% to 55% in 2030 and an increase in the EU RES target for 2030 to 40% – included in the "Fit for 55" initiative of the European Commission), further increases in allowance prices and an acceleration of the energy decarbonization process should be expected. According to the European Commission's estimates, by the end of the current decade, the prices of emission allowances may increase to EUR 85 per ton.

Figure 5 Current and historical values of coal price indices on the European ARA* vs. RB** markets



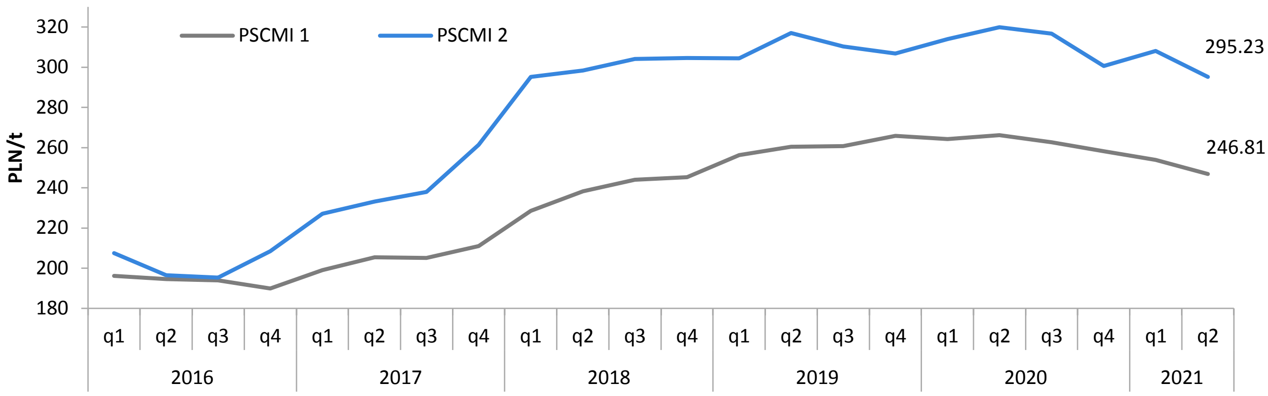
* ARA – Amsterdam, Rotterdam and Antwerp;
** RB – Richards Bay (South Africa)

Source: Proprietary material based on Virtual New Industry data

[34] Polskie Sieci Elektroenergetyczne
[35] Polskie Sieci Elektroenergetyczne
[36] Polskie Sieci Elektroenergetyczne
[37] Polskie Sieci Elektroenergetyczne

[38] National Center for Emissions Management

Figure 6 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



Source: Proprietary material based on the Industrial Development Agency's data

Construction industry

- In H1 2021, the country's construction and assembly output declined by 2.8% yoy (preceded by an increase by 2.4% in the corresponding period of the previous year), which was caused chiefly by its significant decrease in Q1 2021 (by -13.2% yoy).[39] In this period, a decline was recorded in the value of construction and assembly output by enterprises erecting civil engineering structures (by -3.6% yoy) and involved in the construction of buildings (by -7.0% yoy). In turn, an increase was recorded by enterprises performing specialized construction works (by 3.7% yoy). Within the sector of works associated with the construction of civil engineering structures, a decline in construction and assembly output was recorded compared to H1 2020, namely in entities specializing in the construction of other civil engineering structures (decline in sales by -10.4% yoy) and enterprises specializing in the construction of roads and railways (by -6.3% yoy). Growth was recorded only in entities dealing predominantly with the construction of pipelines and telecommunications and power lines (by 7.2% yoy);[40]
- in H1 2021, sales of investment works dropped by -6.9% yoy, whereas sales of renovation works increased by 4.4% yoy – compared to the previous year increases in both these categories by 2.0% and 2.9%, respectively;[41]
- despite the weak overall result in H1 2021, the end of the first half of the year brought some significant increases in construction and assembly output in year-over-year terms (in June 2021, the volume of output increased by 4.4% yoy, following an increase by 4.7% yoy in May 2021).[42] At the same time, the steady improvement in the construction sector's economic indicators along with the robust increases in industrial output generated by sectors related to construction as well as the expected increase in spending on infrastructure by the public sector and State Treasury-owned companies indicate the sector's strong growth potential in the coming months. Demand for aggregates and other construction materials in Poland is driven by large infrastructural investment projects executed within the framework of the "National Road Construction Program" and the "National Railway Program". It may be expected that these production sectors should exert a favorable impact on the performance of the whole construction sector in the coming months (due to their benefitting from the expected increase in public spending);
- in H1 2021, cement production in Poland was 8.6 million tons, having declined by -4.1% yoy. The production of cement clinker dwindled by -11.9% yoy (to 6.1 million tons).[43] The performance of the cement industry was affected by the weakening economic situation in construction investments and the prevailing high prices of electricity and CO_2 emission rights. This market is also adversely affected by the constantly growing imports from outside the European Union (cement imports to EU countries from non-EU countries increased by 160% in 2016-2020, of which cement imports to Poland from non-EU countries increased by a whopping 332% to 522.8 thousand tons in 2020) and reduced investment spending by local governments (burdened with the costs of fighting the pandemic). Cement imported to Poland from outside the EU comes chiefly from Belarus – in 2020, cement imports from Belarus increased by 78.1% yoy (to 440 thousand tons), while imports from Ukraine increased by 51.2% yoy (to 32 thousand tons).

[39] Statistics Poland (preliminary estimate for the whole population)
[40] Statistics Poland, enterprises employing more than 9 persons
[41] Statistics Poland, enterprises employing more than 9 persons
[42] Statistics Poland, enterprises employing more than 9 persons
[43] Statistics Poland

Current data show a further strengthening of this trend, largely due to the costs of CO_2 emissions (incurred by producers in EU countries but non-existent in other countries).[44] Poland is the second largest cement producer in Europe (with 2020 output at a level of 18.7 million tons). In 2021, cement sales are predicted to reach 18.5 million tons (-1.8% yoy). In H2 2021, the market should trend upward, although it will be difficult to catch up with the lost volumes in the coming quarters. A genuine market rebound is expected to occur in 2022 (with 19.3 million tons of output).[45] This notwithstanding, long-term forecasts for the cement segment are favorable – the Cement Producers Association predicts stable and robust demand for cement, in excess of even 20 million tons per year by 2025, owing to the spending of funds from the new EU budget and the Reconstruction Fund, coupled with activities related to the European Green Deal (including the introduction by the European Commission of the "Fit for 55" package and a border tax on CO2 emissions (CBAM), aimed at protecting the EU industry);[46]

- Currently, intense development of the national road network is underway. The General Directorate for National Roads and Motorways announced that 113 tasks are in progress (under the NRCP) with a total length of 1,468.3 km valued at PLN 54 billion, along with 11 ring roads (under the PB100) with a total length of 101.2 km valued at PLN 1.7 billion. In H1 2021, the General Directorate for National Roads and Motorways signed 29 contracts for tasks with a total length of 375.7 km valued at approx. PLN 10.2 billion. At the tender stage, there are currently 20 tasks (under the NRCP) with a total length of 252.7 km and 3 ring roads (under the PB100) with a total length of 8.7 km. At the preparation stage, there are currently 97 tasks (under the NRCP) with a total length of 2,002.1 km and 86 ring roads (under the PB100) with a total length of 747 km. In 2020, the General Directorate for National Roads and Motorways opened 137.7 km of new roads, 35 contracts were signed for a total length of 450 km and a total value of over PLN 18 billion, and tenders were announced for 48 sections (under the NRCP and PB100) with a total length of 600.2 km and an estimated value of over PLN 21 billion. The plan for 2021 calls for opening a total of more than 385 km of new roads (including 40 km of motorways, 308 km of expressways and 38 km of ring roads). The plans for this year include the announcement of tenders for approx. 350 km of expressways and ring roads, estimated at PLN 17.6 billion, and for tasks on the existing network with a total length of approx. 335 km and an estimated value of PLN 2.5 billion.[47]
- The governmental National Road Construction Program until 2030 assumes total spending of PLN 258 billion. Under this program, new sections of motorways and expressways with a length of approx. 2,000 km will be built, and the construction of 28 ring roads will be completed using funds from the EU framework for 2014-2020. Expenditures on new tasks amount to approx. PLN 153 billion (the rest is the transfer of funds from investments executed under the current NRCP). Construction work on major tasks under the new EU budget is planned for 2023;[48]
- the EU budget for 2021-2027 (including the Reconstruction Fund) provides for PLN 770 billion as the total amount of money earmarked for Poland. Under the EU budget, Poland is expected to receive EUR 137 billion (in current prices) of non-returnable funds from the Multiannual Financial Framework and from the Reconstruction Fund instruments under which Poland is scheduled to obtain EUR 58.1 billion (of which EUR 23.9 billion in the form of subsidies from the EU's own funds and EUR 34.2 billion in the form of loans to be repaid by the state).[49] These funds must be spent on specific investments in areas considered to be of key significance for the EU (namely infrastructure, transport, energy and environment, etc.). EU funds and additional resources from the Reconstruction Fund will exert a favorable long-term impact, especially on the market of large infrastructural investments (in particular, road and rail projects), but will also provide an opportunity for the Polish construction market to see some acceleration in local government investments. The expected growth in public investments with the participation of EU funds represents a significant potential for the country's further development and an increase in the volume of freight available for transport for the construction segment;
- the current climate in the construction sector is favorable (despite a smaller number of new tenders, for instance in railroad and local government construction), although contractors involved in the execution of infrastructural investments have found themselves in a deteriorated situation due to the sharp increase in the prices building supplies and materials used in construction (which started become more expensive at the turn of Q4 2020, and are currently recording abrupt rates of growth), coupled with the related increasing labor costs. According to the Polish Association of Construction Employers (PZPB), in the last several months, the prices of steel products increased by 50-200%, plastic pipes by 100%, asphalts and cables by 30-40%, OSB boards and polystyrene by 20-30%. In other categories of materials, the price increases hover around 5-10%.[50] The construction market continues to experience supply

[44] Wirtualny Nowy Przemysł [Virtual New Industry]
[45] Institute for Economic Forecasts and Analyses
[46] Cement Producers Association
[47] General Directorate for National Roads and Motorways
[48] Wirtualny Nowy Przemysł [Virtual New Industry]
[49] European Funds Portal
[50] Dziennik Gazeta Prawna

shortages caused by declines in production (e.g. of steel) due to the consequences of the COVID-19 pandemic, with a simultaneous increase in demand for these materials.

Steel industry

- After the significantly reduced demand for steel and metallurgical products in Poland and in its macroeconomic environment, intensified by the consequences of the global pandemic, which in 2020 translated into a decline in the overall production volume, favorable market trends, observable already in Q4 2020, when the end of the year saw a recovery in the steel industry and sector, persisted on the market. In H1 2021, market demand for steel products was strong, coupled with a significant increase in the prices of steel products, which continue to be high also because of the relatively low inventory levels throughout the supply chain. Companies in this industry are responding to last year's crisis situation while experiencing a significant increase in demand. This will cause an increase in the quantum of products transported for the metallurgical sector and commodities consumed in the steel production process (iron ores, coke).
- global production of crude steel in H1 2021 totaled 1,003.9 million tons (+14.4% yoy).[51] Steel production in the European Union increased to 77.8 million tons (+18.4% yoy), while steel production in Asia totaled 737.0 million tons (+13.8% yoy). The market clearly shows the growing advantage of China in steel output, which in the period under analysis independently produced 563.3 million tons of this commodity (+11.8% yoy).
- increase in crude steel output in Poland in H1 2021 by 2.7% yoy to 4.2 million tons (compared to the global production of crude steel in 64 countries reporting to the World Steel Association (worldsteel) of 169.2 million tons (Mt) in March 2021, an increase by 15.2% compared to March 2020).
- decline in crude steel output persisting after Q1 2021 by -5.0% yoy to 2.1 million tons and production increases, among others, in the volume of manufactured hot-rolled products by 3.1% yoy to 4.5 million tons, rods and flat bars by 4.4% yoy to 1.8 million tons, thin sheets by +10.9% yoy to 0.6 million tons, hot-rolled bars and rods by +10.0% yoy to 0.7 million tons and steel pipes by +11.0% yoy to 0.4 million tons. At the same time, output of cold-rolled sheets decreased by -1.4% yoy to 1.0 million tons;[52]
- increase in coke output in Poland in H1 2021 by 21.1% yoy to 4.6 million tons[53]
- permanent shutdown of the raw material part of the Krakow steelworks (blast furnace and steel plant) by the country's largest supplier of steel products. The reason for the decommissioning of the blast furnace, in addition to the impact of the pandemic, the unfavorable economic situation on the steel market and very limited demand, was also the troubled macroeconomic situation coupled with the high costs of CO_2 emissions, rising electricity prices and the imposition of additional fees in the capacity market starting in 2021;[54]
- Q2 2021 performance reported by ArcelorMittal (the largest global steel producer) also illustrates the continuing observable recovery in market demand, translating into changes in margins on steel products and greater volumes of steel shipments (the company recorded an increase in steel shipments by 2.4% qoq – compared to the revised data for Q1 2021). According to ArcelorMittal data, steel shipments increased in Q2 2021 from 15.6 to 16.1 million tons.[55]
- the good situation on the metallurgical market, supported by the persistently high prices of steel products strengthens the demand for coking coal (a necessary component for steel production, and included in the EU's list of strategic/critical commodities), supplied, among others, by Jastrzębska Spółka Węglowa (the largest supplier of this commodity in Europe). Currently, the production of coking coal in the European Union satisfies approx. 25% of the EU's demand, with the remaining portion obtained through imports. In the coming years, the global demand for critical commodities will continue to grow. According to JSW's announcements, it intends to become a producer of almost exclusively coking coal within a decade.
- another major factor currently affecting the output of the steel sector in Poland and the European Union is an insufficient degree of protection measures taken against imports from third countries (including the Commonwealth of Independent States) that are not subject to EU climate requirements. Of key significance for the future of the steel industry in the European Union will be the adoption of a carbon levy, which will mark a turning point for the whole European steel industry. In the "Fit for 55" package, the European Commission has proposed to protect European producers against foreign competition by introducing a border tax on CO_2 emissions (CBAM), with a view to protecting the EU industry. The border fees on imported products are scheduled to apply from 2026, and this levy will involve the inclusion of carbon footprint in the prices of imported products, which will create a certain barrier

[51] World Steel Association
[52] Statistics Poland
[53] Statistics Poland
[54] Magazyn Hutniczy [Metallurgical Journal]
[55] Wirtualny Nowy Przemysł [Virtual New Industry]

for cheap products from outside the EU (for instance, from China) and will certainly form a significant advantage for Polish steel companies. The share of imports subject to this charge is expected to grow by 10% annually starting in 2026, and is scheduled to reach 100% in 2035. CBAM will be imposed on 5 sectors (steel and iron, aluminum, cement, fertilizers and electricity). Russia, Turkey, Ukraine and China will be the top hardest hit countries by the introduction of border levies under CBAM.[56] The revision of the current EU Emissions Trading System (EU ETS) is aimed at introducing a more ambitious target for the reduction in CO_2 emissions (from 40% to 55% in 2030 compared to 1990);

- the strong performance of the steel industry in H1 2021, the already noticeable rebound in demand and the increases in the prices of metallurgical products are harbingers of hope for the continued recovery in the steel market and for a further improvement in the industry's results in 2021. In Europe, certain steel-producing furnaces have been closed (e.g. the one in Kraków). For this reason, as demand starts to rebound, the market is likely to experience shortages in output. The steel sector's anticipated good performance in 2021 will certainly be driven partly by state aid programs aimed at rebuilding the economy after the pandemic, which will stimulate growth in demand for steel. The situation and potential of the automotive market, which normally is a significant consumer of steel but has suffered a major blow due to the pandemic (in 2020, new car registrations plummeted by 20% in Europe), will likely provide a good stimulus for a noticeable growth in the steel industry;
- the World Steel Association's forecast for 2021 and 2022 assumes that demand for steel in 2021 will total 1,874.0 million tons (up by 5.8% yoy), following a decrease by 0.2% yoy in 2020. In 2022, demand for steel will reach 1,924.6 million tons (up by 2.7% yoy);[57]
- according to the worldsteel Economics Committee, demand for steel should improve significantly in the coming years, in developed and developing economies alike, supported by robust market demand and governmental recovery programs. However, it is estimated that it will take several years before demand for steel returns to its pre-pandemic levels. There is still a great deal of uncertainty about the situation in 2021 due to the evolution of the epidemiological situation.[58]

Industry in the Czech Republic

In H1 2021, the volume of industrial output in the Czech Republic increased by 15.4% yoy (compared to an increase by 3.2% yoy in Q1 2021 and a decrease by 7.2% yoy in the whole 2020). In this period, the rate of growth in the industrial sector was under the strong influence of the low statistical base effect of 2020. In Q2 2021 alone, the volume of industrial output increased by as much as 30.4% yoy, reflecting both the current favorable economic situation and the economic disruption effect (including production downtimes and broken supply chains) of the spring of 2020. As a result, the volume of output in the Czech industrial sector returned to the levels recorded before the COVID-19 pandemic.[59]

In parallel with the increase in industrial output, the volumes of new orders also grew rapidly in H1 2021. In this period, new orders increased in aggregate by 25.3% yoy (of which export orders declined by 29.3% yoy and domestic orders by 17.1% yoy). In Q2 2021, the rate of growth in new orders accelerated to 50.2% yoy, and their total volume was clearly above the 2019 figure (which was a period before the COVID-19 pandemic).[60] This indicates promising growth prospects for the Czech industrial sector also in the coming months.

The main driver of growth in industrial output in H1 2021 was the industrial processing branch (+17.2% yoy), supported by the segment related to electricity generation and water and gas supply (+4.4% yoy). Conversely, the volume of output in the mining and quarrying of raw materials was lower than in the corresponding period of 2020 (-0.9% yoy).[61]

In H1 2021, most key branches of industry (from the perspective of the potential volume of transport services to be provided by PKP CARGO Group companies) experienced a major rebound in year-over-year output volumes. In this period, production increased in year-over-year terms in such sectors as motor vehicles (+35.4% yoy), metals (+18.4% yoy), metal products (+16.5% yoy) and chemicals and chemical products (+13.1% yoy).[62] At the same time, hard coal and lignite output was lower than in the corresponding period of 2020 (-5.0% yoy) as a result of the gradual phasing out of mining operations in OKD's mines, in line with the earlier assumptions.

[56] Polish Economic Institute
[57] World Steel Association
[58] World Steel Association
[59] Czech Statistical Office
[60] Czech Statistical Office
[61] Czech Statistical Office
[62] Czech Statistical Office

The most recently published PMI values suggest the continuation of a strong economic situation in the Czech industrial processing sector. In Q2 2021, the PMI decreased to an average level of 61.1 points from 57.2 points in Q1 2021 and 46.9 points in the whole of 2020 (according to the calculation methodology for this indicator, values above the 50.0 point threshold signify an ongoing recovery in the industrial sector).[63] In Q2 2021, the PMI for the Czech Republic continued a strong upward trend, having reached 62.7 points in June 2021, which was the highest outcome in the history of the PMI survey. In this period, all the key components of the PMI contributed to the increase in its value: current production levels, new orders (domestic and foreign) and employment. The improvements in the PMI components were reflected, among other indicators, by a noticeable increase in demand resulting from the gradual lifting of restrictions on business activity in the Czech Republic and the country's macroeconomic environment. At the same time, in June 2021, an intensification occurred of the supply-related problems which had already been observed in the previous months, resulting from, among other factors, a deterioration in the availability of materials and components and their increasing prices. As a consequence, this translated into a strong increase in PMI components associated with the extended delivery times, the degree of production backlogs and the price levels. Despite the currently observed supply-side disruptions, the companies participating in the survey expect the Czech industrial sector to keep growing in the coming months – in June 2021, the sub-index of the forecasted output level for the next 12 months increased to its highest level in the last five months.[64]

The key cargo categories transported by PKP CARGO Group companies on the Czech market include solid fuels (hard coal and coke), crude oil and oil products, chemicals and chemical products, metals and metal products, and intermodal freight (in which products manufactured by the automotive sector account for a major share). As a result, the overall situation of the country's economy and, in particular, of related industries (mining of raw materials, power generation, metallurgy and manufacture of motor vehicles and machinery) exerts a strong and direct impact on the volume of outsourced transport services, and thus on the operating and financial performance of members of the PKP CARGO Group rendering services in the Czech Republic.

In H1 2021, key factors affecting the economic situation in these industrial sectors included:

- increase in hard coal output (chiefly coking coal). According to data released by the Czech Ministry of Industry and Trade, in H1 2021 the volume of hard coal mined in the Czech Republic was 1.4 million tons (+40.7% yoy), including 0.8 million tons of coking coal (+64.0 % yoy) and 0.6 million tons of thermal coal (+20.4% yoy).[65] At the same time, the high year-over-year rate of growth was partially a consequence of the low statistical reference base from 2020 (suppressed output volumes caused, among other factors, by COVID-19 outbreaks in OKD's mines). Meanwhile, in Q2 2021 alone, the total output dwindled sharply to 0.5 million tons (from 0.9 million tons in Q1 2021). This was largely caused by the discontinuation of mining operations by OKD's ÇSA and Darkov mines at the end of February 2021, as a result of which ČSM remains the only hard coal mine in operation in the Czech Republic. According to the OKD's predictions, in the whole of 2021, total hard coal output in the Czech Republic should reach approx. 1.9 million tons.[66] At the same time, the volume of hard coal imports in January-May 2021 increased to 1.7 million tons (+46.7% yoy), while exports of this commodity increased to 0.5 million tons (+49.9% yoy);[67]
- robust improvement in the economic situation in the steel sector. According to operational data published by Liberty Ostrava (the largest steel producer in the Czech Republic), in H1 2021, the company's steel output reached approx. 1.2 million tons. In Q2 2021 alone, production was close to 0.6 million tons, up by almost 80% yoy, and in each month of the period its volume fluctuated at the highest levels since 2008.[68] The forecasted further improvement in the economic situation in the Czech Republic and the country's macroeconomic environment in the coming quarters should be advantageous to the demand for steel products, and thus should also translate into a persisting high absolute level of steel output;
- increase in the volume of output of the automotive sector: in H1 2021, Czech manufacturers made a total of 0.7 million motor vehicles of all types (passenger, trucks, buses and motorcycles), 30.9% more in year-over-year terms. At the same time, the yoy growth rate in H1 2021 was strongly affected by the consequences of the very low statistical base from 2020, when downtimes in plant operations caused by lockdowns and broken supply chains were prevalent. In the opinion of AutoSAP representatives, following the gradual improvement in the sector's economic situation observed since the beginning of 2021, the rate of growth deteriorated again in Q2 2021, as a result of, among other factors, disruptions in the availability of components (including microchips), their rising costs, labor shortages and moderate foreign demand, which was clearly below its 2019 levels (that is, the period immediately preceding the COVID-19 pandemic).[69] As a result, in H1 2021, the production volume of motor vehicles in the Czech Republic

[63] Markit PMI
[64] Markit PMI
[65] Ministry of Industry and Trade of the Czech Republic
[66] OKD a.s.
[67] Ministry of Industry and Trade of the Czech Republic; data for June 2021 were not yet available at the time of preparation of this report
[68] Liberty Ostrava
[69] AutoSap

was still 11.2% lower than in the corresponding period of 2019. According to AutoSAP representatives, the said factors adversely affecting the volume of output will linger on into H2 2021, and the estimated volume of the automotive sector's manufacturing units throughout the year may, as a consequence, total approx. 1.3 million vehicles.[70]

4.2 Freight transportation activity

The rail transport market is presented taking into account the transport in the domestic and Czech markets where the transport activity was the most important for the PKP CARGO Group.

4.2.1 Rail transport market in Poland

According to data presented by the Office of Rail Transport (UTK), there are currently 110 rail operators active on the Polish rail freight market holding an active license issued by the UTK President for the conduct of rail freight operations (as at 22 July 2021).[71] Among these companies are also three members of the PKP CARGO Group: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s.[72]

In H1 2021, rail freight operators transported a total of 116.8 million tons of cargo (+11.1% yoy) and achieved a freight turnover of 26.6 billion tkm (+8.6% yoy). The more rapid improvement in freight volume compared to freight turnover was caused by a decrease in the average haul, which in H1 2021 stood at 228 km, compared to 233 km in H1 2020 (-2.3% yoy).[73]

In H1 2021, March was by far the best month for rail freight transport operations in Poland, when freight volume exceeded 21.3 million tons. Another very good month was May with freight volume 20.4 million tons. The volume of freight transported by rail in Q2 2021 oscillated around 20 million tons per month, meaning that starting in May the quantum of transported cargo already exceeded the corresponding levels from 2019. This is a significant symptom of the recovery in the rail freight market, heralding the market's increasingly improved standing and potential. In relation to the transport volumes from 2020 (most severely affected by the consequences of the pandemic and the restrictions imposed in an effort to counteract it), the highest year-over-year rate of growth was recorded in May (+23.2%) and April (+18.5%) of this year due to the low reference base.[74]

In H1 2021, the economic situation in the rail freight market and in the domestic industry was relatively good, especially in the context of the economic crisis triggered by the ongoing pandemic reality. In recent months, clear symptoms of recovery in Poland's industrial sector have been observed, with the sector remaining relatively resistant to the economic impact of subsequent waves of the COVID-19 pandemic and playing a stabilizing role in the Polish economy (against the backdrop of poorer performance in trade, other service sectors, etc.). Ultimately, despite the persisting COVID-19 pandemic in Poland and the country's macroeconomic environment, the continuation of tighter restrictions across the country, the high levels of market uncertainty and the further risk of weakened demand generated by companies and consumers, industrial output in H1 2021 was +18.2% higher yoy,[75] which translated noticeably into an improvement in the situation of the rail transport sector and an optimistic outlook for the following months of 2021.

During the first 5 months of 2021, the following changes in rail transport year-over-year performance were recorded in the cargo categories defined by Statistics Poland:[76]

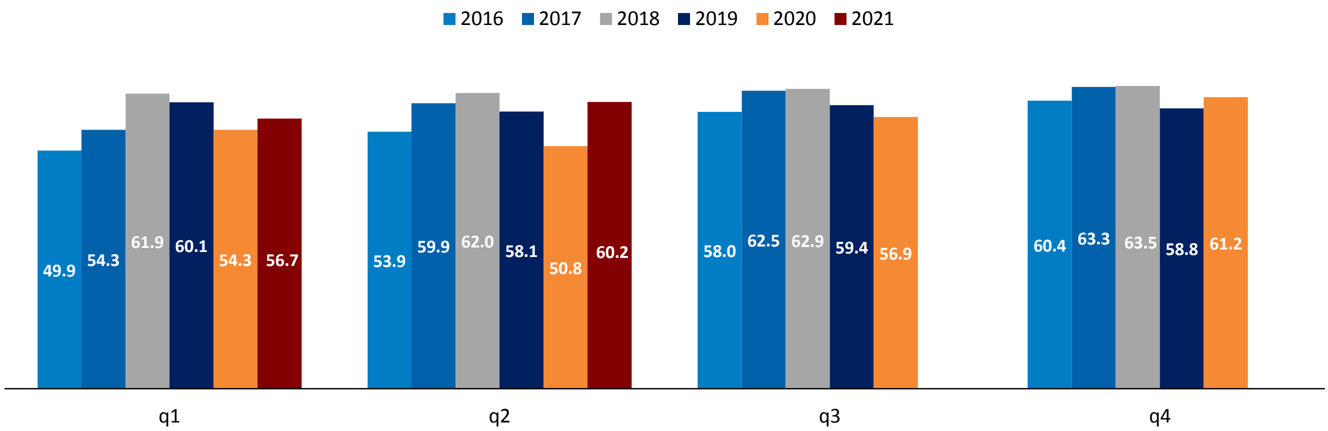
- hard coal (freight volume up by 13.7% yoy to 35.9 million tons). The year-over-year increase in the freight volume of hard coal largely resulted from the greater electricity consumption in Poland and, as a consequence, stronger demand for this commodity generated by power plants, an increase in electricity generation and changes in the national energy mix favorable to hard coal (major increase in the share of hard coal in total energy output), an increase in hard coal sales on the market and lower inventories;
- aggregates, stone, sand and gravel (freight volume up by 0.5% yoy to 17.1 million tons). The uncertain economic situation persisting for most of the period under analysis in the construction industry and the plunge in demand generated by buyers executing large infrastructural investments under the National Road Construction Program and the National Railway Program (partly as a result of excessive inventories, delays caused by attempts to renegotiate the value of their previously signed contracts and difficulties in conducting and completing new tenders) translated into stagnation and only a slight year-over-year increase in the volumes of aggregates transported by rail;

[70] AutoSap
[71] Office of Rail Transport, the statistics (as at 22 July 2021) 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 a.s.
[72] Office of Rail Transport
[73] Office of Rail Transport
[74] Office of Rail Transport
[75] Statistics Poland
[76] Statistics Poland – data for the first 5 months of 2021. Data for June and the whole H1 2021 will be available at the end of August 2021.

- iron ore (up 20.0% yoy to 2.9 million tons), metals and metal products (up 10.5% yoy to 4.2 million tons) and coke (up 21.5% yoy to 4.7 million tons). After the major slump in demand for steel and steel products in Poland and its macroeconomic environment, which translated into a significant reduction in the overall output volume (due to, for instance, the temporary shutdown of certain production units by domestic producers of coke) and a decrease in the quantum of transported steel products and raw materials used in the steel production process (iron ores, coke), the end of 2020 and H1 2021 brought the expected recovery and a rebound to this market. Steel-intensive industries (including automotive and machinery production) were among the sectors of the country's economy most severely affected by the first wave of the COVID-19 pandemic, yet currently they are recording impressive rates of growth;
- refined petroleum products (up 7.1% yoy to 7.0 million tons). The revival in liquid fuel transport services resulted chiefly from the increase in demand, following significant drops related to the COVID-19 pandemic.

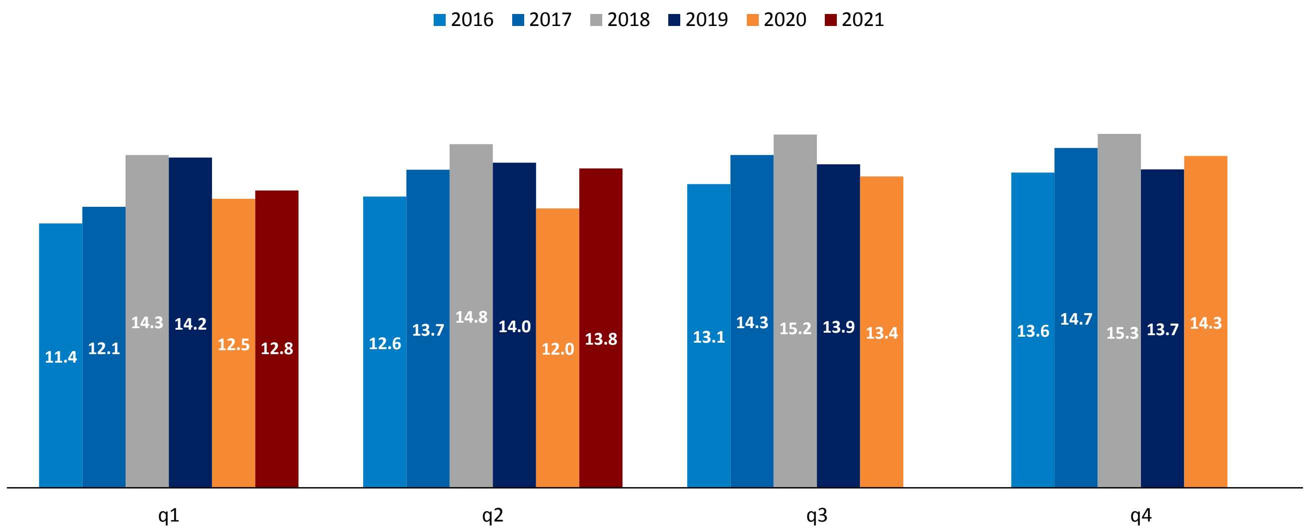
In aggregate, during the first 5 months of 2021, these cargo categories accounted for 76% of the market's total freight volume.

Figure 7 Rail freight volumes in Poland (in million tons), by quarter in 2016-2021



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

Figure 8 Rail freight turnover in Poland (billion tkm), by quarter in 2016-2021

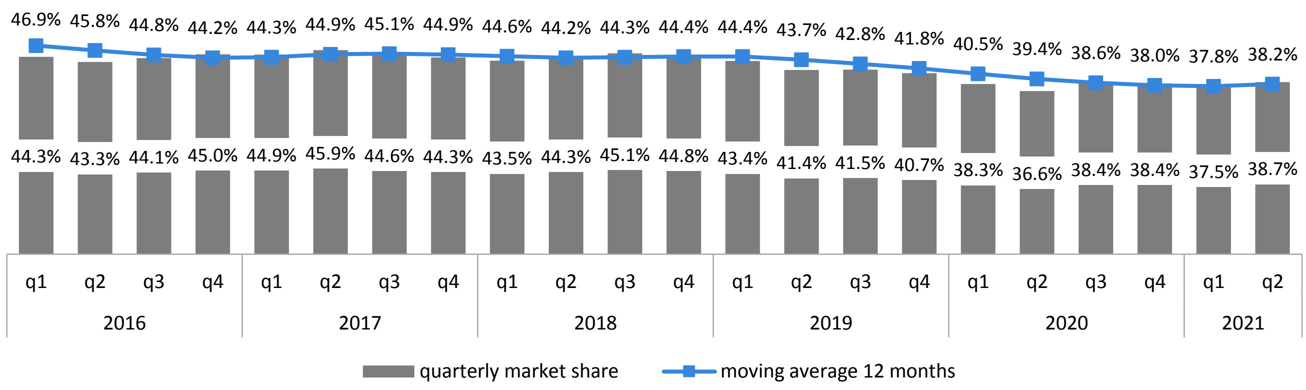


Source: Proprietary material based on the Office of Rail Transport's data

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

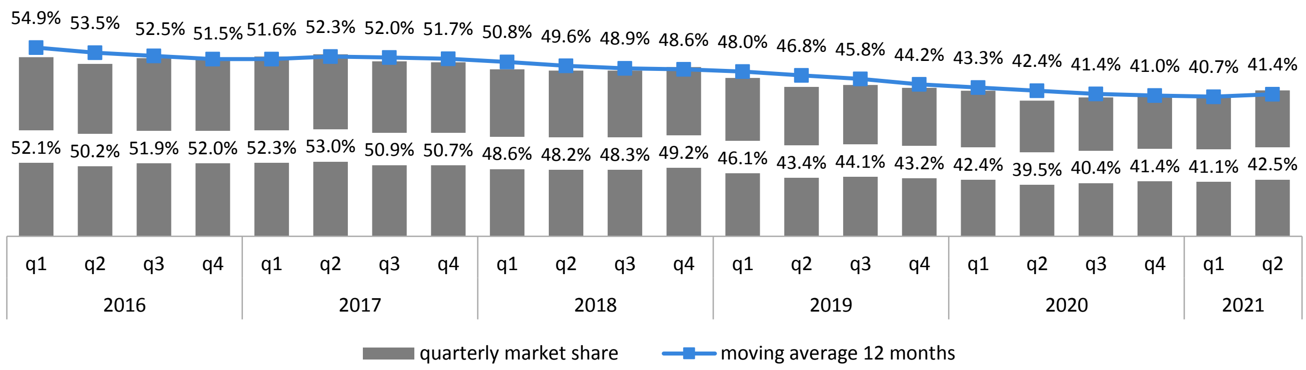
In H1 2021, the rail freight market improved year-over-year in terms of freight volume, with a simultaneous increase in freight turnover by rail operators compared to the same period of the previous year. In this period, the PKP CARGO Group recorded a rate of growth greater than that of its competitors, which resulted in a year-over-year increase in the Group's market share. The PKP CARGO Group's market share in H1 2021 was 38.1% (+0.6 p.p. yoy) in terms of freight volume and 41.8% in terms of freight turnover (+0.8 p.p. yoy).[77] Accordingly, the PKP CARGO Group[78] upheld its position of the undisputed leader in Poland's rail freight market, having even improved its market share year-over-year. The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 36.7% (+0.5 p.p. yoy) and 41.4% (+0.8 p.p. yoy) in H1 2021.[79]

Figure 9 Share of the PKP CARGO Group in freight volume in Poland in 2016-2021



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

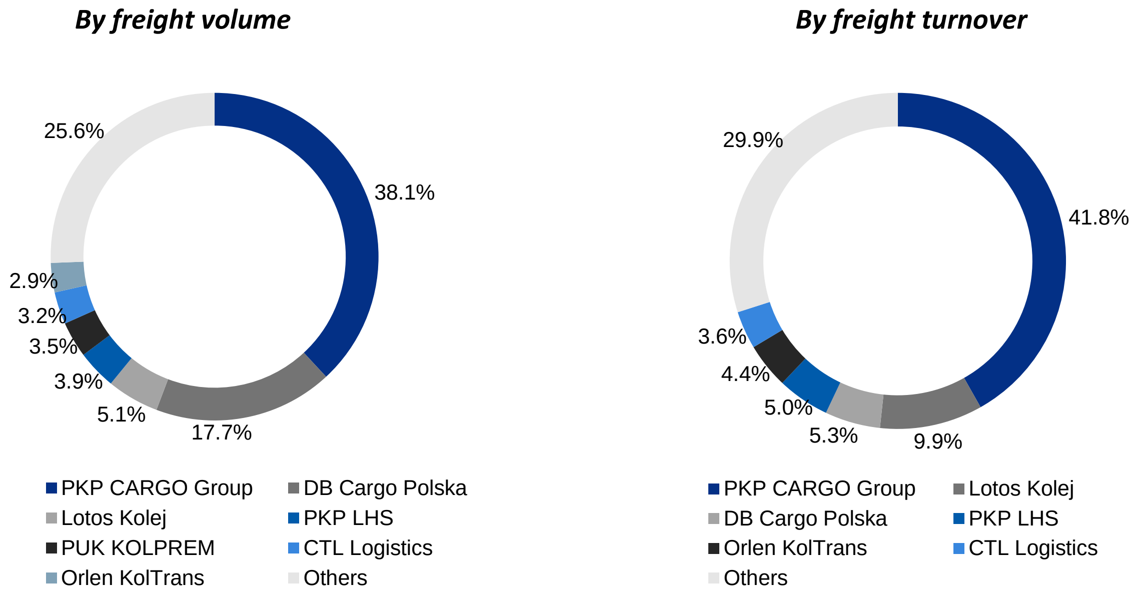
Figure 10 Share of the PKP CARGO Group in total freight turnover in Poland in 2016-2021



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

[77] PKP CARGO Group and Office of Rail Transport data
[78] The freight volume of the PKP CARGO Group also takes into account the cargo transported by PKP CARGO International a.s. in Poland.
[79] Office of Rail Transport

Figure 11 Market shares of the largest rail operators in Poland in H1 2021



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

The following companies are the main competitors of the PKP CARGO Group on the Polish rail freight market: DB Cargo Polska, Lotos Kolej, PKP LHS, PUK Kolprem, CTL Logistics and Orlen KolTrans.

In H1 2021, the PKP CARGO Group's competitors transported a total of 72.3 million tons of freight (+10.1% yoy). In this period, the largest freight volume was transported by DB Cargo Polska companies (20.7 million tons, up 15.0% yoy), Lotos Kolej (6.0 million tons, down 0.4% yoy) and PKP LHS (4.5 million tons, up 15.8% yoy).[80]

At the same time, in H1 2021, freight turnover generated by operators competing with the PKP CARGO Group increased by 7.0% yoy, to 15.5 billion tkm. In this period, the largest freight turnover was achieved by the following competitors: Lotos Kolej (2.6 billion tkm, up 2.9% yoy), DB Cargo Polska (1.4 billion tkm, up 19.4% yoy) and PKP LHS (1.3 billion tkm, up 9.5% yoy).[81]

In H1 2021, the average haul of competitive rail operators was shortened to 214 km (-2.8% yoy).[82]

In terms of freight volume, the following competitors of the PKP CARGO Group recorded the largest yoy decreases in market share in H1 2021: CTL Logistics (-0.6 p.p. yoy, freight volume down by 6.8% yoy), Lotos Kolej (-0.6 p.p. yoy, freight volume down by 0.4% yoy) and PUK Kolprem (-0.5 p.p. yoy, freight volume down by 3.3% yoy). In terms of freight turnover, the market shares of the following companies decreased the most in year-on-year terms: CTL Logistics (-0.9 p.p. yoy, freight turnover down by 12.5% yoy), Lotos Kolej (-0.5 p.p. yoy, freight turnover up by 2.9% yoy), Freightliner PL (-0.5 p.p. yoy, freight turnover down by 6.1%) and Captrain Polska (-0.5 p.p. yoy, freight turnover down by 17.9% yoy).[83]

In H1 2021, other successful rail freight market operators, besides the PKP CARGO Group, included DB CARGO Polska (whose market share increased by +0.6 p.p. yoy in terms of freight volume and +0.5 p.p. in terms of freight turnover) and Ecco Rail, an operator involved chiefly in the provision of intermodal transport services (whose market share increased by +0.4 p.p. yoy in terms of freight volume and +0.7 p.p. yoy in terms of freight turnover, with a recorded rate of growth in transport parameters of +68.5% yoy and +67.0% yoy, respectively).[84]

There is still a tendency in the market whereby the role of new companies clearly increases (an example of this phenomenon is T&C, an operator that has quickly marked its presence on the market by starting the provision of transport services in March of this year, and now, after the first 6 months of the year, it has already surpassed a 0.5% market share in terms of freight turnover). The list of rail operators that exceeded the market share threshold of 0.5% in H1 2021 includes new market entrants, currently intensifying their transport operations, such as Colas Rail Polska, Alza Cargo, EP Cargo, Żwirownia Dolata and Karpiel.[85]

[80] Proprietary material based on Office of Rail Transport data
[81] Proprietary material based on Office of Rail Transport data
[82] Proprietary material based on Office of Rail Transport data
[83] Proprietary material based on Office of Rail Transport data
[84] Proprietary material based on Office of Rail Transport data
[85] Proprietary material based on Office of Rail Transport data

4.2.3 Rail freight transport market in the Czech Republic

In Q1 2021, a total of 133.7 million tons of cargo was transported in the Czech Republic (+22.0% yoy) and freight turnover stood at 19.7 billion tkm (+35.2% yoy).[86] In parallel, a strong year-over-year increase was recorded in freight volumes transported by road, with a moderate increase in the quantum of cargo transported by rail and a decrease in freight volume transported by the other branches of this market. The situation was similar in terms of the market's realized freight turnover. At the same time, in Q1 2021, the average haul in the Czech Republic increased by 10.8% yoy and reached 147.6 km, as part of which the road transport segment recorded an extension of the average haul by 16.8% yoy to 141.8 km, whereas in rail transport the average haul declined by -1.1% yoy to 166.5 km.[87] Despite its strong yoy growth, the average haul in the case of road transport services remains below that for other modes of transport, including rail.[88]

Table 11 Freight transport market in the Czech Republic in Q1 2021

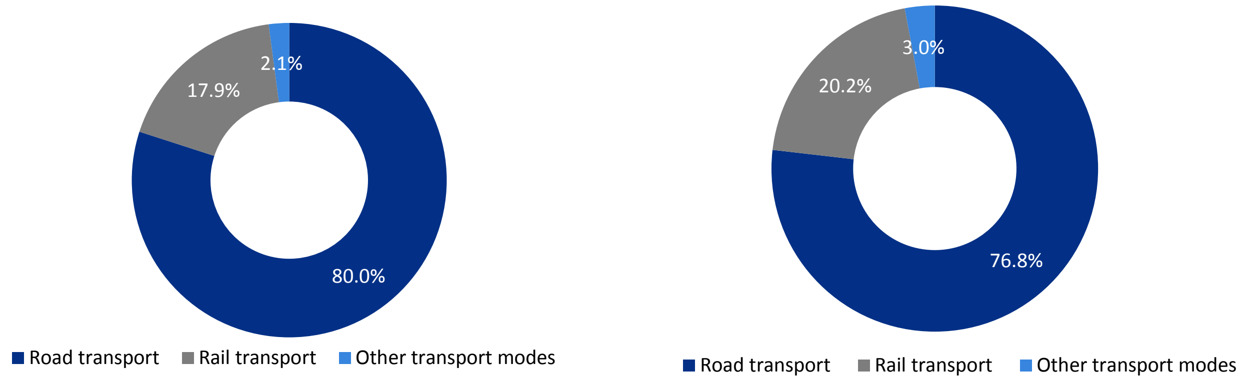
Item	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (million tons)	Change yoy	Change % yoy	Volume (billion tkm)	Change yoy	Change % yoy	Distance (km)	Change yoy	Change % yoy
Total market	133.7	24.1	22.0%	19.7	5.1	35.2%	147.6	14.4	10.8%
Road transport	106.9	23.9	28.7%	15.2	5.1	50.4%	141.8	20.4	16.8%
Rail transport	24.0	0.7	3.2%	4.0	0.1	2.0%	166.5	-1.9	-1.1%
Other transport branches	2.8	-0.5	-14.7%	0.6	-0.02	-3.5%	208.4	24.2	13.1%

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

In Q1 2021, rail transport in the Czech Republic recorded a yoy increase in freight volume to 24.0 million tons (3.2% yoy) with a concurrent increase in freight turnover to 4.0 billion tkm (2.0% yoy).[89] In light of the major increases in the quantum of cargo transported by road in the same period (up by 28.7% in terms of freight volume and 50.4% in terms of freight turnover), these results, although positive, did not translate into an increase in the share of rail operators in the overall transport market. In terms of freight volume, rail operators lost -3.3 p.p. of the market share yoy, with a concurrent decrease in the market share in terms of freight turnover by -6.6 p.p. yoy. [90]

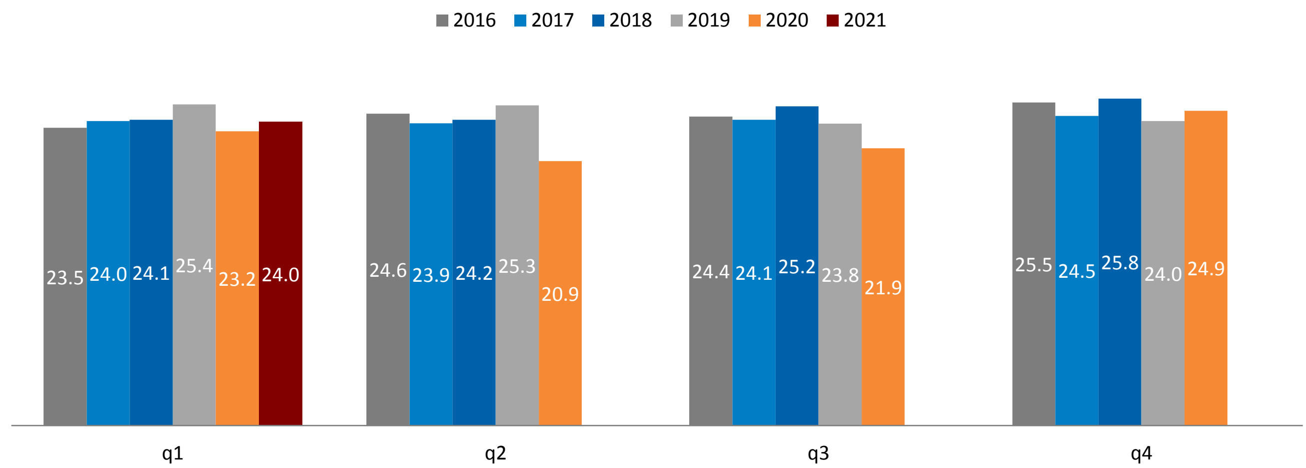
[86] Ministry of Transport of the Czech Republic, data for Q2 2021 will be available at the turn of Q4 2021
[87] Ministry of Transport of the Czech Republic
[88] Ministry of Transport of the Czech Republic
[89] Ministry of Transport of the Czech Republic
[90] Ministry of Transport of the Czech Republic

Figure 12 Shares of various modes of transport in the transport market in the Czech Republic in Q1 2021: freight volume (L) and freight turnover (R)



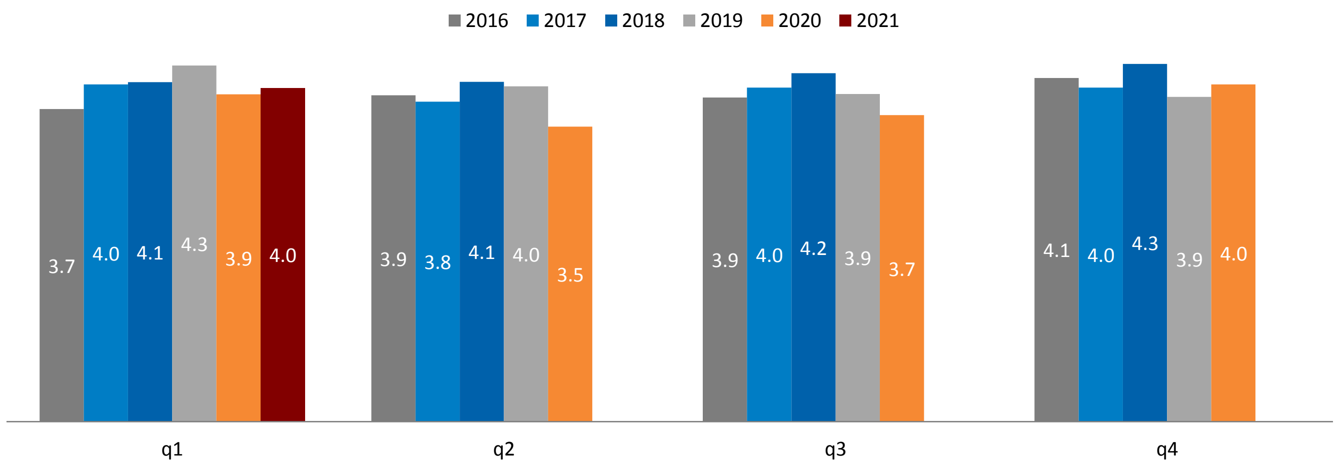
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 13 Quarterly rail freight transport in the Czech Republic by freight volume in 2016-2021 (million tons)



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

Figure 14 Quarterly rail freight transport in the Czech Republic by freight turnover in 2016-2021 (billion tkm)



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

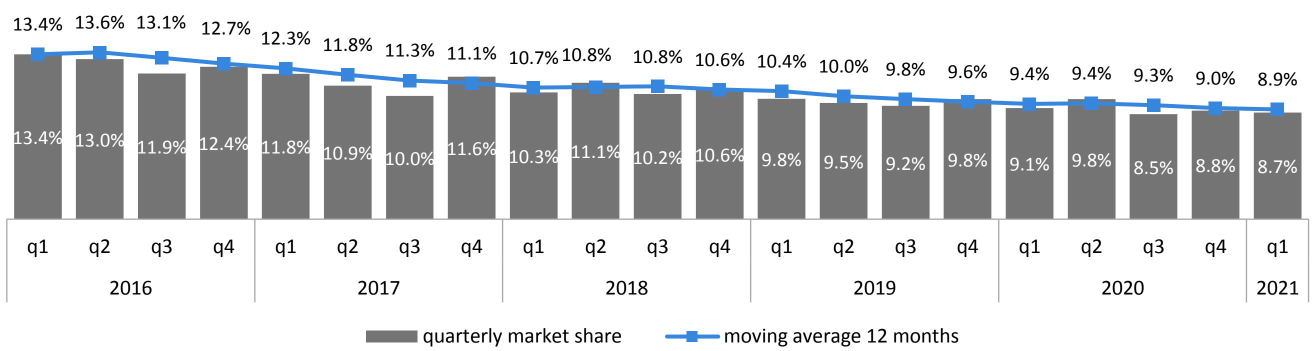
4.2.4 Position of PKP CARGO Group companies in the rail transport market in the Czech Republic

According to data published by the Czech rail infrastructure manager (SŽDC), 123 operators were licensed in H1 2021 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.[91]

In H1 2021, PKP CARGO International a.s. transported 4.0 million tons of freight (-2.7% yoy) and achieved freight turnover of 0.5 billion tkm (-0.1% yoy). In the same period, the average haul of PKP CARGO International increased to 136.5 km (2.8% yoy), chiefly as a result of a rearranged mix of transported freight. In this period, the consequences of the COVID-19 pandemic and the related economic recession in the Czech Republic and its macroeconomic environment continued to exert a strong adverse impact on the transport performance of PKP CARGO International. The decrease in the volume of transported freight in this period was largely the outcome of a decrease in the volume of transported hard coal (-13.5% yoy to 1.3 million tons) and, to a lesser extent, the volume of transported aggregates and construction materials, wood and agricultural products and other cargo, with a simultaneous significant increase in the transport of metals, ores and chemicals. Another very favorable signal is the recorded increase in completed intermodal transport services in H1 2021 (by 5.9% yoy to 0.8 million tons), following the declines recorded by this segment of the transportation market at a level of -6.5% yoy after Q1 2021 (in Q2 alone, the rate of growth in intermodal transport services provided by PKP CARGO International surpassed 20% yoy).[92] Besides the economic factors reflecting the impact of the pandemic, the reduction in freight performance for certain cargo categories was also caused by initiatives taken by the company to change the qualitative mix of its transport services (and, as a result, to increase their profitability and efficiency).

According to SŽDC data on the shares in the rail transport market in terms of gross freight turnover in H1 2021, PKP CARGO International's competitive position on the Czech market deteriorated slightly: its share decreased by -1.0 p.p. yoy to 6.7%. However, the company continues to hold a stable position as the third largest carrier on the Czech market.[93]

Figure 15 PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2016-2021*

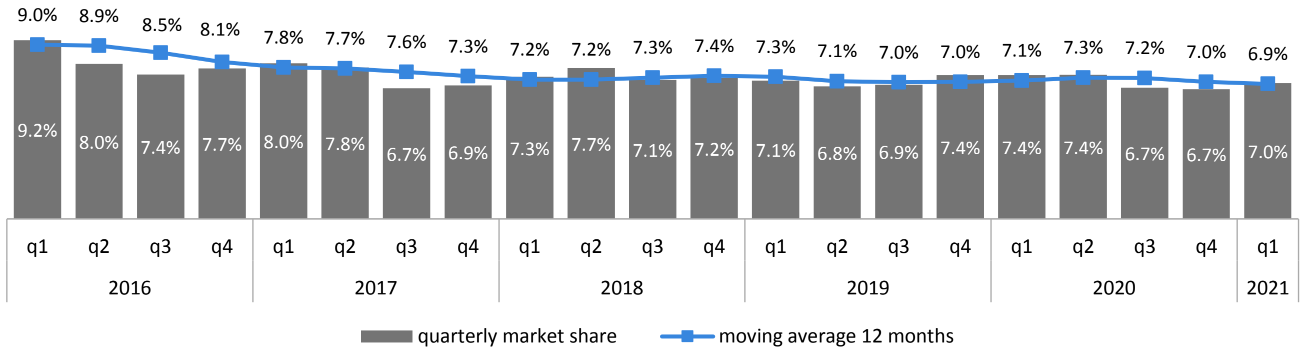


** Data for Q2 2021 will be available at the turn of Q4 2021.*

Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

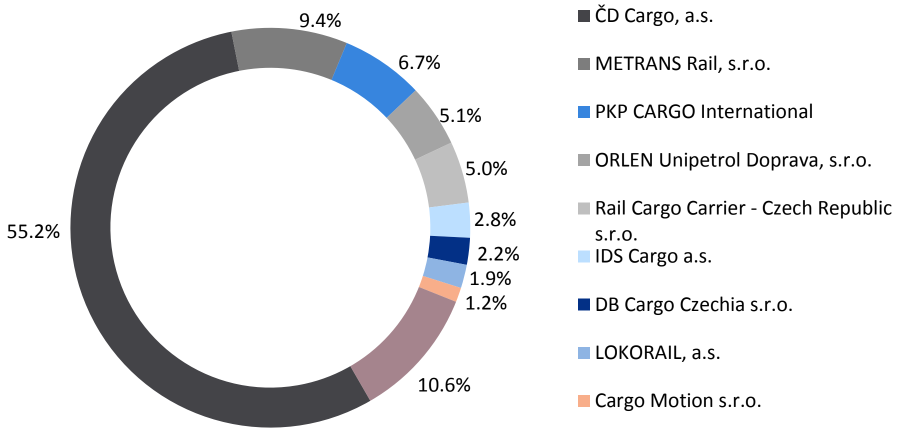
[91] SŽDC (as at 16 June 2021)
[92] PKP CARGO International's own statistics
[93] SŽDC

Figure 16 PKP CARGO International's quarterly market shares in terms of freight turnover in the Czech Republic in 2016-2021*



** Data for Q2 2021 will be available at the turn of Q4 2021.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

Figure 17 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in H1 2021 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

In H1 2021, ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market in terms of gross operational turnover, although in the same period its market share was in a downward yoy trend, having fallen to 55.2% (-3.1 p.p. yoy). The market shares of IDS Cargo (-1.1 p.p. yoy to 2.8%) and PKP CARGO International (-1.0 p.p. yoy to 6.7%) were also lower than in H1 2020. In H1 2021, the largest increases in year-over-year market shares were recorded by ORLEN Unipetrol Doprava (+1.1 p.p. yoy, to 5.1%; the operator focuses on the fuel transport segment), Rail Cargo Carrier – Czech Republic (+0.7 p.p. yoy, to 5.0%) and Metrans Rail (+0.5 p.p. yoy, to 9.4%) – the business model of these companies is based on the provision of comprehensive logistics services for container transport in the countries of the Three Seas Initiative. Accordingly, Metrans Rail solidified its position as the second largest rail freight carrier in the Czech Republic. The list currently includes rail operators that were not included in H1 2020, namely DB Cargo Czechia s.r.o. (with a share of 2.2%) and LOKORAIL a.s. (1.9%). A major increase in the market share was also achieved in aggregate by small rail operators. Due to their individual shares falling below the market threshold, they are not specified by name in the statistics (+2.2 p.p. yoy to 10.6%).[94]

The list of the largest rail operators on the Czech market in H1 2021 published by SŽDC does not include PKP CARGO S.A. In H1 2021, the volume of coke transport services provided by PKP CARGO S.A. decreased in year-over-year terms (due to the cessation of exports of this commodity from the Czech Republic through the Gdańsk seaport and the absence of transit from Poland to Bosnia and Herzegovina) as did the transport of metals (in transit to the Czech Republic from the Gdynia port).

[94] SŽDC

At the same time, in year-over-year terms, in the period under analysis, an increase was recorded in the volume of transported hard coal (in transit from the Gdańsk port and in exports from Polish mines to the Czech Republic), calcium flux (from Poland to the Czech Republic) and methanol (from Turkey to fertilizer plants in Poland). The volume of transported timber also increased (owing to freight carried from Poland to Austria, Hungary and Slovakia), as did the volume of transit freight of paper from Slovakia to Poland and of automotive parts from Poland to Italy. Increases were also recorded in the transit of containers between Poland, Italy and Romania.[95]

4.2.5 PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group in H1 2020 and H1 2021 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and PKP CARGO International. Transport services are rendered by 6 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., PKP CARGO International a.s., PKP CARGO International HU Zrt., PKP CARGO International SK a.s. and Primol Rail d.o.o.

The Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge, Azoty, JSW, Węglokoks, Enea, PGE, Tauron, Polska Grupa Górnicza and International Paper.

Table 12 Freight turnover of the PKP CARGO Group in H1 and Q2 2021 and 2020

Item	H1 2021	H1 2020	Change H1 2021/ H1 2020		H1 2021	H1 2020	Q2 2021	Q2 2020	Change Q2 2021/ Q2 2020	
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*			*%*
Solid fuels[1]	4,797	4,125	672	16.3%	39%	37%	2,402	1,695	707	41.7%
of which hard coal	3,875	3,398	476	14.0%	31%	31%	1,951	1,436	515	35.9%
Aggregates and construction materials[2]	2,245	1,998	246	12.3%	18%	18%	1,398	1,114	284	25.5%
Metals and ores[3]	1,078	969	110	11.3%	9%	9%	533	508	25	4.9%
Chemicals[4]	1,107	901	206	22.9%	9%	8%	565	431	134	31.1%
Liquid fuels[5]	306	417	-111	-26.6%	2%	4%	147	161	-14	-8.7%
Timber and agricultural produce[6]	409	511	-101	-19.9%	3%	5%	180	244	-64	-26.3%
Intermodal transport	2,238	1,926	312	16.2%	18%	17%	1,172	1,045	127	12.1%
Other[7]	258	286	-27	-9.5%	2%	3%	142	130	13	10.0%
Total	**12,439**	**11,132**	**1,307**	**11.7%**	**100%**	**100%**	**6,538**	**5,327**	**1,211**	**22.7%**

Source: Proprietary material

Table 13 Freight volume of the PKP CARGO Group in H1 and Q2 2021 and 2020

Item	H1 2021	H1 2020	Change H1 2021/ H1 2020		H1 2021	H1 2020	Q2 2021	Q2 2020	Change Q2 2021/ Q2 2020	
	(million tons)			*%*	*percentage of total (%)*		*(million tons)*			*%*
Solid fuels[1]	25.2	22.0	3.2	14.8%	52%	50%	12.5	9.8	2.7	27.8%
of which hard coal	22.2	19.7	2.5	12.9%	46%	45%	11.1	8.9	2.1	23.9%
Aggregates and construction materials[2]	8.7	8.1	0.6	6.9%	18%	19%	5.3	4.6	0.7	16.2%
Metals and ores[3]	3.6	3.2	0.5	14.7%	7%	7%	1.9	1.5	0.4	25.9%
Chemicals[4]	3.2	2.7	0.5	19.7%	7%	6%	1.6	1.2	0.4	33.0%
Liquid fuels[5]	0.9	1.2	-0.4	-28.7%	2%	3%	0.4	0.5	-0.1	-13.8%
Timber and agricultural produce[6]	1.2	1.4	-0.2	-14.6%	2%	3%	0.5	0.6	-0.1	-10.9%
Intermodal transport	4.8	4.3	0.5	10.9%	10%	10%	2.5	2.3	0.2	9.9%
Other[7]	0.9	0.9	0.0	1.0%	2%	2%	0.5	0.4	0.1	13.0%
Total	**48.6**	**43.9**	**4.7**	**10.8%**	**100%**	**100%**	**25.3**	**20.9**	**4.4**	**21.1%**

Source: Proprietary material

[95] PKP CARGO S.A.'s own statistics

In H1 2021, the average haul of freight transported by rail by the PKP CARGO Group was 256 km (+0.9% yoy).

Table 14 Average haul of the PKP CARGO Group in H1 and Q2 2021 and 2020

Item	H1 2021	H1 2020	Change H1 2021/ H1 2020		Q2 2021	Q2 2020	Change Q2 2021/ Q2 2020	
	(km)			%	(km)			%
Solid fuels[1]	190	188	3	1.3%	192	173	19	10.9%
of which hard coal	175	173	2	1.0%	176	161	15	9.6%
Aggregates and construction materials[2]	258	246	13	5.1%	262	242	19	8.0%
Metals and ores[3]	297	307	-9	-2.9%	280	336	-56	-16.7%
Chemicals[4]	343	334	9	2.7%	348	353	-5	-1.4%
Liquid fuels[5]	346	335	10	3.0%	356	336	20	5.9%
Timber and agricultural produce[6]	343	366	-23	-6.2%	332	401	-70	-17.3%
Intermodal transport	464	443	21	4.8%	470	461	10	2.1%
Other[7]	282	314	-33	-10.4%	305	314	-9	-2.7%
Total	**256**	**254**	**2**	**0.9%**	**259**	**255**	**3**	**1.4%**

Source: Proprietary material

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

The following were key factors affecting the volume of transport in various cargo categories in H1 2021:

solid fuels

- greater yoy hard coal sales;
- increase in domestic demand for coal caused by, among other factors:
  - increase in electricity generation due to an increase in demand,
  - changes in the energy mix, specifically an increase in the significance of electricity generation in hard coal-fired commercial power plants and a decrease in the significance of wind and gas-fired energy;
- declining share of electricity imports;
- increase in the volume of transported coke, domestically and in export and import;
- lower volume of transport services for coal recipients in the Czech Republic, both from Czech mines and from Poland;
- lower volume of coke transport services in the Czech Republic;
- decrease in the average haul of coal and coke transported in Poland (change in the structure and directions of deliveries, lower share of transit services).

aggregates and construction materials

- increased customer demand for construction stone due to the increase in the quantum of transport for the construction of A1, S7, S5, S19 and other road investments:
- increase in the haul of transport services for aggregates, including for the construction of S7 and the Rail Baltica line;
- increase volume of transport services for clinker and limestone to the Czech Republic;
- decrease in PKP CARGO International's freight volume transported for the construction of rail tracks in the Czech Republic.

intermodal

- increased volumes of transport on the New Silk Road – acquisition of new clients and intensification of transport within the framework of cooperation with existing clients;
- provision of regular operator services to/from ports;
- transport of semi-trailers as part of operator connections to Duisburg;
- decrease in the volume of transported woodchips;
- limitation of bulk freight in containers (lower volumes of steel);
- increased quantum of container transport services by PKP CARGO International a.s. (new transport services);
- decrease in car transport services from the Czech Republic to Russia and Slovenia (decrease in demand).

metals and ores

- increase in transport services of ores and metals resulting from stronger demand for steel products after the slowdown in construction and assembly output in 2020;
- increase in metal imports due to the lower domestic output of metals (lower demand in the automotive industry and greater electricity costs in Poland);
- acquisition of contracts for the transport of metals from seaports to the Czech Republic;
- decrease in the average haul caused by a shorter haul of transported metals.

chemicals

- increase in transport services of nitrogen fertilizers (domestically and in exports through seaports);
- increase in transport services of sodium silicates in exports through seaports;
- increase in transport services of hydrocarbons across the eastern border;

liquid fuels

- decrease in freight volume and change in the supply logistics of the largest client in this segment – due to changes resulting from the current demand and supply situation and the provision of transport services by an operator from the client's own group;
- transportation of fuels (petroleum coke) in exports to Slovakia;
- increased volume of transport services provided by PKP CARGO International from Slovakia to Poland and Germany and inside the Czech Republic;

timber and agricultural produce

- decrease in timber shipments to main recipients (paper manufacturers) due to the cessation of timber imports from Belarus;
- cessation of timber transport services from the Czech Republic to seaports;
- decrease in timber exports from Poland due to the surplus of cheap timber from the Czech Republic);

others

- maintenance of the volume of transport for other loads, including:
  - increased shipments of arsenic sulfide from Belarus;
  - increase in clay imports;
  - decrease in ash shipments;
- decreased average haul in transport of other cargo in Poland due to a change in the structure of freight routes;

4.3 Other services

The 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 Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the Group's Interim Consolidated Financial Statements. 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.

4.4 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 6M 2021 and in the corresponding period of 2020 is provided below.

Figure 18 Headcount in the Company and the PKP CARGO Group in 6M 2021 and 2020

HEADCOUNT IN **GROUP** (IN PERSONS) AS AT:

30/06/2021
21,390

31/03/2021
21,510

31/12/2020
21,766

HEADCOUNT IN **COMPANY** (IN PERSONS) AS AT:

30/06/2021
15,473

31/03/2021
15,559

31/12/2020
15,771

AVERAGE HEADCOUNT IN **GROUP** (FTEs)

6 MONTHS 2021
21,470

6 MONTHS 2020
22,934

AVERAGE HEADCOUNT IN **COMPANY** (FTEs)

6 MONTHS 2021
15,572

6 MONTHS 2020
16,655

BLUE-COLLAR POSITIONS IN **GROUP** (IN PERSONS) AS AT:

30/06/2021
16,375

31/03/2021
16,475

31/12/2020
16,687

BLUE-COLLAR POSITIONS IN **COMPANY** (IN PERSONS) AS AT:

30/06/2021
11,873

31/03/2021
11,954

31/12/2020
12,127

WHITE-COLLAR POSITIONS IN **GROUP** (IN PERSONS) AS AT:

30/06/2021
5,015

31/03/2021
5,035

31/12/2020
5,079

WHITE-COLLAR POSITIONS IN **COMPANY** (IN PERSONS) AS AT:

30/06/2021
3,600

31/03/2021
3,605

31/12/2020
3,644

Since the beginning of 2021, the PKP CARGO Group recorded a decrease in headcount by 376 persons, of which PKP CARGO S.A. by 298 persons.

4.5 PKP CARGO Group's investments

In the first 6 months of 2021, the PKP CARGO Group incurred capital expenditures of PLN 458.0 million, up 9.5% compared to the corresponding period of 2020. These expenditures were spent on the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and periodic checkups of P3 rolling stock). Moreover, right-of-use assets (mainly related to real estate leases) were recognized.

The majority of capital expenditures in 6M 2021 in the PKP CARGO Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs (P4 and P5) and checkups (P3) of rolling stock and modernization of locomotives and purchases of wagons – in total PLN 385.8 million (i.e. 84.2% of capital expenditures). Moreover, expenditures were incurred on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 6.3 million, investment construction activity in the amount of PLN 11.2 million, purchases of other machinery and other workshop and office equipment for PLN 18.4 million as well as right-of-use assets for PLN 36.3 million, including PLN 24.3 million in real estate leases, PLN 4.5 million in rental of wagons and locomotives and PLN 7.5 million in other rights, mainly for purchases of equipment for container terminals and purchases of containers for the transportation of sugar under lease arrangements.

A detailed summary of the PKP CARGO Group's capital expenditures in H1 2021 compared to the corresponding period of last year is presented in the following table.

Table 15 Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in 6M 2021 as compared to 6M 2020 (millions of PLN)

Item	6 months of 2021	6 months of 2020	Change yoy	Change yoy in %
Investment construction activity	11.2	12.7	-1.5	-11.8%
Purchases of locomotives	0.0	33.0	-33.0	-100.0%
Modernization of locomotives	97.7	93.1	4.6	4.9%
Purchases of wagons	114.8	37.8	77.0	203.7%
Wagon upgrades	0.0	1.7	-1.7	-100.0%
Workshop machinery and equipment	18.3	8.0	10.3	128.8%
ICT development	6.3	5.6	0.7	12.5%
Other	0.1	2.2	-2.1	-95.5%
Components in overhaul, including:	173.3	175.7	-2.4	-1.4%
Repairs and periodic inspections of locomotives	*53.9*	*55.8*	*-1.9*	*-3.4%*
Repairs and periodic inspections of wagons	*119.4*	*119.9*	*-0.5*	*-0.4%*
Right-of-use assets*	*36.3*	*48.6*	-12.3	-25.3%
Total	**458.0**	**418.4**	**39.6**	**9.5%**

** Expenditures for right-of-use assets for 6M 2021 do not include increases of PLN 7.3 million resulting from leaseback of transshipment equipment and containers.*

Source: Proprietary material

4.6 Key information and events

JANUARY

- On 14 January 2021, Polskie Koleje Państwowe S.A., the Company's shareholder, appointed Mr. Marcin Kowalczyk to the Supervisory Board as of 14 January 2021. On 25 January 2021, the Supervisory Board PKP CARGO S.A. appointed Mr. Marcin Kowalczyk to the position of Vice-Chairman of the PKP CARGO S.A. Supervisory Board for its 7th term of office.

FEBRUARY

- Notification that the 2nd Regional Logistical Base in Warsaw selected PKP CARGO S.A. as the best bid in the procedure to conclude a 7-year framework agreement for rail transport services.
- Conclusion of a rail coal transport agreement with Tauron Wydobycie. The agreement took effect on 5 February 2021 for a term of 12 months. Its value is approx. PLN 68 million.
- Renewal of cooperation between PKP CARGO CONNECT and Eurasian International Freight GmbH. PKP CARGO CONNECT will ensure rail transport of containers in the European Union and on other sections of the New Silk Road - comprehensive rail transport with dedicated customs services. Moreover, the Polish partner will provide transshipment and container storage services. The latter will be supplied by PKP CARGO TERMINALE
- Entry of a new company-level collective bargaining agreement for PKP CARGO Terminale Sp. z o.o. in the Register of Company-Level Collective Bargaining Agreements with the effective date of 1 March 2021.

MARCH

- Conclusion of a framework agreement for rail transport with the State Treasury - the 2nd Regional Logistics Base with its registered office in Warsaw for the provision of services involving domestic and international transport by rail of military equipment and personnel for the needs of certain organizational units of the Ministry of National Defense. The Agreement has been entered into for a period of 7 years from the date of its signing. The maximum value of the order is estimated at PLN 1.1 billion net (approx. 1.4 billion PLN gross).
- The PKP CARGO and PKP CARGO SERVICE consortium signed an agreement for rail transport of hard coal in 2021-2022 with Tauron Ciepło. The value of the agreement is over PLN 36 million. The agreement has been performed from March 2021, and envisages transport of approx. 780 thousand tons / year of hard coal from the mines of Zakłady Górnicze Tauron Wydobycie S.A., Polska Grupa Górnicza S.A. and from other sources to Zakłady Wytwarzania Tauron Ciepło generating plant. The consortium will also provide rail siding services to Tauron Ciepło in the generating plants (Zakłady Wytwarzania) in Tychy, Katowice, and Bielsko-Biała EC1 and EC2.
- On 22 March 2021, PKP CARGO CONNECT and RENTRANS CARGO Sp. z o.o. with its registered office in Szczecin ("RENTRANS CARGO") entered into a conditional agreement on the purchase of shares for redemption, under which PKP CARGO CONNECT sold all 249 shares held in RENTRANS CARGO. As a result of this transaction, on 22 March 2021 the title to 249 shares in RENTRANS CARGO was transferred to RENTRANS CARGO itself, meaning that, as of 22 March 2021, PKP CARGO CONNECT ceased to be a shareholder of RENTRANS CARGO, and therefore RENTRANS CARGO ceased to be a related party of PKP CARGO S.A.

APRIL

- Approval issued by the President of the Office of Competition and Consumer Protection (UOKiK) for a concentration involving the establishment of a joint venture by PKP CARGO S.A. and LTG Cargo Polska Sp. z o.o.
- Amendments to the Articles of Association of PKP CARGO INTERNATIONAL a.s.

MAY

- On 17 May 2021, the Parent Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to the maximum amount of PLN 100 million, which amends the loan terms in that it extends the loan availability until 24 May 2022.

JUNE

- Consent by the PKP CARGO S.A. Supervisory Board for the Company to enter into agreements with Forespo Poland S.A. regarding the purchase of real properties and movables of the former Fabryka Wagonów Gniewczyna S.A. and for PKP CARGO S.A. to incur liabilities in the total gross amount of EUR 7,380,000.00. On 16 June 2021, PKP CARGO S.A. and Forespo Poland S.A. signed a conditional purchase agreement and a conditional preliminary purchase agreement. Detailed information on this matter is presented in **Note 5.7 to the SFS**[96] and **Note 5.6 to the CFS**[97].
- On 16 June 2021, the Parent Company entered into an investment loan agreement with the European Investment Bank for the maximum amount of EUR 60 million (EURIBOR or WIBOR + margin).
- On 18 June 2021, the Parent Company entered into a current account overdraft agreement with Bank Gospodarstwa Krajowego for the maximum amount of PLN 100 million (WIBOR + margin) with the availability term of 12 months.
- On 18 June, the Parent Company signed a Master Lease Agreement with PKO Leasing S.A. up to the total net price of assets purchased for lease purposes not exceeding PLN 100 million. The limit is available for the term of 12 months with a 12-month extension option.
- On 28 June 2021, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted, among others, a resolution to cover the loss carried in the Standalone Financial Statements of PKP CARGO S.A. for 2020, to adopt amendments to the "Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board", to amend § 14(6)(1) of the Articles of Association of PKP CARGO S.A. and a resolution amending the resolution on the selection of an audit firm.
- On 30 June 2021, the Supervisory Board of PKP CARGO S.A. gave its consent to sign agreements with business partners for the sale of 988 freight cars with the total book value of PLN 14.1 million.
- PKP CARGO S.A. obtained a waiver from the bank with which it has entered into investment loan agreements containing provisions regarding the verification of ratios as at 30 June 2021. Detailed information on this matter is presented in **Note 4.1 to the SFS** and **CFS**.

JULY

- Signing of contracts for the transport of hard coal from LW Bogdanka to the ENEA Group (3 contracts with ENEA Wytwarzanie Sp. z o.o. and 2 contracts with ENEA Elektrownia Połaniec S.A.). The total value of the signed contracts is more than PLN 150 million.
- Registration of amendments to the Company's Articles of Association.
- Resolution of the Extraordinary Shareholder Meeting of PKP CARGOTABOR Sp. z o.o. regarding amendments to the Deed of Formation, consisting of an expansion of the company's operations and granting the company's employees the right to elect one representative (candidate) to the Supervisory Board, who will be appointed and dismissed by the Shareholder Meeting.
- The NSZZ Solidarność Inter-Company Trade Union Organization at PKP S.A. initiated a collective dispute against PKP CARGO CONNECT regarding pay rises for all employees of the company.

[96] Interim Condensed Standalone Financial Statements of PKP CARGO S.A.
[97] Interim Condensed Consolidated Financial Statements of the PKP CARGO Group

4.7 Description of key threats and risks

Risks related to the economic and market environment

Risk resulting from the macroeconomic situation – Poland and the Czech Republic are important participants in European and global trade and remain strongly integrated within international value chains. As a consequence, in addition to domestic factors, the economic situation in their macroeconomic environment (most notably, in Germany and other EU countries with which the two countries' economic ties are the strongest) exerts a significant impact on the economic standing of Poland and the Czech Republic, and thus also, indirectly, on the operating performance and revenues generated by members of the PKP CARGO Group.

After the global economy experienced a recession triggered by the COVID-19 pandemic in 2020, the global economic climate gradually improved in H1 2021. This was driven by, among other factors, the advancements made in the vaccination process (especially in developed economies), enabling the lifting of previously imposed economic and social restrictions, the adaptation of consumers and enterprises to the pandemic reality, and the support provided through fiscal and monetary policy. In parallel, the better than previously assumed macroeconomic data since the beginning of 2021 translated into a positive revision of the economic growth forecasts by the International Monetary Fund (IMF) in April 2021. According to IMF economists' projections, global GDP in 2021 will experience a strong rebound and will increase by 6.0% yoy (+0.5 p.p. compared to the previous forecast published in January 2021), following a 3.3% yoy decline in 2020. Also in 2022, the global economy will remain on the path of stable growth with the GDP growth rate of 4.4% (+0.2 p.p. vis-à-vis the previous projection). At the same time, according to IMF economists, the pace of the post-pandemic economic recovery will remain strongly differentiated between countries. For many of them, including a number of euro area economies and the United Kingdom, the 2019 GDP level (pre-COVID-19 pandemic) will be achieved no earlier than in 2022.[98]

Despite the favorable signals coming from the global economy in recent months, the scale of uncertainty related to the future GDP growth path remains very high. In the opinion of foreign (IMF) and domestic (NBP) institutions, the key risk factors for the global GDP growth rate over the next several years include:

- emergence of new mutations of the COVID-19 virus (potentially more infectious or reducing the effectiveness of previously developed vaccines), which may force governments to tighten the previously loosened or even completely lifted restrictions;[99]
- strong variation in the pace of post-pandemic recovery among different countries or groups of countries, potentially resulting in the occurrence of macroeconomic imbalances in the global economy;
- consolidation of changes in the economic behaviors of people caused by the COVID-19 pandemic (e.g. decreased mobility and frequency of human interactions), which would result, without limitation, in a permanent decrease in the demand for many types of services;[100]
- possible re-intensification of supply-side problems (increased absenteeism, supply chain disruptions), adversely affecting marginal productivity and translating into higher operating expenses for businesses;
- intensification of autarkic tendencies (reversed decrease in barriers to global trade, smaller scale of foreign investments or reduced diffusion of technologies);[101]
- long-term effectiveness of public policies aimed at mitigating the long-term adverse effects of the pandemic (including limited access to education, greater income inequality and loss of production capacity);
- possible deterioration of sentiments and decline in risk appetite in global financial markets, which may force a faster than expected pace of monetary policy normalization and a tightening of financial measures (affecting particularly unfavorably the financial stability and solvency of countries burdened with large debts);[102]
- strong divergence in the prices of financial assets and the performance of the real economy, undermining the long-term financial stability and potentially triggering another financial crisis.[103]

Additional (not directly related to the economic consequences of the COVID-19 pandemic) risk factors for the medium and long-term outlook of global economic growth are also of a demographic nature (the observed process of the aging of societies, especially in developed economies) and challenges related to climate policy.

[98] International Monetary Fund
[99] International Monetary Fund
[100] National Bank of Poland
[101] National Bank of Poland
[102] International Monetary Fund
[103] International Monetary Fund

Under the negative scenario, an extension of the COVID-19 pandemic (e.g. as a result of the emergence of new, more infectious or vaccine-resistant variants) and the materialization of at least some of the remaining risk factors mentioned above may translate into a permanent loss of global production potential, including also in the economies of Poland and the Czech Republic, for instance as a result of a permanent decline in the investment rate, an increase in the equilibrium unemployment rate, a lower economic activity rate or a lower overall productivity growth in the coming quarters and years.

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

The largest share in the PKP CARGO Group's total freight volume consists of bulk cargo, including hard coal, aggregates and other construction materials, coke, ores and metals, chemicals and chemical products, and liquid fuels. As a consequence, the economic situation in the sectors that are made up of the main consumers of these commodities (including the power sector, the construction industry and the steel industry) has a direct impact on the demand for transport services and, thereby, on the transport performance and financial results of members of the PKP CARGO Group.

The economic recession brought about by the COVID-19 pandemic has landed a heavy blow to the industrial sector. In absolute terms, the level of industrial output in Poland in 2020 spiraled down at the beginning of the pandemic to the lowest level since 2013, after which the sector started to gradually make up for the decline, reaching the pre-pandemic production volume at the end of 2020.[104] In H1 2021, the country's industrial sector remains relatively resistant to the economic impact of the COVID-19 pandemic and plays a stabilizing role in the Polish economy. In H1 2021, the volume of industrial output in Poland was greater than in the corresponding period of the previous year (+18.2% yoy). This growth solidified especially in Q2 (+30.3% yoy, following an increase by 7.8% in Q1). In parallel, sales increased in most branches of industry (except for mining and quarrying, where it dropped slightly by 0.6%, following a decline by 9.2% the year before), including especially in manufacturing (by +19.3%), where the previous year brought a decline deeper than the industry average. Available data indicate a recovery in the domestic industry benefiting from the upturn in the global economy and the post-pandemic spike in demand.

In H2 2021, the rapid year-over-year rate of growth in industrial output may be expected to continue, although due to the gradually increasing statistical reference base, this rate of growth will be noticeably lower than so far in 2021 (growth rate below 20% yoy). As a result, the future evolution of the epidemiological situation and the speed with which the Polish and Czech economies end up returning to the growth path will be the key drivers of industrial production growth, and - indirectly – of the scale of the PKP CARGO Group's transport business in the coming quarters.

Besides factors directly related to the economic consequences of the COVID-19 pandemic (such as the permanent reshuffles in the international value added chains or changes in the demand for industrial goods both domestically and abroad), significant risk factors for the rate of growth of the PKP CARGO Group's transport performance in the coming quarters are the following:

- expected decrease in the consumption of steam coal as an energy carrier in Poland and the Czech Republic. The reduction in the quantity of hard coal consumption in the economy will be caused both by supply-side factors (gradual decline in the profitability of mines and their anticipated shutdowns) and demand-side factors (growing significance of other energy sources following the implementation of the EU's climate policy, decreasing price competitiveness of energy generation from coal caused by hefty charges for CO_2 emissions and a general increase in energy efficiency). [105] Adoption in February 2021 by the Polish government of the policy paper "Poland's Energy Policy until 2040" (PEP) is a step on the path towards gradual reduction of hard coal consumption in the Polish economy in the upcoming years, whereby it is stressed that this process should ensure fair transformation and respect for the interests of all stakeholders. Pursuant to the PEP, in 2030 the share RES in the final gross energy consumption should reach a minimum of 23%. Moreover, further development of wind energy is planned, and - after 2030 - a startup of a nuclear power plant in Poland.
- major increase in the prices of CO_2 emissions hitting hard the power generation, heating and other industries, such as metallurgy and cement production (the price of emission allowances per ton of CO_2 already exceeds EUR 50, meaning that between December 2020 and June 2021 the price of emission allowances increased by as much as 75%, with speculative mechanisms pushing the price up even further). This results in reduced capital expenditures in heating plants and creates a significant risk of the domestic economy becoming increasingly dependent on energy imports from Germany or the Czech Republic. The high price of emission allowances with a concurrent reduction in their free limits by Poland resulted in the non-profitability of coal-fired heat generation (the cost of purchasing an emission allowance is greater than the cost of coal in the process of generation of one GJ of heat), resulting in domestic businesses planning to replace their purchases of domestic coal with gas imports in order to cut the costs. The announced introduction of the "Fit for 55" package by the European Union aimed at increasing the target for reducing CO_2 emissions by 2030 from 40% to 55% will result in a faster decrease in the availability of new allowances.

[104] Statistics Poland
[105] Poland's Energy Policy until 2040, WysokieNapiecie.pl

This will generate serious consequences for the domestic and European economies (especially for the Polish power generation sector and industry, which operate largely on the basis of conventional emission-intensive energy sources), for instance in the form of further increases in electricity prices. According to estimates published by the European Commission, the prices of CO_2 emission allowances may increase to EUR 85 by the end of the decade (according to many experts, this will result in a rapid increase in the prices of CO2 emission allowances, which will exceed EUR 100).

- In the coming years, coal consumption will decline in both electricity and heat sector, as well as in industry. The Ministry of Climate and Environment has also announced the planned shutting down of about 70% of coal-fired units in Poland over the next 20 years. On 1 January 2021, old coal-fired units, of the total capacity of 1,645, have been decommissioned from the grid (in Tauron Group and in the PGE and ZE PAK Groups). Until the end of 2023, the PGE Group will shut down units of the total capacity of 900 MW (450 MW as early as in August 2021).[106] At the same time, signing of an agreement between miners and the government on the principles and timing of transformation of the mining industry envisages an option of the reduction of mining in 2021 by about 2 million tons yoy [107]. Noteworthy, so far the real growth rate of coal production and demand have consistently proven higher than all the priorly adopted transformation plans.
- the plan to shut down the hard coal mining industry in the Czech Republic assumes that hard coal (mainly coking coal) mining operations will cease by the end of 2022 at the latest. On the one hand, this situation represents a risk of falling transport volumes for PKP CARGO Group companies in the Czech territory (characterized by a large share of hard coal), yet on the other hand creates an opportunity for new export markets to emerge for Polish mines (Poland is the leading exporter of coke and coking coal to the EU countries). In September 2020, coke was again recognized by the EU as a strategic raw material, and an economic revival once the pandemic is over should be conducive to good demand for this input raw material for steel production. Consequently, the future situation in the Czech Republic creates prospects for JSW (the largest producer of coking coal in the EU with an annual output of approx. 11 million tons) and Polska Grupa Górnicza (e.g. the Bielszowice and Halemba mines, where coking coal accounts for approx. 40% of total output), and the risks seem to be mutually balanced. [108]
- strong impact of the economic situation on the conditions prevailing in the steel market and on the performance of the whole steel production industry, whose growth will largely depend on the existing situation (including, without limitation, in the construction sector). Any new wave of the pandemic may translate into a further reduction in demand for products of the metallurgical sector and, as a result, also for the commodities consumed in the production process (iron ore and coke). Judging by the experiences from 2020, steel-intensive industries (automotive production, machine production) are among the sectors of the economy hit hardest by the COVID-19 pandemic,[109] and the decline in the consumption of steel and most steel products both in 2020 and in the first months of 2021 was chiefly a consequence of the economic downturn caused by the pandemic (the effect of reduced operations in industries that are major buyers of steel products as well as the construction sector). The introduction of additional charges in the power market and the price increases in the energy commodity market, which are one of the causes of the permanent shutdown of the commodity part of the Krakow steelworks (blast furnace and steel plant) by the country's largest supplier of steel products, will also exert an adverse impact on the competitiveness of Polish steel industry. Moreover, in view of the factors that had already adversely affected the competitiveness of the Polish and European steel industries (hefty charges on CO_2 emissions or growing imports of steel and steel products from outside the EU)[110], in the upcoming quarters the demand for steel products will remain uncertain. Although after the declines of 2019 and 2020 it is forecasted that in 2021 the consumption of steel in Poland will increase by several percent (expected post-pandemic growth resulting from the demand reported predominantly by the construction sector (including in infrastructural investments) and the relatively strong demand generated by other industrial branches), account should be taken of the possibility of risks limiting the demand generated by certain branches of the industry (such as the automotive sector). One of such risk areas is certainly the increase in the production costs of steel and steel products by manufacturers in 2021 caused by the rising costs of CO_2 emission allowances, pushing up electricity costs and coke prices. Average electricity prices in the European Union are declining, while in Poland they are increasing, and the price of energy for businesses in Poland is the highest in Europe, all this in a situation where, in metallurgy, energy costs make up a major portion of a company's total costs. At the same time, in recent years (2018-2020) a gradual decrease was observed in the volume of domestic output of steel and steel products, which may certainly be associated with structural factors, such as the greater price competitiveness of imported production, the excess production capacity on the global market (including the EU) and even the energy and climate policy pursued by the European Union (increasing costs of CO_2 emissions);

[106] Wirtualny Nowy Przemysł [Virtual New Industry]
[107] wysokienapiecie.pl
[108] Wirtualny Nowy Przemysł [Virtual New Industry]
[109] moto.rp.pl
[110] Metallurgical Chamber of Industry and Commerce

- the commissioning, in the upcoming quarters, of new pipeline sections (Boronów-Trzebinia and the second thread of Gdańsk-Płock), and the strive to lower emission levels produced by the economy (including motor vehicles), reducing the demand for liquid fuel transport services[111];
- high dependence of the chemical sector and liquid fuels demand on the changes in economic trends in Poland (the growth rate of chemicals and chemical products production is correlated with the GDP growth rate, given that products of the chemical industry are most often consumed in manufacturing processes in other sectors of the economy);
- negative impact of the investment slowdown in local authorities (already struggling with the cost of combating the pandemic) on the construction sector;
- the rapid increases in the prices of raw materials and materials used in the construction sector (e.g. steel prices) that are currently observed in the construction market may exert an adverse impact on the performance of the construction market and may slow down the scale of improvement in the country's construction and assembly output in the coming quarters. The scale of the adverse impact in this area will depend on whether the price rises are only temporarily or whether this trend continues over an extended timeframe;
- growing exports from the countries east of Poland have a negative impact on the cement market. In 2016-2020, cement imports to Poland from non-EU countries increased by 332% (including imports from Belarus, Ukraine and Turkey, that is countries that do not bear the cost of purchasing CO_2 emission allowances), of which in 2020 these imports stood at 0.52 million tons. Cement imported to Poland from non-EU countries is produced predominantly in Belarus and its volume practically doubled from 247 thousand tons in 2019 to 440 thousand tons in 2020. For 2021 a further increase in imports of this commodity is forecasted. In 2016-2020, cement imports from non-EU countries to EU countries increased by 160%, the main reason of which was the costs of CO_2 emissions paid by producers in the Community but not applicable in other countries (CO_2 emissions are a side effect of the cement production process). In 2021, a large number of investment projects pursued in the east of Poland (e.g. Via Carpatia, Via Baltica or Rail Baltica) may encourage producers from across Poland's eastern border to increase their exports to the country.[112] The European cement industry lobbies for the introduction of CBAM and seeks to maintain free CO_2 emission allowances on the current terms (during the transition period until 2030). Information from the European Commission regarding the "Fit for 55" package also raises concerns;
- growing competition on the intermodal transport market[113]

In order to counteract these risks, the PKP CARGO Group is taking action to enable a rapid response to the changing market situation and trends prevailing on the rail freight transport market. Actions taken by the PKP CARGO Group are aimed at the continuous diversification of transport services (pursued by way of investments in specialized rolling stock for intermodal transport and expansion of the terminal network) and the optimization of the whole transportation process (also in light of the numerous periodic track closures on the PKP PLK network).

Risk associated with the rail freight sector

According to data presented by the Office of Rail Transport (UTK), there are currently 110 rail operators active on the Polish rail freight market holding an active license issued by the UTK President for the conduct of rail freight operations (as at 22 July 2021).[114] Among these companies are also three members of the PKP CARGO Group: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s. In recent years, competition on the domestic market has intensified, and the gradual increase in the number of operators (from 53 in 2012 to 87 in 2021) was accompanied by a concurrent decreasing concentration of market shares.[115]

The rapid growth of the rail market in terms of the number of carriers and businesses applying for licenses for freight transport is reflected in the number of applications submitted to the Office of Rail Transport in recent years. In 2020, despite the outbreak of a pandemic and the major reduction in the scale of freight transport, businesses demonstrated a higher than ever interest in starting the provision of transport services on the rail market and in obtaining a license from the Office of Rail Transport for the carriage of freight. In 2020, the Office of Rail Transport conducted 15 administrative proceedings for the granting of a license and issued 11 licenses. An additional reason for the significant interest in obtaining a license in this area was also the entry into force of the 4th technical package (European regulations regarding the issuance of documents in the area of rail safety). Businesses rushed to obtain a safety certificate under the current/domestic rules. In the process, they

[111] WNP.pl, Money.pl, BiznesAlert.pl
[112] Cement Producers Association
[113] Office of Rail Transport
[114] Office of Rail Transport, the statistics (as at 22 July 2021) 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.
[115] Office of Rail Transport

informed the Office about the postponement of the start date of their business as a rail carrier. In Q1 2021, the rail freight market saw as many as 4 new entrants.[116]

In 2013-2020, 56 new licenses for the carriage of freight and 43 licenses for the provision of traction services were issued. In 2019, in this group, as many as 20 companies reported the actual provision of freight carriage services (based on freight volume). In this period, these carriers transported over 12.2 million tons of cargo and reached a total of over 3.5 billion tkm of freight turnover (a share of 5% by freight volume and 6% by freight turnover in the overall rail freight market). In the period from January to August 2020, as many as 22 companies provided freight carriage services, having transported 11.9 million tons (an 8% market share) in just 8 months, having generated over 3 billion tkm (a 9% market share). New carriers (those that obtained their license in 2013-2020) have not yet acquired a significant portion of the market, but their share is noticeably growing. These operators provide a diverse range of transport services: from the carriage of bulk cargo, such as coal and aggregates, to transport between Poland's border stations with Belarus, the Czech Republic and Slovakia, to the recently fastest growing segment of intermodal transport. Among the new rail operators there are representatives of several sectors of the economy who, for instance, previously used rail transport services as clients or companies with capital or personal ties with carriers already conducting operations on the rail transport market. Several of these new market entrants are members of larger corporate groups, e.g. representing the construction sector, including rail construction, the steel and scrap metal sector and the food industry (companies intending to ensure supply chains based on rail transport services provided within their own corporate groups). Other companies that have recently entered this market are not related to any entities already active in this area and do not represent large manufacturing groups, but only see a good opportunity for the development of their business in the rail transport market. Of course, among the new rail operators there are companies expanding their existing lines of business to include intermodal rail transport (their previous activity was based on other elements of the supply chain, for instance the operations of an intermodal carrier, terminal operator or freight forwarding operator).

According to data published by the Office of Rail Transport, new market entrants have a combined fleet of over 230 traction and shunting locomotives and over 3.5 thousand freight wagons. The new operators account for a very large share in the market for the provision of traction services in Poland (the share of new operators in the whole market in terms of the working time provided by traction vehicles and train crews is approx. 70%, while their market share in terms of the working time of train crews only is approx. 25%). [117]

In H1 2021, the rail freight market recorded both an increase in the volume of transported loads and the freight turnover yoy. The market is experiencing an expansion of the list of operators who have exceeded the market share threshold of 0.5% of the whole market in H1 2021. The operation of small market players (with a market share of less than 0.5%) is characterized by a high degree of flexibility of their business and a relatively low level of fixed costs. Moreover, the role of recent entrants into the rail transport market also seems to be growing. The situation is attributable to the currently easier access to locomotives and wagons in the rail market (given a larger number of companies offering hire of rolling stock), more market entrants which restrict their operations to a selected geographical area, and the drive towards maximum shortening of the supply chain (which applies particularly to intermodal terminal operators). Another popular trend, especially among producers of aggregates or companies implementing infrastructural investments, is to set up rail companies in order to pursue rail transport as auxiliary operations to the company's core business.[118]

In the difficult 2020 and H1 2021, companies that conducted and expanded the scale of operations in the intermodal segment were quite successful in this shrinking market. It is validated by the transport results of the rail intermodal transport in Q1 2021, where the services were provided by as many as 20 operators (of which as many as 15 have gone above the threshold of 0.5% of market share in terms of freight volume). The share of intermodal transport services in all rail transport services continues to grow steadily. In Q1 2021, it already accounted for 10.9% by freight volume and 14.8% by freight turnover. In Q1 2021 (as in 2020) in Poland, despite the lingering consequences of the pandemic affecting the economy, the intermodal segment continued to grow very steadily. The pandemic did not slow down the growth of this segment, and all its parameters increased significantly in year-over-year terms. According to data from the Polish intermodal rail transport segment published by the Office of Rail Transport, in Q1 2021, the total volume of transported intermodal loads was 6.2 million tons (+15.1% yoy) and the freight turnover was 1.9 billion tkm (+10.1% yoy). [119] In this period, as in the previous years, PKP CARGO provided the majority of intermodal transport services, having remained in the position of the market leader in this segment of freight transport. This notwithstanding, a large year-over-year increase in the volume of intermodal transport in the same period was recorded by those operators whose share of intermodal transport in the total volume of transported loads significantly increased year-over-year, which in combination with, among other factors, their scheduled investments in specialized rolling stock and the growing significance of international logistics groups (Metrans, Rail Cargo Carrier) indicate a high likelihood of

[116] Office of Rail Transport
[117] Office of Rail Transport
[118] Office of Rail Transport
[119] Office of Rail Transport

an additional degree of competitive struggle in the intermodal segment in the coming quarters. In Q1 2021 alone, two new operators providing intermodal transport services (Silva LS and Cedrob Cargo) appeared on the intermodal rail transport market. According to their announcements, both entities intend to ultimately provide transport services not only to their parent corporate group, but will also seek to grow on this competitive market. Moreover, both these companies are beneficiaries of funds earmarked for the development of intermodal transport obtained under the EU operational program "Infrastructure and Environment".

The PKP CARGO Group's rail competitors offer the full range of transport and transport-related services, including whole-train carriage of coal and coke, aggregates and other construction materials, metallurgical products, liquid fuels and chemicals. Some companies also offer dispersed transport services (single wagons) and the carriage of special materials (including long rails). Some entities also offer comprehensive freight forwarding and logistics services or provide regular operator trains. Considering the relatively low barriers to entry on this market (including the possibility of using an international license or lease of rolling stock) and its still promising outlook, e.g. for the intermodal segment, a further increase in the number of competitors for the PKP CARGO Group on the domestic market may be expected in the coming quarters, along with a simultaneous increase in the scale of operation by some of the existing market players. Already in 2020, in the context of the economic crisis in the wake of the pandemic and the shrinking rail freight market, operators took measures to survive these difficult times and the interest among other companies in the intermodal transport segment increased significantly. The intermodal transport market saw operators developing new routes within transport corridors and the New Silk Road (a high increase of activity between certain destinations). Particularly noticeable in the rail transport market was the tendency of "mass" carriers who, due to the crisis situation on the shrinking rail freight market, decided to diversify their volume during the pandemic, while the share of intermodal transport in their overall transport services increased significantly. In absolute terms, these values remain in the background in terms of market significance. However, a clear trend has transpired in the transportation sector (especially in correlation with the funding obtained by these players for the purchase of platforms for the transport of intermodal loads).

Compared to Europe, the Polish rail market is among the leaders in terms of the number of licenses/freight carriers and is one of the most open markets among European countries. According to data published by the European Union Agency for Railways (ERA), 634 rail licenses for the carriage of freight were issued in Europe in 2020 (up by approx. 40% compared to the beginning of 2013, when there were only 452 such licenses). Germany is the only European country where more licenses were issued than in Poland (143 licensed freight carriers in 2020, or approx. 23% of all outstanding licenses in Europe (28 countries in ERADIS databases). In terms of the number of licenses, Poland ranks second with a share in the license market of approximately 17% (110 licenses in 2020 vis-à-vis 79 licenses in 2013). The Czech Republic ranks third (71 licenses in 2020 compared to 52 in 2013).[120]

The main competitors of the PKP CARGO Group are companies operating on the Czech market are ČD CARGO (the national carrier and the undisputed leader of the country's transport market), Metrans Rail (an international logistics operator focused on the container transport segment in the countries included in the Three Seas Initiative), ORLEN Unipetrol Doprava (an operator specializing in the transportation of fuels), Rail Cargo Carrier – Czech Republic (a subsidiary of the international carrier Rail Cargo) and IDS CARGO.[121] As is the case on the Polish market, the services provided by competitive operators cover all key segments of the rail freight market: solid fuels, construction materials, liquid fuels, chemicals and containers (intermodal services). In recent quarters, the Czech Republic has seen a gradual decentralization trend in the country's rail freight market (the total market share of small companies is on a gradual upward path).[122]

Bearing in mind the intensifying competition on the Polish and Czech markets for rail freight transport, the PKP CARGO Group is involved in initiatives aimed at the continuous improvement of the quality and development of its services (e.g. by way of investments in specialized rolling stock approved for international traffic, involvement in cross-border cooperation with local operators and endeavors to better customize its commercial offering, including by the appearance of operator trains) and the provision of comprehensive logistics services to clients from various industries.

[120] ERA – the European Union Agency for Railways
[121] SŽDC
[122] SŽDC

Risks associated with operations

Risk associated with the rail infrastructure

Numerous modernizations, repairs and revitalization and maintenance work on the domestic rail infrastructure hinder the smooth provision of transport services and efficient customer service, and entail additional costs to be incurred by the Company due to:

- limitations in the capacity of routes, stations and hubs,
- diversions of a portion of trains and, as a consequence, extension of the time of transport coupled with an increased demand for locomotives, train crews and rail car stock,
- the necessity to change the type of train power supply and, as a consequence, the increased demand for diesel locomotives.
- in the case of forced detours and the need to perform maneuvers related to a change of the front of the train, additional employment of a rolling stock auditor, etc.,
- increased difficulties in handling and limited access to significant commercial points (terminals, sidings, loading/unloading yards, etc.).

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

Road transport plays a key role on the Polish and Czech freight markets, which in recent years has also been capturing the majority of the market's freight volume available for transportation. In 2020, truck transport services already accounted for more than 89% of the total volume of freight transported in Poland and more than 81% in the Czech Republic. Moreover, in both these countries, the share of road transport has been increasing for years, chiefly at the expense of rail. The market trends prevailing currently suggest that this evolution unfavorable for rail transport, both in Poland and in the Czech Republic, will continue and may even exacerbate.[123]

The increase in relative significance of road transport is a consequence of its competitive advantages compared to alternative branches of land transport of cargo, such as in particular:

- relatively low barriers to entry and fixed costs incurred at the initial phase of business;
- oil prices that have remained at moderate levels in recent years (the price of fuel is the largest single cost for transport operators);
- universal access to infrastructure and gradual improvement of the high-quality road network (motorways and expressways) in Poland and the Czech Republic;
- low costs of access to road infrastructure (the road network where the Via Toll and Premid systems apply is relatively small in relation to the size of the whole road network);
- ability to adjust the transport volume smoothly, thus permitting the handling of both short and long-haul operations (road transport is profitable even at relatively small volumes of transported cargo due to low fixed costs). As a consequence, it may also be profitable to carry freight over shorter hauls, which is unattainable for commercial viability reasons for other branches of the transport sector;
- significantly greater average speed of this mode of transport relative to rail transport coupled with the possibility to provide direct door-to-door transport services (without the need for transshipment at the terminal or siding).

The operational initiatives implemented by the PKP CARGO Group are aimed at railway transport achieving the position of a means of transport that would be complementary to road transport (e.g. long-haul transportation of high volumes of bulk cargo by rail and their handling by trucks as part of the so-called last-mile services). The PKP CARGO Group is also gradually increasing the scale of its operations in developed countries of Western Europe in market segments that dominate the rail transport market and at the same time offer high growth potential (e.g. intermodal transport). At the same time, the general competitive position of rail transport should improve after the completion of modernization and construction works on PKP PLK's network executed under the "National Railway Program". Although, in the long run, the development of rail infrastructure will boost the competitive position of rail operators as providers of transportation services, the work that is currently underway to improve this infrastructure is slowing down the average commercial speed of trains (which translates directly into poorer timeliness and slower turnover of rolling stock) and forcing frequent detours (thereby increasing operating expenses and reducing the profitability of rail operators).

[123] Statistics Poland, Czech Statistical Office

The risk of high dependence of the client base on the limited number of industries and business entities operating therein as well as structural changes in the operations of the key clients.

A significant percentage of contracts entered into by the PKP CARGO Group and its clients is of a long-term nature. As a consequence, this largely reduces the degree of uncertainty associated with the conduct of freight business by enabling advance contracting of transport services for large volumes of bulk cargo, such as hard coal, aggregates, metals and ores, along with the simultaneous efficient allocation of rolling stock and human resources.

Such contracts provide for declared volumes of freight services, although in justified cases these volumes may be renegotiated up or down, depending on the situation. As a consequence, amendments to the contractual terms may result in the need to ensure additional resources in order to transport the surplus freight volumes or may unfavorably affect the quantum of transport services actually provided by the PKP CARGO Group. The PKP CARGO Group offers transportation services predominantly to companies operating in the following industries: mining, power generation, metallurgy, production of chemicals and chemical products, and construction. At the same time, a distinguishing feature of these sectors of the economy is their fairly high concentration of production facilities. As a result, if the scale of output generated by any client diminishes (and competition on the transportation market continues to intensify), it will be increasingly more difficult to find new counterparties that might help close the gap resulting from the transport services agreed upon yet not provided.

At the same time, changes in the business structure of entities to which the PKP CARGO Group provides transport services might assume the form of a complete change or diversification of the area of activity. Moreover, certain large clients also decide to establish subsidiaries focusing on providing transport services covering the goods manufactured by the parent company. In 2020, over a dozen such subsidiaries operated on the Polish freight transport market, and their market significance is continuing to grow (most of them recorded an increase in transported volumes in year-over-year terms despite the strongly shrinking overall market for rail transport services). Although in periods of overdemand on the transportation market the rolling stock or human resources of specialized companies are often insufficient to handle all orders for transport services placed by their parent companies, in times of a market downturn the rolling stock potential of such subsidiaries is often sufficient to handle all requested traffic.

Considering the trends prevailing on the transportation market (including the gradual increase in volumes carried by specialized companies), it is likely that they will continue to expand the scale of their business, also on a commercial basis (by providing transport services to clients other than their own parent company). These phenomena may adversely affect the volume of freight transport services available for acquisition on the competitive market (including by the PKP CARGO Group).

The PKP CARGO Group's long-term strategy assumes a gradual improvement of efficiency, competitiveness and quality of the transport and logistics services offered. The measures taken reduce the risk of potential diversification of rail operators by key accounts.

Risk associated with a shortage of trained personnel

The risk associated with a shortage of trained personnel in the Company is constantly monitored. Actions are taken with a view to ensuring appropriate number of employees with required skills so as to support proper performance of the business processes.

The Company cooperates with High School Complex No. 6 in Siedlce in dual first-grade education in Poland in the profession of rail vehicle mechanic. Moreover, based on identified and reasonable needs, recruitment processes are carried out, resulting in the acquisition of appropriate staff. obtain new qualifications from scratch to carry out work in key positions for the provision of transport services, including as a train driver, rolling stock auditor or shunter. Internal training courses are also conducted to improve employees' competences.

All these actions minimize the risks associated with a shortage of appropriately trained personnel.

Risk of collective disputes and strike

The partnership-based social dialog conducted by the PKP CARGO S.A. Management Board with the Trade Unions means that the risk of a collective dispute or strike in the coming months has been reduced to a minimum.

Risk of increase of salaries

It is the Company's view that there exists no risk of payroll increase in PKP CARGO S.A. as at the report publication date. As regards the subsidiaries, such risk has been identified in PKP CARGO CONNECT. The NSZZ Solidarność Inter-Company Trade Union Organization at PKP S.A. initiated a collective dispute against PKP CARGO CONNECT regarding pay rises for all employees of the company from 1 June 2021 in the amount of PLN 600 in base compensation per employee.

Risk associated with the COVID-19 pandemic

- risk of amendments to legal regulations – due to the existing COVID-19 epidemic, there is a risk that new restrictions may be imposed or new generally applicable laws may be enacted,
- risk related to the imposition of restrictions on the transport or movement of people, which may cause disruptions in operating activity and result in weaker demand for transport services,
- risk related to the suspension, in accordance with the applicable laws, of the course of procedural and judicial limitation periods, including in respect of court-administrative, administrative and enforcement procedures, which may result in an extension of the examination stage of such cases or postponement of the recovery of receivables by the Company.

Financial risks

Liquidity risk

The Group is exposed to liquidity risk ensuing from the ratio of current assets to net current liabilities (current liabilities less short-term provisions).

In H1 2021, the Group continued its activities aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the medium term. In order to secure its liquidity position, the Parent Company signed an investment loan agreement with the European Investment Bank up to the maximum amount of EUR 60 million, an overdraft agreement with Bank Gospodarstwa Krajowego up to the total maximum amount of PLN 100 million and a master leasing agreement with PKO Leasing S.A. up to the total amount of PLN 100 million. The secured financing sources enabled ongoing payment of short-term liabilities as at 30 June 2021. Risks associated with the ongoing COVID-19 pandemic persist and, if materialized, may exert an additional adverse effect on the Group's financial standing.

Information on credit facilities undrawn as at 30 June 2021 is presented in **Note 4.1 to the CFS.**

Moreover, to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place in two banks comprising, as at 30 June 2021, 8 Group companies.

Market risk

The Group is exposed to market risks associated with changes of the exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes in 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 through assigned organizational units under the supervision of the PKP CARGO S.A. Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivative instruments are used only to limit the risk of cash flow changes.

FX risk

In H1 2021, 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, and payables expressed in foreign currencies are mostly current and non-current liabilities on account of investment loan agreements with maturities of more than 5 years.

For the EUR/PLN exchange rate, natural hedging exists due to the fact that proceeds in EUR are balanced out by expenditures in the same currency. Any surplus inflows in EUR were hedged, among other instruments, by the Group's use of currency risk management transactions.

In H1 2021, the PKP CARGO Group applied hedge accounting for forward transactions and for EUR-denominated loan agreements and leasing agreements. Detailed information on FX risk management is presented in **Note 6.1 to the CFS.**

Interest rate risk

The Group is exposed to the risk of volatility of interest rate cash flows following from bank loans and leases partially based on variable interest rates.

In H1 2021, interest on financial liabilities was accrued according to fixed and variable interest rates and reference rates, plus the financing entity's margin, i.e. based on the following reference rates: WIBOR 1M, WIBOR 3M and EURIBOR 3M.

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. Based on its internal policies, the Group grants deferred payment terms only to counterparties with acceptable standing and a 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 Group accepts security interests from their 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.

The maximum exposure to credit risk is represented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through safeguards established in favor of the Group (in the form of bank/insurance guarantees, guarantee deposits, etc.).

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

5.1 Rules for preparing the interim financial statements

The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2021 and the Interim Condensed Consolidated Financial Statements OF the PKP CARGO Group for the 6 months ended 30 June 2021 have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of the standalone and consolidated financial statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757, as amended) ("Regulation").

The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2021 and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2021 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these financial statements, there are no circumstances indicating any substantial threat to PKP CARGO S.A.'s and the PKP CARGO Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2021 and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2021 have been prepared in accordance with the historical cost principle, except for derivatives measured at fair value and investments in equity instruments.

5.2 Position of the corporate governing body and an opinion of the regulatory authority supervising the issuer regarding the reservations expressed in the financial statements review report by the audit firm or regarding such entity's refusal to issue a financial statements review report

The audit firm issued an unqualified audit report.

5.3 Key economic and financial figures of the PKP CARGO Group

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

Table 16 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million[124]		EUR million	
	6 months of 2021	6 months of 2020	6 months of 2021	6 months of 2020
Exchange rates (PLN/EUR)			**4.5472**	**4.4413**
Operating revenue	2,067.8	2,024.0	454.7	455.7
Operating profit / loss	-128.3	-182.0	-28.2	-41.0
Profit / loss before tax	-155.0	-231.0	-34.1	-52.0
Net profit / loss	-130.0	-191.9	-28.6	-43.2
Total comprehensive income attributable to the owners of the parent company	-76.0	-264.9	-16.7	-59.6
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)	-2.90	-4.28	-0.64	-0.96
Diluted earnings / losses per share (PLN)	-2.90	-4.28	-0.64	-0.96
Net cash flow from operating activities	190.7	218.0	41.9	49.1
Net cash flow from investing activities	-371.7	-351.0	-81.7	-79.0
Net cash flow from financing activities	-16.7	9.9	-3.7	2.2
Movement in cash and cash equivalents	-197.7	-123.1	-43.5	-27.7
	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020
Exchange rates (PLN/EUR)			**4.5208**	**4.6148**
Non-current assets	6,471.1	6,397.4	1,431.4	1,386.3
Current assets	993.2	1,149.3	219.7	249.1
Non-current assets classified as held for sale	14.3	12.7	3.2	2.7
Share capital	2,239.3	2,239.3	495.3	485.2
Equity attributable to the owners of the parent company	3,067.8	3,143.8	678.6	681.2
Non-current liabilities	2,787.9	3,029.5	616.7	656.5
Current liabilities	1,622.9	1,386.1	359.0	300.4

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2021 prepared according to EU IFRS.

[124] 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 were presented with greater accuracy.

Table 17 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million[125]		EUR million	
	6 months of 2021	6 months of 2020	6 months of 2021	6 months of 2020
Exchange rates (PLN/EUR)			**4.5472**	**4.4413**
Operating revenue	1,497.4	1,466.3	329.3	330.2
Operating profit / loss	-144.3	-180.4	-31.7	-40.6
Profit / loss before tax	-151.4	-158.0	-33.3	-35.6
Net profit / loss	-122.9	-120.9	-27.0	-27.2
Total comprehensive income attributable to the owners of the parent company	-81.4	-187.4	-17.9	-42.2
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)	-2.74	-2.70	-0.60	-0.61
Diluted earnings / losses per share (PLN)	-2.74	-2.70	-0.60	-0.61
Net cash flow from operating activities	92.8	211.5	20.4	47.6
Net cash flow from investing activities	-334.4	-272.4	-73.5	-61.3
Net cash flow from financing activities	77.3	35.0	17.0	7.9
Movement in cash and cash equivalents	-164.3	-25.9	-36.1	-5.8
	30 Jun 2021	**31 Dec 2020**	**30 Jun 2021**	**31 Dec 2020**
Exchange rates (PLN/EUR)			**4.5208**	**4.6148**
Non-current assets	6,065.6	5,948.9	1,341.7	1,289.1
Current assets	575.4	705.4	127.3	152.9
Non-current assets classified as held for sale	14.3	12.7	3.2	2.7
Share capital	2,239.3	2,239.3	495.3	485.2
Equity attributable to the owners of the parent company	2,877.4	2,958.8	636.5	641.2
Non-current liabilities	2,410.7	2,646.7	533.3	573.5
Current liabilities	1,367.2	1,061.5	302.4	230.0

Source: Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2021, prepared in accordance with EU IFRS

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. for the period of 6 months ended 30 June 2021:

- exchange rate in force on the last day of the reporting period: 30 June 2021: EUR 1 = PLN 4.5208; 31 December 2020: EUR 1 = PLN 4.6148;
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in the respective period: 1 January – 30 June 2021: EUR 1 = PLN 4.5472, 1 January – 30 June 2020: EUR 1 = PLN 4.4413.

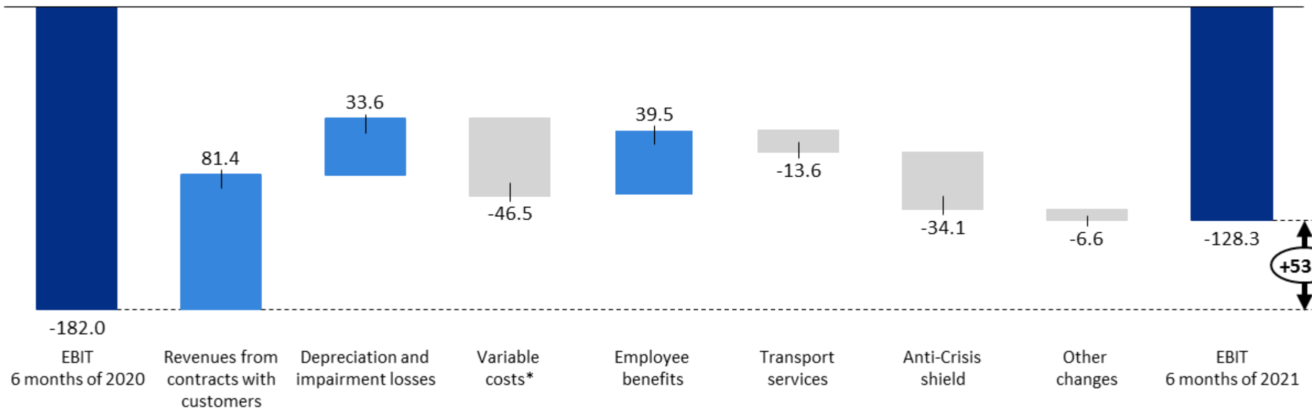
[125] To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

5.3.2. 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 2021, EBIT reached PLN -128.3 million, having gone up by PLN 53.7 million compared to the corresponding period of 2020.

Figure 19 EBIT in 6M 2021 as compared to the corresponding period in 2020 (PLN million)



* Variable costs are the costs of: traction fuel, traction energy and access to infrastructure.

Source: Proprietary material

The following is the explanation of the most significant changes affecting EBIT in the first 6 months of 2021 as compared to the first 6 months of 2020:

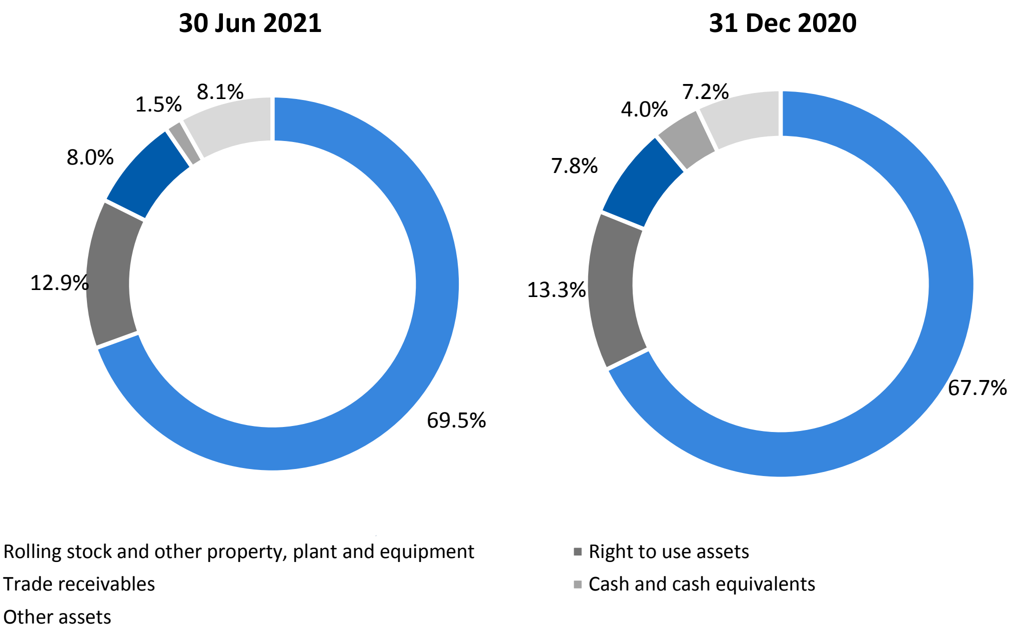
- increase in revenues from contracts with customers (including predominantly revenues from transport services and also revenues from forwarding, siding and traction services) as a direct consequence of the greater volume of transport (increase in freight volume by 10.8% and freight turnover by 11.7%), with the concurrently observed impact of lower transport rates as a result of the intensified competition on the transport market. The details pertaining to the PKP CARGO Group's transport services are described in section **4.2.5 PKP CARGO Group's rail transport business;**
- decrease in depreciation and impairment losses resulting from lower capital expenditures (including expenditures on rolling stock) in 2020 and revaluation of the rolling stock residual value as at 31 December 2020;
- increase in variable costs (consumption of energy, traction fuel and infrastructure access services) by 9.7% associated with an increase in freight volume and freight turnover (up by 10.8% and 11.7%, respectively);
- decrease in the costs of employee benefits, chiefly due to a decrease in the average headcount by 1,464 FTEs yoy. Detailed information on the change in headcount is presented in section **4.4 "Headcount"**;
- increase in transport services (including, in particular, freight forwarding) correlated with an increased volume of transport;
- impact of non-recurring events – the effect of a high statistical base as a result of the inflow of funding in June 2020 under the anti-crisis shield in the amount of PLN 34.1 million (decrease in other operating revenues on a yoy basis);
- increase in costs in the line item of other changes by PLN 6.6 million as a result of, among other factors, an increase in the costs of other services by PLN 7.3 million, a higher value of goods and materials sold by PLN 5.9 million, higher rental costs and fees for the use of real estate and rolling stock by PLN 3.6 million and repair services by PLN 3.5 million (caused by an increase in the volume of transport) and higher costs of energy, non-traction fuel, water and gas by PLN 3.5 million, resulting from, among other factors, increases in the prices of commodities in global markets, with a simultaneous decrease in the cost of land reclamation services by PLN 12.0 million, consumption of materials by PLN 10.2 million, etc.

Statement of financial position of the PKP CARGO Group

ASSETS

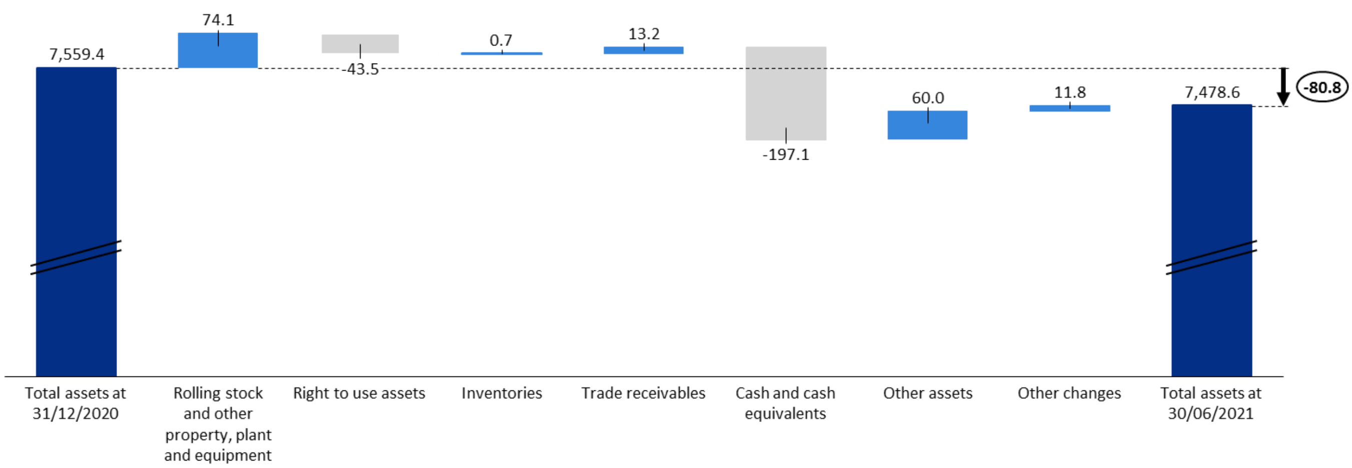
As at 30 June 2021, rolling stock and other property, plant and equipment had the largest share in the structure of assets, accounting for 69.5% of total assets, compared to 67.7% as at 31 December 2020. The largest share in the structure of current assets as at 30 June 2021 in relation to total assets was attributable to trade receivables, which represented 8.0% of total assets, compared to 7.8% as at 31 December 2020.

Figure 20 Structure of assets – as at 30 June 2021 and 31 December 2020



Source: Proprietary material

Figure 21 Movement in the Group’s assets in the first 6 months of 2021 (PLN million)



Source: Proprietary material

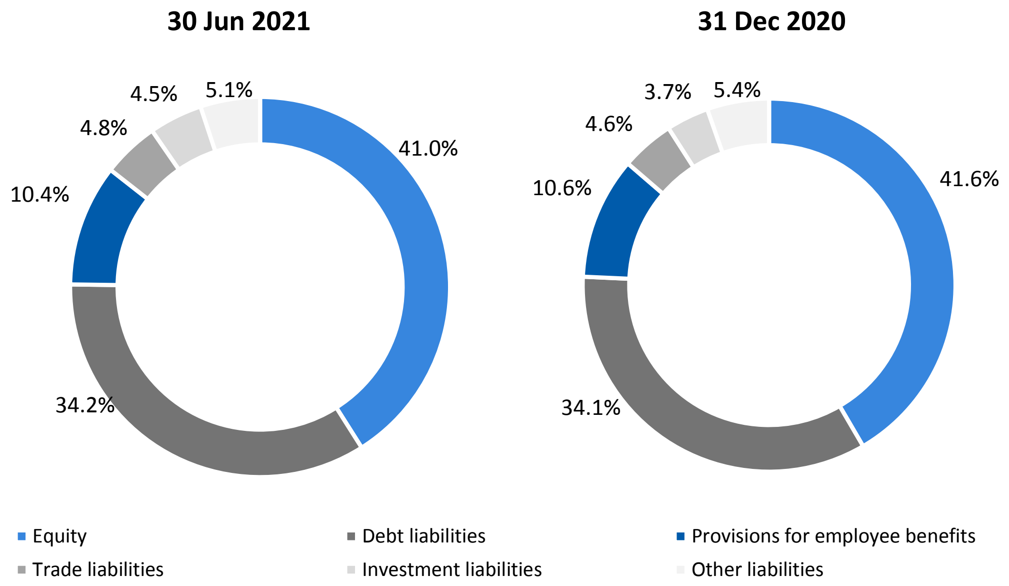
The most significant changes affecting the value of assets as at 30 June 2021 as compared to 31 December 2020 are discussed below:

- increase in the value of rolling stock and other property, plant and equipment associated with the execution of investments in property, plant and equipment (chiefly rolling stock), which exceeded the value of depreciation in the reporting period;
- increase in trade receivables by PLN 13.2 million, chiefly due to a decrease in the value of impairment losses on receivables;
- decrease in cash by PLN 197.1 million resulting predominantly from expenditures related to the acquisition of non-financial non-current assets in the amount of PLN 367.5 million, repayment of bank loans and leases along with interest in the amount of PLN 211.6 million, with simultaneous operating revenues of PLN 190.7 million and new loans of PLN 189.4 million;
- increase in the value of the line item of other assets, chiefly due to the deposit paid for the purchase of non-financial non-current assets in the amount of PLN 33.3 million as security for a conditional preliminary agreement for the purchase of real estate of the former Fabryka Wagonów Gniewczyna in Gniewczyna Łańcucka. Additionally, an increase was recorded in assets associated with deferred costs by PLN 15.1 million (including redemption of employee benefits and prepayments for the purchase of electricity) and in receivables from the sale of shares in Rentrans Cargo Sp. z o.o. in the amount of PLN 5.9 million.

EQUITY AND LIABILITIES

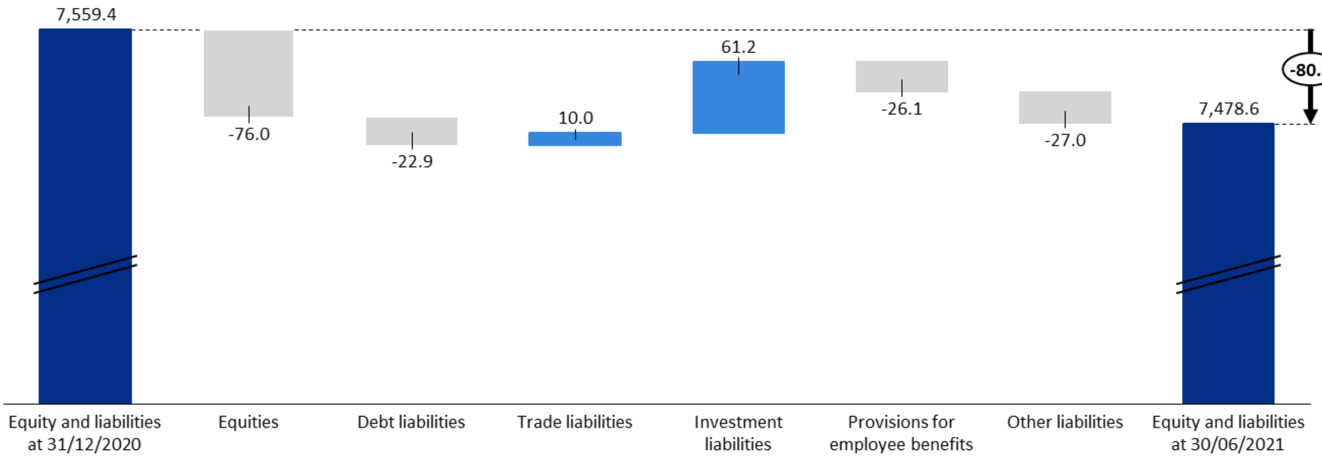
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 30 June 2021 was attributable to equity, which accounted for 41.0% of the sum of equity and liabilities, compared to 41.6% as at 31 December 2020. Debt liabilities accounted for 34.2% of total equity and liabilities, compared to 34.1% as at 31 December 2020.

Figure 22 Structure of the Group's equity and liabilities as at 30 June 2021 and 31 December 2020



Source: Proprietary material

Figure 23 Movement in the Group's equity and liabilities in the first 6 months of 2021 (PLN million)



Source: Proprietary material

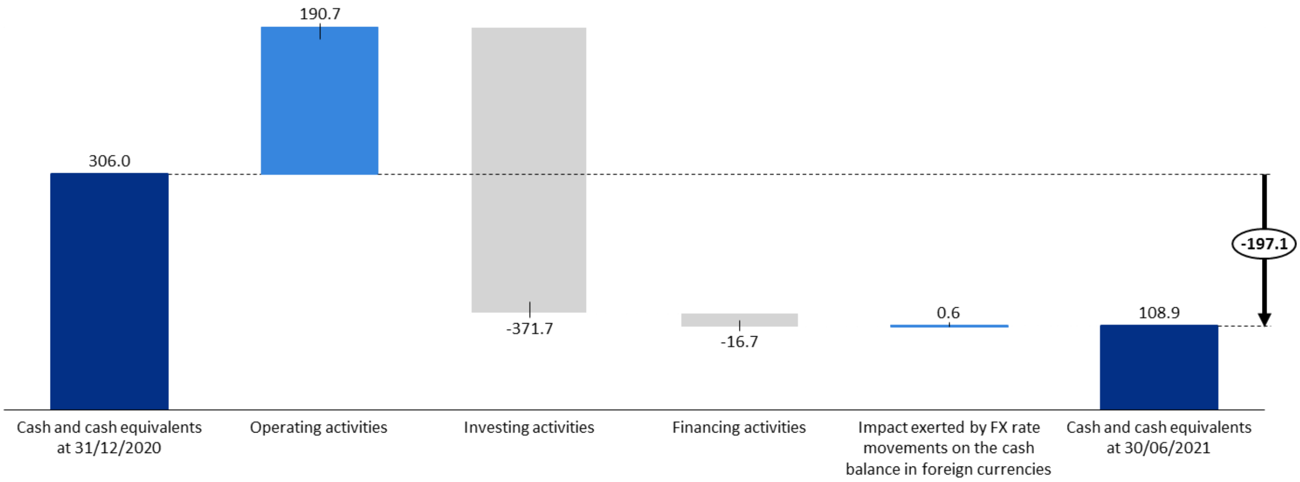
The most significant changes affecting the value of equity and liabilities as at 30 June 2021, as compared to 31 December 2020, are discussed below:

- decrease in the value of equity, mostly as a consequence of the negative financial result generated by the PKP CARGO Group, with a simultaneous increase in other components of equity by PLN 45.4 million, resulting from, among other factors, changes in the valuation of provisions for post-employment benefits (predominantly due to a change in the discount rate applied to calculate provisions as at 30 June 2021) and a positive change in the valuation of financial instruments under hedge accounting;
- decrease in the value of debt liabilities due to the repayment of loans and leases with interest in the amount of PLN 236.3 million, with a concurrent addition of new liabilities in the amount of PLN 203.4 million, modification of existing contracts resulting in an increase in debt by PLN 22.1 million and an increase in leaseback liabilities by PLN 7.4 million. Detailed information on debt liabilities is presented in **Note 4.1. to the CFS**;
- increase in trade liabilities resulting from the active management of working capital;
- increase in investment liabilities caused mainly by an increase in investment liabilities related to rolling stock in the amount of PLN 71.8 million;
- decrease in the value of provisions for employee benefits, caused largely by a decrease in provisions for the Company Social Benefits Fund for old-age and disability pensioners by PLN 18.5 million, jubilee awards by PLN 13.7 million, retirement and disability severance pays by PLN 8.8 million and transportation benefits by PLN 8.1 million with a simultaneous increase in provisions for unused annual paid leaves by PLN 20.8 million;
- decrease in the value of other liabilities, chiefly due to the decrease in public law liabilities by PLN 13.4 million and liabilities on account of security interests (security deposits, bid deposits, guarantees) by PLN 14.0 million.

5.3.3 Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 30 June 2021 decreased by PLN 197.1 million compared to 31 December 2020.

Figure 24 Cash flows of the PKP CARGO Group in the first 6 months of 2021 (PLN million)



Source: Proprietary material

- cash flows from operating activities generated on the loss before tax of PLN 155.0 million, depreciation and impairment losses of 355.1 million PLN and negative cash flows associated with movement in working capital of PLN 60.3 million;
- cash flows from investing activities as a consequence of expenses incurred on the purchase of non-financial non-current assets in the amount of PLN 367.5 million and the deposit paid for the purchase of fixed assets (wagon plant in Gniewczyn, line item: other investment expenditures), with simultaneous proceeds from the sale of non-financial non-current assets of PLN 21.4 million as a result of a decision to sell assets unnecessary for the efficient conduct of operating activities;
- cash flows from financing activities, chiefly as a result of the repayment of loans and leases with interests in the amount of PLN 236.3 million, offset by inflows of PLN 189.4 million from new loans and PLN 32.0 million from new subsidies.

5.3.4 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 2021 compared to the corresponding period of the previous year.

Table 18 Key financial and operating ratios of the PKP CARGO Group in 6M 2021 as compared to the corresponding period of 2020

Item	6 months of 2021	6 months of 2020	Change	Rate of change
			2021 - 2020	2021/2020
EBITDA margin[1]	11.0%	10.2%	0.8	7.4%
Net profit margin[2]	-6.3%	-9.5%	3.2	-
ROA[3]	-2.2%	-2.6%	0.4	-
ROE[4]	-5.3%	-6.5%	1.2	-
Average distance covered per locomotive (km per day)[5]	210.8	216.4	-5.6	-2.6%
Average gross train tonnage per operating locomotive (tons)[6]	1,463.0	1,437.0	26.0	1.8%
Average running time of train locomotives (hours per day)[7]	14.5	13.9	0.6	4.3%
Freight turnover per employee (thousands tkm/employee)[8]	579.4	485.4	94.0	19.4%

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 result 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 given period).
6. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
7. Calculated as the quotient of vehicle-hours (i.e. 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 2021, the EBITDA margin and the net profit margin improved compared to the corresponding period of 2020 due to the higher EBITDA and the lower net loss resulting from the factors described in section **5.3. Key economic and financial figures of the PKP CARGO Group**;
- improvement in the ROA and ROE ratios, largely due to the greater annualized net result in 6M 2021;
- deterioration in the average daily haul of locomotives, caused by the high level of closures and operational difficulties on the PKP PLK network and the related year-over-year decrease in the commercial speed, with a concurrent increase in the number of active locomotives available for operations in a situation of varying volumes of transport services;
- The recorded increase in the average gross train tonnage per operating locomotive and the average running time of train locomotives attests to the optimal use and properly conducted management of traction vehicles;
- increase in the freight turnover per employee ratio, caused predominantly by an increase in freight turnover by 11.7% yoy coupled with a decrease in FTEs by 6.4% yoy.

5.4 Factors that will affect financial performance in the next quarter

Situation related to COVID-19

- The impact of the pandemic on the introduction of various types of restrictions and the prevailing fluctuations in market demand exacerbate the current unpredictability of the market.
- Increase in additional costs caused by the implementation of solutions that affect changes in the organization and efficiency of work.
- Possible amendments to the generally applicable laws and internal regulations adopted by PKP CARGO S.A.

Market for commodities and aggregates

- The gradual increase in electricity consumption in the Polish economy will translate into greater demand for coal transport services.
- Scheduled infrastructural investments (road and rail) with the support of EU funds provide an opportunity for the development of the construction market across the country and an increase in the volume of freight available for transport for the construction segment.
- The good industrial performance in the most recent 6 months, the already noticeable rebound in demand and the increases in the prices of metallurgical products may trigger a tangible recovery in the steel market and an improvement in the metallurgical industry's results.

Market for intermodal transport services

- Development of a network of intermodal connections.
- Expansion of terminals.
- Location on the transit route between China and Europe – owing to this location, more than 80% of freight on the Asia-Europe route passes through Poland, but the opportunities of tapping into this advantage are limited by the low throughput on the Polish-Belarusian border.

Investment policy of PKP PLK

- An upward trend is expected in line capacity limitations and the inconveniences related to infrastructural investments due to delays and build-up of subsequent modernizations to be completed at the final stage of execution of the National Railway Program (KPK).
- Correlation of works on the PKP PLK network with seaport investments.

Rail infrastructure access charges

- The costs of access to infrastructure continue to constitute a significant item of operating expenses.
- The fee rates for access to rail infrastructure in the 2021/2022 schedule will remain unchanged.

Prices of materials

- The continuing increases in the prices of rolling stock parts, including sheets for the repairs of wagons, cast iron inserts and rims for wheelsets.

Social dialog

- Actions taken in connection with pronouncements by trade unions regarding wage increases in PKP CARGO S.A. and members of the PKP CARGO Group and negotiations on amending the provisions of the Collective Bargaining Agreement for Employees of the Establishments of PKP CARGO S.A. – due to the difficulties in anticipating the date of completion and the outcome of ongoing negotiations, it is currently impossible to estimate the degree of their impact on the future financial results of the Group.

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

PKP CARGO S.A. S.A. has not published any financial forecasts for 2021.

5.6 Information about production assets

5.6.1 Rolling stock

PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5[126] and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and sub-assemblies for other owners.

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. Additionally, locomotive modernizations are carried out, which do not affect the overall size of the rolling stock but they do change its age structure and, in some cases, change the quantities in individual series when a locomotive after a modernization changes its series and purpose.

In the first 6 months of 2021, 7 overhauls were performed with modernization of series SM48 locomotives (with the series designation changed to ST48) and 10 overhauls were performed with modernization of series ST44 locomotives.

Figure 25 Structure of rolling stock used by the PKP CARGO Group as at 30 June 2021 and 31 December 2020

	DIESEL LOCOMOTIVES	ELECTRIC LOCOMOTIVES	WAGONS OWNED AND IN LEASE
30/06/2021	**998**	**960**	**57,626**
31/12/2020	**1,102**	**968**	**58,453**

[126] P1 – scheduled inspection operations performed before the vehicle's admission to the line, when the vehicle is in motion or after the completion of the ride, provision of consumables, assessment of the main components and vehicle systems
P2 – scheduled inspection operations performed without disassembling any components during breaks in the operation of the vehicle
P3 – maintenance operations performed on specialist control posts, when the vehicle is withdrawn from service, with partial dismantling of sub-assemblies
P4 – maintenance operations performed in plants fitted with technical facilities and measurements stations, encompassing planned replacement or repairs of sub-assemblies
P5 – renovation of the vehicle, encompassing dismantling of sub-assemblies and their replacement with new or regenerated ones

5.6.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. The majority of real estate held by the Group is used on the basis of long-term lease and rental agreements.

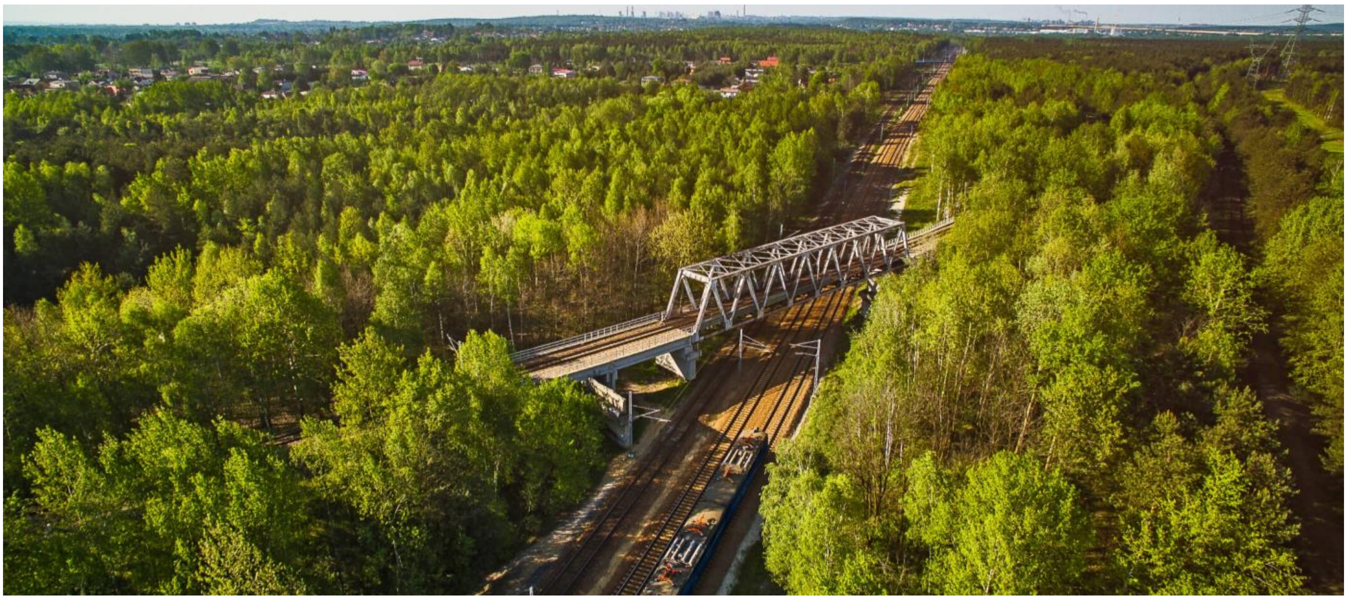
The table below presents changes in real estate owned and used by the PKP CARGO Group during the first 6 months of 2021.

Table 19 Real estate owned and used by PKP CARGO Group as at 30 June 2021 as compared to 31 December 2020

Item	30 Jun 2021	31 Dec 2020	Change 2021-2020
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,411	1,415	-4
Buildings - owned, leased and rented from other entities [sqm]	683,963	693,213	-9,250

Source: Proprietary material

The decrease in the size of the land and buildings used (owned, leased and rented from other entities) results from the ongoing verification of the quantum of assets necessary for the Parent Company and its subsidiaries and adjusting it to the scale and profile of conducted activity. In the period under analysis, the most important factors were the termination by PKP CARGO S.A. of the lease of buildings in Legnica and Kraków and the discontinuation by PKP CARGO International a.s. of the lease of a building in Orchard.



6. Other material information and events

6.1 Impact of the COVID-19 pandemic on the Group's business

During the first 6 months of 2021, the Group's operating and financial performance was affected by the lingering COVID-19 pandemic and its economic consequences, such as the observed disturbances in international supply chains or changes in domestic and foreign demand for industrial products. In H1 2021, a gradual recovery in economic activity was also observed, which was supported, among other factors, by the adaptation of consumers and enterprises to the new realities of economic life and the progressing vaccination process enabling a gradual lifting of the previously introduced economic and social restrictions.

At the same time, despite the gradual improvement in the economic situation in Poland and the country's macroeconomic environment, in the reporting period the production volume in most of the key industry segments from the perspective of the Group's potential transport services increased only slightly compared to 2020 (e.g. in hard coal mining and the metallurgical sector), thus remaining clearly below the values attained in from the corresponding period of 2019. Moreover, in H1 2021, in the construction sector, the volume of output decreased year-over-year due to, among other factors, unfavorable weather conditions prevailing at the beginning of the year, which translated into delays in the execution of infrastructural construction projects (including, in particular, road projects) and increasing costs of materials and labor. In this period, the output of fuels and other petroleum products was also lower year-over-year, which resulted, among other factors, from the still suppressed demand (lower mobility) and the sharp rise in the prices of crude oil. The COVID-19 pandemic also translated into an intensified competition on the rail freight market in Poland, which triggered a decline in the rates charged for transportation services, adversely affecting the Group's revenues.

All these factors affected the situation of the PKP CARGO Group – as a consequence, in H1 2021, its financial performance was weaker than had been expected.

6.2 Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO S.A. and its subsidiaries did not participate in any major proceedings pending before courts, arbitration bodies or public administration authorities in cases concerning liabilities or receivables of PKP CARGO S.A. or its subsidiaries, except for those disclosed in the consolidated financial statements, in particular in the notes concerning contingent liabilities.

6.3 Information on transactions with related parties

No entity from the PKP CARGO Group entered in H1 2021 any transactions with related parties on non-market terms.
Detailed information on transactions with related parties is presented in **Note 7.1 to the CFS**.

6.4 Information on extended guarantees and sureties for loans or borrowings

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

6.5 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

Other than the information presented in this Report, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial performance, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

This document has been prepared by the PKP CARGO S.A. Management Board.

Management Board
Czesław Warsewicz President of the Management Board
Leszek Borowiec Management Board Member
Witold Bawor Management Board Member
Piotr Wasaty Management Board Member
Zenon Kozendra Management Board Member

Warsaw, 19 August 2021

STATEMENT BY THE MANAGEMENT BOARD

on compliance of the
Interim Condensed Standalone Financial Statements of
PKP CARGO S.A. for the 6 months ended 30 June 2021,
the Interim Condensed Consolidated Financial Statements of the
PKP CARGO Group for the 6 months ended 30 June 2021
and the
Management Board Report on the Activity of the PKP CARGO Group in the first half of 2021

I, the undersigned, hereby represent that, to the best of my knowledge, the Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2021, the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2021 and the comparative data have been prepared in compliance with the applicable accounting policies and constitute a true, fair and clear presentation of the financial position and financial performance of PKP CARGO S.A. and the PKP CARGO Group.
I also represent that the Management Board Report on the activity of the PKP CARGO Group for the first half of 2021 gives a true view of the developments, achievements and standing of the PKP CARGO Group, including a description of key threats and risks.

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 19 August 2021

For more information on PKP CARGO please contact
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