QUARTERLY REPORT FOR Q3 2021

PKP CARGO GROUP'S
Consolidated Quarterly Report
for Q3 2021

PKPCARGO

Quarterly Condensed Consolidated Financial Statements of the **PKP CARGO GROUP** for the period of 9 months ended 30 September 2021

prepared in accordance with EU IFRS

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

QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020	
Revenues from contracts with customers	3,145.9	1,099.9	2,974.2	1,009.6	*Note 2.1*
Consumption of traction electricity and traction fuel	(403.4)	(144.8)	(359.2)	(124.6)	*Note 2.2*
Services of access to infrastructure	(390.1)	(124.0)	(375.4)	(131.8)	
Transport services	(258.6)	(84.4)	(238.4)	(77.8)	
Other services	(284.5)	(107.6)	(267.4)	(90.8)	*Note 2.2*
Employee benefits	(1,223.5)	(409.8)	(1,234.7)	(381.5)	*Note 2.2*
Other expenses	(217.2)	(80.9)	(193.9)	(60.8)	*Note 2.2*
Other operating revenue and (expenses)	23.7	17.1	128.4	84.6	*Note 2.3*
Operating profit without depreciation (EBITDA)	**392.3**	**165.5**	**433.6**	**226.9**	
Depreciation, amortization and impairment losses	(530.7)	(175.6)	(579.0)	(190.3)	*Note 2.2*
Profit / (loss) on operating activities (EBIT)	**(138.4)**	**(10.1)**	**(145.4)**	**36.6**	
Financial revenue and (expenses)	(45.2)	(16.0)	(64.4)	(14.6)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	3.0	0.5	1.4	0.6	*Note 5.4*
Profit / (loss) before tax	**(180.6)**	**(25.6)**	**(208.4)**	**22.6**	
Income tax	27.1	2.1	32.1	(7.0)	*Note 3.1*
NET PROFIT / (LOSS)	**(153.5)**	**(23.5)**	**(176.3)**	**15.6**	
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	5.3	(14.3)	(43.6)	(13.6)	*Note 6.1*
Income tax	(1.0)	2.7	8.3	2.6	*Note 3.1*
FX differences resulting from translation of financial statements	24.5	15.9	(6.4)	(0.6)	
Total other comprehensive income subject to reclassification in the financial result	**28.8**	**4.3**	**(41.7)**	**(11.6)**	
Actuarial profits / (losses) on post-employment benefits	36.4	-	(52.1)	-	*Note 5.9*
Income tax	(6.9)	-	9.9	-	*Note 3.1*
Measurement of equity instruments at fair value	-	-	(0.7)	-	*Note 6.1*
Total other comprehensive income not subject to reclassification in the financial result	**29.5**	**-**	**(42.9)**	**-**	
Total other comprehensive income	**58.3**	**4.3**	**(84.6)**	**(11.6)**	
TOTAL COMPREHENSIVE INCOME	**(95.2)**	**(19.2)**	**(260.9)**	**4.0**	
Net profit / (loss) attributable:					
Net profit / (loss) attributable to shareholders of the Parent Company	(153.5)	(23.5)	(176.3)	15.6	
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the Parent Company	(95.2)	(19.2)	(260.9)	4.0	
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	**(3.43)**	**(0.53)**	**(3.94)**	**0.35**	

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

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

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30/09/2021	31/12/2020	
ASSETS			
Rolling stock	4,315.1	4,245.0	*Note 5.1*
Other property, plant and equipment	857.7	875.6	*Note 5.1*
Rights-of-use assets	944.1	1,008.6	*Note 5.2*
Investments in entities accounted for under the equity method	35.1	42.0	*Note 5.4*
Trade receivables	3.6	3.0	*Note 5.6*
Lease receivables	9.3	10.3	
Other assets	67.7	35.1	*Note 5.7*
Deferred tax assets	203.8	177.8	*Note 3.1*
Total non-current assets	**6,436.4**	**6,397.4**	
Inventories	162.2	165.8	*Note 5.5*
Trade receivables	643.8	585.8	*Note 5.6*
Lease receivables	0.7	0.7	
Income tax receivables	2.6	2.9	
Other assets	112.5	88.1	*Note 5.7*
Cash and cash equivalents	130.2	306.0	*Note 4.3*
Total current assets	**1,052.0**	**1,149.3**	
Non-current assets classified as held for sale	18.3	12.7	*Note 5.3*
TOTAL ASSETS	**7,506.7**	**7,559.4**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	771.7	782.4	
Other items of equity	(126.4)	(160.2)	
FX differences resulting from translation of financial statements	129.3	104.8	
Retained earnings	34.7	177.5	
Total equity	**3,048.6**	**3,143.8**	
Debt liabilities	2,087.2	2,101.8	*Note 4.1*
Trade liabilities	2.0	1.5	
Investment liabilities	127.9	145.5	*Note 5.8*
Provisions for employee benefits	609.3	684.3	*Note 5.9*
Other provisions	6.7	5.7	*Note 5.10*
Deferred tax liability	91.6	90.7	*Note 3.1*
Total long-term liabilities	**2,924.7**	**3,029.5**	
Debt liabilities	616.9	478.5	*Note 4.1*
Trade liabilities	392.2	347.5	
Investment liabilities	99.7	133.5	*Note 5.8*
Provisions for employee benefits	144.6	116.3	*Note 5.9*
Other provisions	19.9	24.1	*Note 5.10*
Other liabilities	260.1	286.2	*Note 5.11*
Total short-term liabilities	**1,533.4**	**1,386.1**	
Total liabilities	**4,458.1**	**4,415.6**	
TOTAL EQUITY AND LIABILITIES	**7,506.7**	**7,559.4**	

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

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity: Profits / (losses) on measurement of equity instruments at fair value	Other items of equity: Actuarial profits / (losses) on post-employment benefits	Other items of equity: 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	-	-	-	-	-	-	(153.5)	**(153.5)**
Other comprehensive income for the period (net)	-	-	-	29.5	4.3	24.5	-	**58.3**
Total comprehensive income	-	-	-	29.5	4.3	24.5	(153.5)	**(95.2)**
Other changes for the period	-	(10.7)	-	-	-	-	10.7	**-**
30/09/2021	**2,239.3**	**771.7**	**(12.9)**	**(86.2)**	**(27.3)**	**129.3**	**34.7**	**3,048.6**
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	-	-	-	-	-	-	(176.3)	**(176.3)**
Other comprehensive income for the period (net)	-	-	(0.7)	(42.2)	(35.3)	(6.4)	-	**(84.6)**
Total comprehensive income	-	-	(0.7)	(42.2)	(35.3)	(6.4)	(176.3)	**(260.9)**
Other changes for the period	**-**	1.0	-	-	-	-	(1.0)	**-**
30/09/2020	**2,239.3**	**782.4**	**(12.9)**	**(117.2)**	**(25.8)**	**71.1**	**225.5**	**3,162.4**

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

QUARTERLY CONSOLIDATED CASH FLOW STATEMENT

	9 months ended 30/09/2021	9 months ended 30/09/2020	
Cash flows from operating activities			
Profit / (loss) before tax	**(180.6)**	**(208.4)**	
Adjustments			
Depreciation, amortization and impairment losses	530.7	579.0	*Note 2.2*
(Profits) / losses on the sale and liquidation of non-financial non-current assets	(17.7)	(7.2)	
(Profits) / losses on FX differences	5.6	6.7	
(Profits) / losses on interest, dividends	36.2	42.3	
Received / (paid) interest	0.4	1.9	
Received / (paid) income tax	(7.9)	45.4	
Movement in working capital	(86.8)	(21.2)	
Other adjustments	34.0	(57.4)	
Net cash from operating activities	**313.9**	**381.1**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(619.6)	(498.1)	
Proceeds from the sale of non-financial non-current assets	51.7	35.9	
Proceeds from dividends received	2.9	0.4	
Other investment expenditures	(27.0)	-	
Other inflows from investing activities	1.3	2.6	
Net cash from investing activities	**(590.7)**	**(459.2)**	
Cash flows from financing activities			
Payments on lease liabilities	(95.9)	(114.0)	*Note 4.1*
Proceeds from bank loans and borrowings	418.0	289.3	*Note 4.1*
Repayment of bank loans and borrowings	(219.0)	(241.4)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(35.4)	(42.7)	*Note 4.1*
Grants received	38.4	17.4	
Inflow / (outflow) as part of cash pool	-	1.5	
Other outflows from financing activities	(2.6)	(3.9)	
Net cash from financing activities	**103.5**	**(93.8)**	
Net increase / (decrease) in cash and cash equivalents	(173.3)	(171.9)	
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	(2.5)	(0.3)	
Cash and cash equivalents at the end of the reporting period, including:	**130.2**	**378.2**	
Restricted cash	*30.1*	*44.6*	

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

NOTES TO THE QUARTERLY 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.

Key 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 September 2021 are presented in the Additional Information to the Consolidated Quarterly Report of the PKP CARGO Group for Q3 2021 in **Chapters 3.1** and **3.3**, respectively.

Information about the Group

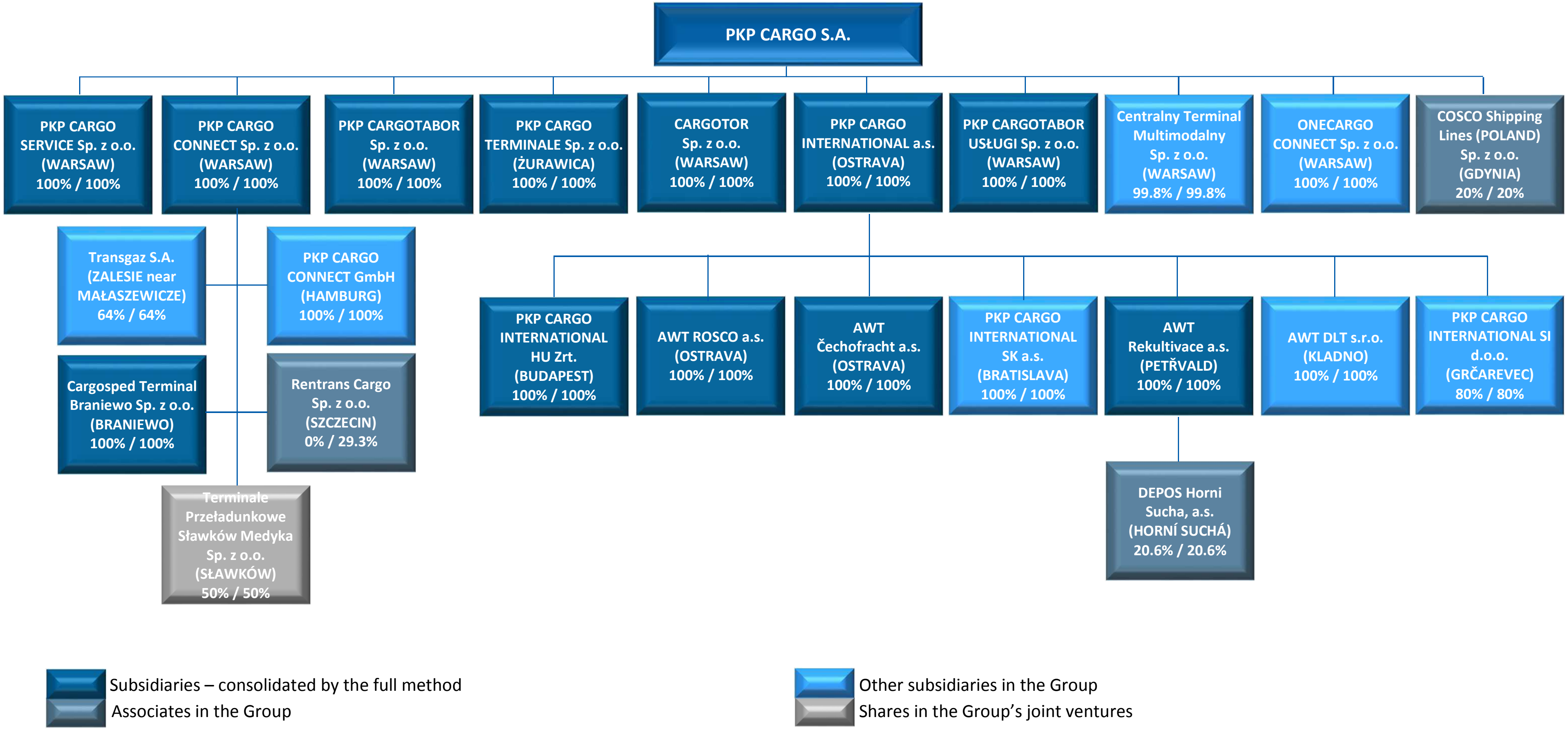
The Group's core business is rail freight transport. In addition to rail freight transport services, the Group also provides additional services:

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 September 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.

On 9 September 2021, the name of the company PRIMOL-RAIL d.o.o. was changed to PKP CARGO INTERNATIONAL SI d.o.o.

1.2 Basis for preparation of the Quarterly Condensed Consolidated Financial Statements

These Quarterly 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 Quarterly Condensed 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 Quarterly 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 Quarterly Condensed Consolidated Financial Statements for the period of 9 months ended 30 September 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 Quarterly Condensed Consolidated Financial Statements, there are no material 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 Quarterly 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 Quarterly 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 Quarterly 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 statement of cash flows 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 Quarterly 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	
	30/09/2021	31/12/2020	9 months ended 30/09/2021	9 months ended 30/09/2020
EUR	4.6329	4.6148	4.5585	4.4420
CZK	0.1816	0.1753	0.1771	0.1677

These Quarterly Condensed Consolidated Financial Statements have not been audited 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 Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 23 November 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 Quarterly 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 Contracts", IFRS 16 "Leases" - IBOR Reform - phase 2	1 January 2021
Amendments to IFRS 16 "Leases" – COVID-19-Related Rent Concessions after 30 June 2021	1 April 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 September 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 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.

During the 9 months of 2021, the Group achieved lower than planned financial results, among others due to the weaker than expected improvement in key sectors of the industry (from the standpoint of the Group's transportation activity) after the recession in 2020. During that period, the Group's performance remained under the competitive pressure on the rail cargo transport market, which intensified during the COVID-19 pandemic (especially in the bulk cargo segment) causing, among others, a decline in freight rates.

At the same time, the Parent Company believes that the current deviations from the accepted assumptions will have no significant effect on the ultimate results of the impairment tests and will not require recognition of additional impairment losses on the Group's assets as at 30 September 2021. The Group anticipates that if the above trends continue, there is a risk that the performance might deviate from the plan even further; the Parent Company analyzes the situation on an ongoing basis in the context of the need to change the above estimations in subsequent reporting periods as a result of future developments.

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 level of overdue trade receivables presented in the statement of financial position as at 30 September 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 Q3 2021 for COVID-19 preventive measures amounted to PLN 2.1 million.

Liquidity standing of the Group

In the period of 9 months ended 30 September 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 September 2021. Information on the financing sources available as at 30 September 2021 is presented in **Note 4.1** to these Quarterly Condensed Consolidated Financial Statements.

Risks associated with the ongoing COVID-19 pandemic persist and, if materialized, may exert an additional adverse effect on the Group's financial standing.

The most recent review of the ratios under credit facilities was carried out as at 30 June 2021. Before that date, the Parent Company had obtained a waiver of one of the covenants defined in the contracts from a lender; more details in **Note 4.1** to these Quarterly Condensed Consolidated Financial Statements.

1.5 Significant values based on professional judgment and estimates

In the period of 9 months ended 30 September 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 9-month period ended 30 September 2021 by approximately PLN 12.0 million.
- deferred tax assets – in the period of 9 months ended 30 September 2021, in connection with the incurred tax loss, the Group created tax loss assets in the amount of PLN 5.3 million. As at 30 September 2021, deferred tax assets on tax losses amounted to PLN 80.8 million.
- 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 the Railway Employee Day cash benefit in the amount of PLN 18.2 million.

During the 9 months ended 30 September 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 Quarterly Condensed Consolidated Financial Statements.

9 months ended 30/09/2021	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	215.6	2.4	607.7	1,676.9	**2,502.6**
Revenue from other transportation activity	0.4	-	0.6	112.8	**113.8**
Revenue from siding and traction services	-	8.7	107.4	117.1	**233.2**
Revenue from transshipment services	-	-	0.2	98.3	**98.5**
Revenue from reclamation services	-	1.1	1.2	46.6	**48.9**
Revenue from sales of goods and materials	-	-	0.1	59.1	**59.2**
Other revenues	0.8	12.5	7.2	69.2	**89.7**
Total	**216.8**	**24.7**	**724.4**	**2,180.0**	**3,145.9**
Revenue recognition date					
At a point of time	-	-	0.1	63.7	**63.8**
Over a period	216.8	24.7	724.3	2,116.3	**3,082.1**
Total	**216.8**	**24.7**	**724.4**	**2,180.0**	**3,145.9**

3 months ended 30/09/2021	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	75.6	1.0	212.9	574.2	**863.7**
Revenue from other transportation activity	-	-	0.2	39.2	**39.4**
Revenue from siding and traction services	-	3.0	34.6	37.5	**75.1**
Revenue from transshipment services	-	-	0.2	35.6	**35.8**
Revenue from reclamation services	-	0.5	0.8	20.0	**21.3**
Revenue from sales of goods and materials	-	-	-	33.3	**33.3**
Other revenues	0.2	3.3	2.4	25.4	**31.3**
Total	**75.8**	**7.8**	**251.1**	**765.2**	**1,099.9**
Revenue recognition date					
At a point of time	-	-	-	33.7	**33.7**
Over a period	75.8	7.8	251.1	731.5	**1,066.2**
Total	**75.8**	**7.8**	**251.1**	**765.2**	**1,099.9**

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

2.1 Revenues from contracts with customers (cont.)

9 months ended 30/09/2020	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	168.9	4.7	601.2	1,602.2	**2,377.0**
Revenue from other transportation activity	0.4	0.1	0.9	99.9	**101.3**
Revenue from siding and traction services	-	6.8	102.8	94.9	**204.5**
Revenue from transshipment services	1.0	-	0.3	110.5	**111.8**
Revenue from reclamation services	-	-	1.0	53.9	**54.9**
Revenue from sales of goods and materials	-	-	-	38.6	**38.6**
Other revenues	0.8	12.9	8.8	63.6	**86.1**
Total	**171.1**	**24.5**	**715.0**	**2,063.6**	**2,974.2**
Revenue recognition date					
At a point of time	-	-	-	40.9	**40.9**
Over a period	171.1	24.5	715.0	2,022.7	**2,933.3**
Total	**171.1**	**24.5**	**715.0**	**2,063.6**	**2,974.2**

3 months ended 30/09/2020	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	41.9	1.7	194.2	570.7	**808.5**
Revenue from other transportation activity	-	-	0.4	35.5	**35.9**
Revenue from siding and traction services	-	2.8	35.4	30.1	**68.3**
Revenue from transshipment services	0.2	-	0.2	38.2	**38.6**
Revenue from reclamation services	-	-	0.1	13.8	**13.9**
Revenue from sales of goods and materials	-	-	-	13.2	**13.2**
Other revenues	0.2	5.9	3.3	21.8	**31.2**
Total	**42.3**	**10.4**	**233.6**	**723.3**	**1,009.6**
Revenue recognition date					
At a point of time	-	-	-	13.4	**13.4**
Over a period	42.3	10.4	233.6	709.9	**996.2**
Total	**42.3**	**10.4**	**233.6**	**723.3**	**1,009.6**

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:

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Poland	2,207.9	795.3	2,046.5	683.6
Czech Republic	383.0	129.2	396.5	123.7
Germany	214.9	68.7	211.1	84.0
Austria	61.8	22.7	45.7	18.3
Slovakia	54.0	13.0	63.2	25.8
Denmark	52.7	18.1	41.0	13.4
Other countries	171.6	52.9	170.2	60.8
Total	**3,145.9**	**1,099.9**	**2,974.2**	**1,009.6**

(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

	30/09/2021	31/12/2020
Poland	5,443.7	5,415.6
Czech Republic	759.9	779.6
Other countries	5.9	5.5
Total	**6,209.5**	**6,200.7**

Information on key customers

In the period of 9 months ended 30 September 2021 and 30 September 2020, revenues from any single customer of the Group did not exceed 10% of the total revenues from contracts with customers.

Assets from contracts with customers

	9 months ended 30/09/2021	9 months ended 30/09/2020
As at the beginning of the reporting period	**24.2**	**18.6**
Recognition of revenue before the payment due date	45.9	38.5
Reclassification to receivables	(24.9)	(18.6)
FX differences from valuation	0.1	-
As at the end of the reporting period	**45.3**	**38.5**

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Consumption of traction fuel	(100.5)	(36.4)	(86.4)	(27.9)
Consumption of traction energy	(302.9)	(108.4)	(272.8)	(96.7)
Total	**(403.4)**	**(144.8)**	**(359.2)**	**(124.6)**

Other services

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Renovation and maintenance services for non-current assets	(67.8)	(22.6)	(64.7)	(23.0)
Rent and fees for the use of real properties and rolling stock	(58.1)	(23.3)	(46.7)	(15.5)
Telecommunications services	(4.5)	(1.4)	(4.8)	(1.6)
Legal, consulting and similar services	(7.7)	(2.8)	(8.4)	(3.5)
IT services	(32.8)	(11.2)	(34.7)	(11.7)
Transshipment services	(11.5)	(5.4)	(9.0)	(2.3)
Reclamation services	(44.6)	(19.1)	(53.6)	(16.1)
Other services	(57.5)	(21.8)	(45.5)	(17.1)
Total	**(284.5)**	**(107.6)**	**(267.4)**	**(90.8)**

Employee benefits

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Payroll	(935.6)	(316.5)	(934.4)	(301.0)
Social security expenses	(196.3)	(66.3)	(196.6)	(62.7)
Expenses for contributions to the Company Social Benefits Fund	(23.5)	(7.7)	(25.4)	(8.5)
Other employee benefits during employment	(30.3)	(9.7)	(33.9)	(10.1)
Post-employment benefits	(2.9)	(1.2)	(3.8)	(1.5)
Movement in provisions for employee benefits	(34.9)	(8.4)	(40.6)	2.3
Total	**(1,223.5)**	**(409.8)**	**(1,234.7)**	**(381.5)**

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

2.2 Operating expenses (cont.)

Other expenses

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Consumption of non-traction fuel	(18.3)	(6.5)	(15.5)	(4.9)
Consumption of electricity, gas and water	(28.1)	(5.6)	(25.8)	(5.6)
Consumption of materials	(58.5)	(22.1)	(67.0)	(20.4)
Taxes and charges	(28.9)	(10.0)	(26.9)	(9.1)
Cost of goods and materials sold	(43.5)	(23.9)	(24.1)	(10.4)
Business trips	(20.0)	(6.9)	(20.5)	(6.8)
Other	(19.9)	(5.9)	(14.1)	(3.6)
Total	**(217.2)**	**(80.9)**	**(193.9)**	**(60.8)**

Depreciation, amortization and impairment losses

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Depreciation of rolling stock	(375.5)	(126.6)	(405.6)	(134.2)
Depreciation of other property, plant and equipment	(50.7)	(15.4)	(58.8)	(18.8)
Depreciation of rights-of-use assets	(89.1)	(28.9)	(104.8)	(33.9)
Amortization of intangible assets	(6.4)	(2.1)	(8.7)	(2.4)
(Recognized) / reversed impairment losses:				
Rolling stock	(1.5)	(1.5)	(1.0)	(1.0)
Other property, plant and equipment	(7.5)	(1.1)	(0.1)	-
Total	**(530.7)**	**(175.6)**	**(579.0)**	**(190.3)**

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Profit on sales of non-financial non-current assets	16.2	13.2	6.4	1.9
Reversed impairment losses on trade receivables	6.9	0.2	4.5	0.5
Penalties and compensations	11.8	6.5	13.2	5.0
Reversal of other provisions	3.4	2.3	2.0	0.6
Interest on trade and other receivables	1.6	0.4	3.0	0.4
Net result on FX differences on trade receivables and liabilities	-	-	3.9	1.6
Income from the Anti-Crisis Shield	-	-	114.7	80.6
Other	4.3	(0.2)	3.6	1.3
Total other operating revenue	**44.2**	**22.4**	**151.3**	**91.9**
Recognized impairment losses on trade receivables	(3.0)	(0.7)	(4.9)	(2.2)
Penalties and compensations	(6.5)	(2.8)	(6.4)	(1.1)
Costs of liquidation of non-current and current assets	(4.1)	(1.3)	(4.0)	(0.8)
Recognized other provisions	(2.0)	0.4	(2.2)	(1.3)
Net result on FX differences on trade receivables and liabilities	(1.1)	0.7	-	-
Other	(3.8)	(1.6)	(5.4)	(1.9)
Total other operating expenses	**(20.5)**	**(5.3)**	**(22.9)**	**(7.3)**
Other operating revenue and (expenses)	**23.7**	**17.1**	**128.4**	**84.6**

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

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Interest income	0.9	0.3	2.1	0.6
Net result on FX differences	-	(0.7)	-	-
Other	0.4	-	-	-
Total financial revenue	**1.3**	**(0.4)**	**2.1**	**0.6**
Interest expenses	(36.3)	(11.7)	(45.3)	(13.1)
Settlement of the discount on provisions for employee benefits	(8.1)	(2.9)	(10.4)	(3.4)
Net result on FX differences	(0.4)	(0.4)	(9.1)	1.8
Other	(1.7)	(0.6)	(1.7)	(0.5)
Total financial expenses	**(46.5)**	**(15.6)**	**(66.5)**	**(15.2)**
Financial revenue and (expenses)	**(45.2)**	**(16.0)**	**(64.4)**	**(14.6)**

3. Notes on taxation

3.1 Income tax

Income tax recognized in profit or loss

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Current income tax				
Current tax charge	(9.4)	(3.1)	(7.1)	(3.5)
Adjustments recognized in the current year relating to tax from previous years	-	-	1.6	-
Deferred tax				
Deferred income tax of the reporting period	36.5	5.2	37.6	(3.5)
Income tax recognized in profit or loss	**27.1**	**2.1**	**32.1**	**(7.0)**

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

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Deferred tax on the measurement of hedging instruments	(1.0)	2.7	8.3	2.6
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	(6.9)	-	9.9	-
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income [1]	(3.5)	(2.1)	1.2	0.1
Deferred income tax recognized in other comprehensive income	**(11.4)**	**0.6**	**19.4**	**2.7**

[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 Quarterly Condensed Consolidated Financial Statements:

	30/09/2021	31/12/2020
Deferred tax assets	203.8	177.8
Deferred tax liabilities	(91.6)	(90.7)
Total	**112.2**	**87.1**

Table of movements in deferred tax before the set-off

9 months ended 30/09/2021	1/01/2021	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	30/09/2021
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(151.2)**	30.2	-	(3.3)	**(124.3)**
Rights-of-use assets and lease liabilities	**(9.7)**	(1.9)	-	(0.3)	**(11.9)**
Other provisions and liabilities	**13.3**	3.9	-	-	**17.2**
Inventories	**(9.3)**	1.3	-	-	**(8.0)**
Lease receivables	**(2.1)**	0.2	-	-	**(1.9)**
Trade receivables	**2.9**	(1.9)	-	-	**1.0**
Provisions for employee benefits	**152.0**	(2.7)	(6.9)	0.1	**142.5**
Other	**15.7**	2.1	(1.0)	-	**16.8**
Unused tax losses	**75.5**	5.3	-	-	**80.8**
Total	**87.1**	**36.5**	**(7.9)**	**(3.5)**	**112.2**

9 months ended 30/09/2020	1/01/2020	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	30/09/2020
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(167.0)**	10.6	-	1.2	**(155.2)**
Rights-of-use assets and lease liabilities	**(6.0)**	(1.4)	-	-	**(7.4)**
Other provisions and liabilities	**14.4**	(0.2)	-	-	**14.2**
Inventories	**(4.7)**	(4.9)	-	-	**(9.6)**
Lease receivables	**(2.1)**	(0.1)	-	-	**(2.2)**
Trade receivables	**1.7**	0.3	-	-	**2.0**
Provisions for employee benefits	**148.9**	(2.6)	9.9	-	**156.2**
Other	**0.6**	3.6	8.3	-	**12.5**
Unused tax losses	**35.6**	32.3	-	-	**67.9**
Total	**21.4**	**37.6**	**18.2**	**1.2**	**78.4**

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 September 2021

Year	2023	2024	2025	2026	Total
Unused tax losses	74.7	184.7	136.8	28.9	**425.1**

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:

	30/09/2021	31/12/2020
PKP CARGO INTERNATIONAL HU Zrt.	11.9	11.7
AWT Čechofracht a.s.	15.4	14.6
PKP CARGOTABOR USŁUGI Sp. z o.o.	3.7	3.8
Total	**31.0**	**30.1**

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

Year	2021	2022	2023	2024	2025	2026	Total
Unused tax losses	8.8	6.5	6.8	5.0	3.7	0.2	**31.0**

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	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

30/09/2021	In the functional currency	In a foreign currency		Total
	PLN	EUR	CZK	
Bank loans and borrowings	1,086.4	776.5	-	**1,862.9**
Leases	728.5	77.3	35.4	**841.2**
Total	**1,814.9**	**853.8**	**35.4**	**2,704.1**

31/12/2020	In the functional currency	In a foreign currency		Total
	PLN	EUR	CZK	
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

9 months ended 30/09/2021	Bank loans and borrowings	Leases	Total
1/01/2021	**1,659.3**	**921.0**	**2,580.3**
New liabilities contracted	418.0	18.2	**436.2**
Modifications of existing agreements	-	22.6	**22.6**
Leaseback	-	8.7	**8.7**
Transaction costs	1.2	-	**1.2**
Accrual of interest	10.8	22.8	**33.6**
Payments under debt, including:			
Repayments of the principal	(219.0)	(95.9)	**(314.9)**
Interest paid	(10.7)	(24.7)	**(35.4)**
Transaction costs	(0.4)	-	**(0.4)**
Other	-	(26.6)	**(26.6)**
FX valuation	3.3	(0.4)	**2.9**
FX resulting from translation	0.4	(4.5)	**(4.1)**
30/09/2021	**1,862.9**	**841.2**	**2,704.1**
Long-term	1,373.4	713.8	**2,087.2**
Short-term	489.5	127.4	**616.9**
Total	**1,862.9**	**841.2**	**2,704.1**

9 months ended 30/09/2020	Bank loans and borrowings	Leases	Total
1/01/2020	**1,626.2**	**996.5**	**2,622.7**
New liabilities contracted	289.3	31.9	**321.2**
Modifications of existing agreements	-	29.3	**29.3**
Transaction costs	1.3	-	**1.3**
Accrual of interest	17.3	25.5	**42.8**
Payments under debt, including:			
Repayments of the principal	(241.4)	(114.0)	**(355.4)**
Interest paid	(17.7)	(25.0)	**(42.7)**
Transaction costs	(1.3)	-	**(1.3)**
Other	-	(11.2)	**(11.2)**
FX valuation	34.5	7.4	**41.9**
FX resulting from translation	1.8	(0.2)	**1.6**
30/09/2020	**1,710.0**	**940.2**	**2,650.2**
Long-term	1,380.7	797.3	**2,178.0**
Short-term	329.3	142.9	**472.2**
Total	**1,710.0**	**940.2**	**2,650.2**

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	9 months ended 30/09/2021	9 months ended 30/09/2020
Revenues from operating leases	Revenues from contracts with customers	20.9	27.1
Interest income from leases	Financial revenue	0.4	0.4
Costs on account of:			
Short-term leases	Other services	(35.1)	(22.0)
Leases of low-value assets	Other services	(3.4)	(3.6)
Variable lease payments not included in the measurement of lease liabilities	Other services	(1.7)	(1.5)

(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 loan 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.

The most recent review of the ratios was carried out as at 30 June 2021. Before that date, 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 non-current part to the current part.

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

Given the financial results achieved by the Parent Company and the Group in the period covered by these Statements, the Parent Company cannot rule out the risk of failure to comply, as at 31 December 2021, with the loan agreements signed by PKP CARGO S.A. (in their current wording) in respect to selected ratios. Consequently, the Parent Company has taken steps in order to amend, through dialogue with the financing banks, the terms and conditions of these loan agreements with regard to some ratios as at 31 December 2021 and other periods in which the loan agreements will be in effect.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	30/09/2021	31/12/2020
Investment loan	Bank Polska Kasa Opieki S.A.	2021/05/31	PLN	-	10.0
Overdraft	Bank Polska Kasa Opieki S.A.	2021/06/25	PLN	-	10.0
Overdraft	Bank Polska Kasa Opieki S.A.	2022/07/09	PLN	0.4	1.6
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	2021/12/19	PLN	51.4	99.9
Overdraft	Bank Polska Kasa Opieki S.A.	2022/05/24	PLN	15.4	100.0
Overdraft	Bank Gospodarstwa Krajowego [1)]	2022/06/18	PLN	100.0	-
Leasing facility	Millennium Leasing Sp. z o.o.	2021/12/02	PLN	18.6	38.7
Leasing facility	PKO Leasing S.A. [2)]	2022/06/18	PLN	100.0	-
Total				**285.8**	**260.2**

[1)] 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.

[2)] 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.

4.2 Equity

Share capital

	30/09/2021	31/12/2020
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 30 September 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.

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

4.2 Equity (cont.)

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 9 months ended 30 September 2021 and 30 September 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 9 months ended 30 September 2021, changes in the Group's supplementary capital resulted from the 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, the resolution of 31 May 2021 adopted by the Ordinary Shareholder Meeting of PKP CARGOTABOR Sp. z o.o. to cover the 2020 net loss in the amount of PLN 29.9 million from supplementary capital, and the resolution of 5 August 2021 of the Ordinary Shareholder Meeting of CARGOTOR Sp. z o.o. to allocate the 2020 net profit of PLN 10.9 million to supplementary capital.

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	30/09/2021	31/12/2020
Cash on hand and on bank accounts	122.1	134.0
Bank deposits up to 3 months	8.1	171.6
Other cash	-	0.4
Total	**130.2**	**306.0**
including restricted cash	*30.1*	*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

9 months ended 30/09/2021	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	-	-	-	-	-	290.0	**290.0**
Other acquisitions	-	-	-	-	-	271.7	**271.7**
Purchase of leased items	4.6	-	-	-	-	-	**-**
Settlement of fixed assets under construction	509.6	7.4	8.9	2.2	0.7	(528.8)	**(509.6)**
Grant for non-current assets	(34.7)	(2.5)	(1.3)	-	-	(2.0)	**(5.8)**
Sales	(4.3)	(0.3)	(0.3)	(3.3)	-	-	**(3.9)**
Leaseback	-	-	(8.0)	(1.3)	-	-	**(9.3)**
Liquidation	(238.3)	(4.2)	(4.9)	(0.3)	(0.9)	(0.7)	**(11.0)**
Reclassified to assets held for sale	(133.1)	-	-	-	-	-	**-**
FX differences	23.6	5.2	1.7	1.5	0.1	1.6	**10.1**
Other	5.2	0.1	-	(4.5)	-	1.6	**(2.8)**
30/09/2021	**7,176.6**	**950.9**	**475.5**	**95.0**	**44.5**	**111.7**	**1,677.6**
Accumulated depreciation							
1/01/2021	**(2,612.9)**	**(295.9)**	**(345.3)**	**(84.7)**	**(38.9)**	**-**	**(764.8)**
(Increases) / decreases:							
Depreciation	(375.5)	(25.2)	(21.9)	(2.2)	(1.4)	-	**(50.7)**
Purchase of leased items	(1.2)	-	-	-	-	-	**-**
Sales	3.4	0.3	0.3	3.2	-	-	**3.8**
Leaseback	-	-	0.1	-	-	-	**0.1**
Liquidation	216.3	4.2	4.9	0.3	0.8	-	**10.2**
Reclassified to assets held for sale	90.1	-	-	-	-	-	**-**
FX differences	(4.9)	(1.6)	(1.0)	(1.1)	(0.1)	-	**(3.8)**
Other	(0.4)	(0.2)	(0.5)	(0.1)	0.1	-	**(0.7)**
30/09/2021	**(2,685.1)**	**(318.4)**	**(363.4)**	**(84.6)**	**(39.5)**	**-**	**(805.9)**
Accumulated impairment							
1/01/2021	**(186.1)**	**(2.4)**	**(1.7)**	**-**	**-**	**(3.7)**	**(7.8)**
(Increases) / decreases:							
Recognition	(1.5)	-	(0.6)	-	-	(6.9)	**(7.5)**
Utilization	0.5	-	0.6	-	-	0.7	**1.3**
Reclassified to assets held for sale	11.7	-	-	-	-	-	**-**
FX differences	(1.0)	-	-	-	-	-	**-**
30/09/2021	**(176.4)**	**(2.4)**	**(1.7)**	**-**	**-**	**(9.9)**	**(14.0)**
Net value							
1/01/2021	**4,245.0**	**646.9**	**132.4**	**16.0**	**5.7**	**74.6**	**875.6**
30/09/2021	**4,315.1**	**630.1**	**110.4**	**10.4**	**5.0**	**101.8**	**857.7**

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

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

9 months ended 30/09/2020	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	-	-	-	-	-	222.4	**222.4**
Other acquisitions	-	-	-	-	-	308.9	**308.9**
Purchase of leased items	-	-	2.9	1.9	-	-	**4.8**
Settlement of fixed assets under construction	480.1	12.5	22.7	0.8	0.6	(516.7)	**(480.1)**
Grant for non-current assets	(11.4)	-	(0.2)	-	-	(2.2)	**(2.4)**
Sales	(18.0)	(1.2)	(0.3)	(3.8)	-	-	**(5.3)**
Liquidation	(167.4)	(2.6)	(1.7)	(0.1)	(0.4)	(0.6)	**(5.4)**
Reclassified to assets held for sale	(90.2)	-	-	-	-	-	**-**
FX differences	(3.8)	(0.4)	(0.2)	(0.1)	-	(0.2)	**(0.9)**
Other	(1.5)	(0.1)	0.1	-	(0.3)	-	**(0.3)**
30/09/2020	**7,034.8**	**924.6**	**459.1**	**98.3**	**43.8**	**84.8**	**1,610.6**
Accumulated depreciation							
1/01/2020	**(2,310.2)**	**(262.0)**	**(309.7)**	**(81.0)**	**(36.8)**	**-**	**(689.5)**
(Increases) / decreases:							
Depreciation	(405.6)	(25.5)	(27.5)	(3.6)	(2.2)	-	**(58.8)**
Purchase of leased items	-	-	(1.7)	(1.4)	-	-	**(3.1)**
Sales	9.7	0.3	0.3	3.7	-	-	**4.3**
Liquidation	129.0	2.3	1.7	0.1	0.4	-	**4.5**
Reclassified to assets held for sale	41.6	-	-	-	-	-	**-**
FX differences	1.5	0.1	0.1	0.3	-	-	**0.5**
Other	0.1	(0.1)	(0.3)	(0.1)	0.2	-	**(0.3)**
30/09/2020	**(2,533.9)**	**(284.9)**	**(337.1)**	**(82.0)**	**(38.4)**	**-**	**(742.4)**
Accumulated impairment							
1/01/2020	**(207.2)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.9)**	**(7.0)**
(Increases) / decreases:							
Recognition	(1.0)	-	-	-	-	(0.1)	**(0.1)**
Utilization	11.1	-	-	-	-	0.6	**0.6**
Reclassified to assets held for sale	13.7	-	-	-	-	-	**-**
FX differences	(5.3)	-	-	-	-	-	**-**
30/09/2020	**(188.7)**	**(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**
30/09/2020	**4,312.2**	**637.3**	**120.3**	**16.3**	**5.4**	**82.4**	**861.7**

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

5.2 Rights-of-use assets

Movement in rights-of-use assets

9 months ended 30/09/2021	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	2.6	10.5	0.9	-	**18.2**
Modifications of existing agreements	0.1	22.5	-	-	-	**22.6**
Leaseback	-	-	7.3	1.3	-	**8.6**
Periodic repairs of rolling stock	1.5	-	-	-	-	**1.5**
Return of leased items	(20.8)	(30.9)	(0.1)	(0.1)	-	**(51.9)**
Purchase of leased items	(4.6)	-	-	-	-	**(4.6)**
Other	(11.7)	0.3	0.9	-	(0.8)	**(11.3)**
FX differences	5.6	1.5	0.6	0.2	-	**7.9**
30/09/2021	**441.5**	**788.1**	**48.3**	**19.9**	**1.1**	**1,298.9**
Accumulated depreciation						
1/01/2021	**(157.5)**	**(122.8)**	**(8.7)**	**(9.7)**	**(0.6)**	**(299.3)**
(Increases) / decreases:						
Depreciation	(38.2)	(42.3)	(4.8)	(3.6)	(0.2)	**(89.1)**
Return of leased items	18.6	9.6	-	-	-	**28.2**
Purchase of leased items	1.2	-	-	-	-	**1.2**
Other	10.8	(3.3)	-	-	-	**7.5**
FX differences	(2.4)	(0.6)	(0.2)	(0.1)	-	**(3.3)**
30/09/2021	**(167.5)**	**(159.4)**	**(13.7)**	**(13.4)**	**(0.8)**	**(354.8)**
Net value						
1/01/2021	**309.7**	**669.3**	**20.4**	**7.9**	**1.3**	**1,008.6**
30/09/2021	**274.0**	**628.7**	**34.6**	**6.5**	**0.3**	**944.1**

9 months ended 30/09/2020	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	17.8	11.2	1.8	1.1	-	**31.9**
Modifications of existing agreements	0.4	28.1	0.3	0.2	-	**29.0**
Periodic repairs of rolling stock	2.3	-	-	-	-	**2.3**
Return of leased items	(7.1)	(12.6)	(0.1)	(0.1)	-	**(19.9)**
Purchase of leased items	-	-	(2.9)	(1.9)	-	**(4.8)**
Other	(6.2)	(1.6)	2.9	(0.3)	(0.6)	**(5.8)**
FX differences	(0.9)	(0.2)	(0.1)	-	-	**(1.2)**
30/09/2020	**456.9**	**791.9**	**25.6**	**17.5**	**1.1**	**1,293.0**
Accumulated depreciation						
1/01/2020	**(109.2)**	**(61.8)**	**(4.9)**	**(6.4)**	**(0.4)**	**(182.7)**
(Increases) / decreases:						
Depreciation	(49.5)	(47.5)	(3.6)	(4.0)	(0.2)	**(104.8)**
Return of leased items	6.5	3.1	-	-	-	**9.6**
Purchase of leased items	-	-	1.7	1.4	-	**3.1**
Other	5.1	(0.5)	(0.5)	(0.1)	0.1	**4.1**
FX differences	0.3	0.1	-	-	-	**0.4**
30/09/2020	**(146.8)**	**(106.6)**	**(7.3)**	**(9.1)**	**(0.5)**	**(270.3)**
Net value						
1/01/2020	**341.4**	**705.2**	**18.8**	**12.1**	**1.3**	**1,078.8**
30/09/2020	**310.1**	**685.3**	**18.3**	**8.4**	**0.6**	**1,022.7**

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

5.3 Non-current assets classified as held for sale

Changes in assets classified as held for sale

	9 months ended 30/09/2021	9 months ended 30/09/2020
As at the beginning of the reporting period	**12.7**	**-**
Increases / (decreases):		
Reclassification to property, plant and equipment	31.3	34.9
Sales	(25.2)	(22.6)
Other	(0.5)	-
As at the end of the reporting period	**18.3**	**12.3**

In the period of 9 months ended 30 September 2021, the Supervisory Board of the Parent Company gave its consent to the sale of:

- 988 wagons with the total book value of PLN 14.1 million.
- 441 locomotives and wrecked locomotives with the total book value of PLN 39.9 million, out of which PLN 22.7 million referred to wrecked locomotives presented in inventories as rolling stock during decommissioning.

5.4 Investments in entities accounted for under the equity method

Investments in entities accounted for under the equity method

	Carrying amount	
	30/09/2021	31/12/2020
COSCO Shipping Lines (POLAND) Sp. z o.o.	0.6	1.2
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	21.2	21.2
Transgaz S.A.	6.4	6.3
Rentrans Cargo Sp. z o.o.	-	7.0
PKP CARGO CONNECT GmbH	0.4	0.2
PKP CARGO INTERNATIONAL SK a. s.	2.8	2.8
PKP CARGO INTERNATIONAL SI d.o.o. (formerly PRIMOL-RAIL d.o.o.)	2.5	2.1
Centralny Terminal Multimodalny Sp. z o.o.	1.2	1.2
Total	**35.1**	**42.0**

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

	9 months ended 30/09/2021	9 months ended 30/09/2020
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	3.0	1.4
Movement in equity on account of dividends	(2.9)	(0.4)
FX differences from translation of financial statements	-	0.3
As at the end of the reporting period	**35.1**	**41.7**

5.5 Inventories

Structure of inventories

	30/09/2021	31/12/2020
Strategic inventories	31.9	33.7
Rolling stock during liquidation	37.2	40.3
Other inventories	97.4	97.2
Impairment losses	(4.3)	(5.4)
Net inventories	**162.2**	**165.8**

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

5.6 Trade receivables

Structure of trade receivables

	30/09/2021	31/12/2020
Trade receivables	786.9	738.0
Impairment loss on receivables	(139.5)	(149.2)
Total	**647.4**	**588.8**
Non-current assets	3.6	3.0
Current assets	643.8	585.8
Total	**647.4**	**588.8**

5.7 Other assets

Structure of other assets

	30/09/2021	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	30.3	24.0
Insurance	8.8	7.0
IT services	7.1	8.1
Purchase of transportation benefits	3.1	0.2
Other costs settled over time	8.3	2.3
Other[1)]	37.6	1.9
Other receivables		
VAT settlements	35.2	35.6
Receivables from the sale of shares	5.6	-
Other	12.9	12.6
Intangible assets		
Licenses	20.5	20.8
Other intangible assets	0.3	0.3
Intangible assets under development	4.9	4.8
Total	**180.2**	**123.2**
Non-current assets	67.7	35.1
Current assets	112.5	88.1
Total	**180.2**	**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 were to 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 September 2021. As a result of the satisfaction of all the conditions precedent, on 13 October 2021 the agreement transferring the title to real property, movable assets and rights-of-use asset to the Parent Company.

5.8 Investment liabilities

Structure of investment liabilities

	30/09/2021	31/12/2020
Investment liabilities related to rolling stock	220.2	260.5
Investment liabilities related to real properties	4.8	9.8
Other	2.6	8.7
Total	**227.6**	**279.0**
Long-term liabilities	127.9	145.5
Short-term liabilities	99.7	133.5
Total	**227.6**	**279.0**

(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	**234.5**	**179.3**	**40.3**	**7.3**	**310.5**	**28.7**	**800.6**
Current service cost	6.1	2.7	0.6	0.3	11.3	-	**21.0**
Interest expenses	2.4	1.9	0.4	0.1	3.3	-	**8.1**
Actuarial (profits)/ losses recognized in other comprehensive income	(9.1)	(19.0)	(8.4)	0.1	-	-	**(36.4)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	(12.3)	-	**(12.3)**
Cost of past employment	-	-	-	-	1.2	-	**1.2**
Recognition of provisions	-	-	-	-	-	32.2	**32.2**
Reversal of provisions	-	-	-	-	-	(7.2)	**(7.2)**
Benefits paid out	(12.9)	(3.9)	(0.7)	(1.0)	(33.7)	(1.6)	**(53.8)**
FX differences	-	-	-	-	0.2	0.3	**0.5**
30/09/2021	**221.0**	**161.0**	**32.2**	**6.8**	**280.5**	**52.4**	**753.9**
Long-term provisions	182.4	155.4	31.3	5.9	234.3	-	**609.3**
Short-term provisions	38.6	5.6	0.9	0.9	46.2	52.4	**144.6**
Total	**221.0**	**161.0**	**32.2**	**6.8**	**280.5**	**52.4**	**753.9**

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2020	**234.6**	**139.7**	**36.9**	**8.8**	**329.4**	**34.8**	**784.2**
Current service cost	6.1	2.3	0.6	0.3	11.0	-	**20.3**
Interest expenses	3.1	2.1	0.6	0.1	4.5	-	**10.4**
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	-	-	-	-	9.8	-	**9.8**
Recognition of provisions	-	-	-	-	-	18.3	**18.3**
Reversal of provisions	-	-	-	-	-	(7.8)	**(7.8)**
Benefits paid out	(13.7)	(3.7)	(0.8)	(0.7)	(35.7)	(6.0)	**(60.6)**
FX differences	-	-	-	-	-	(0.1)	**(0.1)**
30/09/2020	**237.9**	**182.5**	**39.3**	**8.7**	**319.0**	**39.2**	**826.6**
Long-term provisions	197.3	177.1	38.2	7.4	273.6	-	**693.6**
Short-term provisions	40.6	5.4	1.1	1.3	45.4	39.2	**133.0**
Total	**237.9**	**182.5**	**39.3**	**8.7**	**319.0**	**39.2**	**826.6**

5.10 Other provisions

Structure of other provisions

	30/09/2021	31/12/2020
Provision for penalties imposed by anti-monopoly authorities	-	0.4
Provision for land reclamation	7.9	6.4
Other provisions	18.7	23.0
Total	**26.6**	**29.8**
Long-term provisions	6.7	5.7
Short-term provisions	19.9	24.1
Total	**26.6**	**29.8**

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

5.11 Other liabilities

Structure of other liabilities

	30/09/2021	31/12/2020
Financial liabilities		
FX forwards	0.1	2.7
Cash pool	1.1	1.1
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	33.9	46.5
Public law liabilities	113.3	121.5
Settlements with employees	97.4	97.0
VAT settlements	4.9	5.3
Current tax liabilities	3.0	1.7
Other settlements	6.4	10.4
Total	**260.1**	**286.2**
Short-term liabilities	260.1	286.2
Total	**260.1**	**286.2**

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	30/09/2021	31/12/2020
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.7*	5.6	5.6
Financial assets measured at amortized cost			
Trade receivables	*Note 5.6*	647.4	588.8
Receivables on account of sale of non-financial non-current assets		-	0.1
Receivables from the sale of shares	*Note 5.7*	5.6	-
Cash and cash equivalents	*Note 4.3*	130.2	306.0
Financial assets excluded from the scope of IFRS 9		10.0	11.0
Total		**798.8**	**911.5**

Financial liabilities by categories and classes	Note	30/09/2021	31/12/2020
Hedging financial instruments			
Derivatives	*Note 5.11*	0.1	2.7
Bank loans and borrowings	*Note 4.1*	776.5	660.0
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	37.2	53.1
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	1,086.4	999.3
Trade liabilities		394.2	349.0
Investment liabilities	*Note 5.8*	227.6	279.0
Cash pool	*Note 5.11*	1.1	1.1
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	804.0	867.9
Total		**3,327.1**	**3,212.1**

Impairment losses on trade receivables are presented in **Note 5.6** to these Quarterly 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 September 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 September 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 September 2021, the nominal amount of the hedging instrument was EUR 167.6 million, which is an equivalent of PLN 776.5 million.
- leases denominated in EUR. The hedged cash flows will be realized until May 2024. As at 30 September 2021, the nominal amount of the hedging instrument was EUR 8.0 million, which is an equivalent of PLN 37.2 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 30 September 2021, the value of liabilities on account of measurement of hedging instruments was PLN 0.1 million.

Fair value hierarchy

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

	30/09/2021		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 as at 30 September 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

	9 months ended 30/09/2021	9 months ended 30/09/2020
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 9 months ended 30 September 2021 and 30 September 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

9 months ended 30/09/2021	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)	(3.2)	2.0	0.4	(11.5)	(21.8)	**(34.1)**
FX differences	-	(2.9)	-	1.0	0.3	**(1.6)**
Impairment losses / revaluation	-	3.9	-	-	-	**3.9**
Transaction costs related to loans	-	-	-	(1.2)	-	**(1.2)**
Effect of settlement of cash flow hedge accounting	(14.9)	-	-	-	-	**(14.9)**
Profit / (loss) before tax	**(18.1)**	**3.0**	**0.4**	**(11.7)**	**(21.5)**	**(47.9)**
Revaluation	5.3	-	-	-	-	**5.3**
Other comprehensive income	**5.3**	**-**	**-**	**-**	**-**	**5.3**

In the period of 9 months ended 30 September 2021, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (14.9) million.

In the period of 9 months ended 30 September 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 1.5 million and lease liabilities in the amount of PLN 1.2 million, recognized as part of the hedge accounting applied by the Group.

9 months ended 30/09/2020	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)	(2.2)	-	3.8	0.4	(18.0)	(25.3)	**(41.3)**
FX differences	(0.6)	-	10.1	-	(6.7)	(7.9)	**(5.1)**
Impairment losses / revaluation	(0.1)	-	(0.4)	-	-	-	**(0.5)**
Transaction costs related to loans	-	-	-	-	(1.3)	-	**(1.3)**
Effect of settlement of cash flow hedge accounting	(1.4)	-	-	-	-	-	**(1.4)**
Profit / (loss) before tax	**(4.3)**	**-**	**13.5**	**0.4**	**(26.0)**	**(33.2)**	**(49.6)**
Revaluation	(43.6)	(0.7)	-	-	-	-	**(44.3)**
Other comprehensive income	**(43.6)**	**(0.7)**	**-**	**-**	**-**	**-**	**(44.3)**

In the period of 9 months ended 30 September 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (1.4) million.

In the period of 9 months ended 30 September 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 (9.0) million, bank loans in the amount of PLN (32.4) million and lease liabilities in the amount of PLN (2.2) 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 9 months ended 30 September 2021 and 30 September 2020, the State Treasury was a 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 Quarterly 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 9 months ended 30 September 2021 and 30 September 2020, there were no 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 Quarterly 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 9 months ended 30 September 2021, the Group's most important suppliers that were other parties related to the State Treasury were Orlen Group entities.

Transactions with PKP Group related parties

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

	9 months ended 30/09/2021		30/09/2021	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent Company	0.3	53.5	0.4	559.9
Subsidiaries/co-subsidiaries – unconsolidated	4.2	17.1	0.2	2.3
Associates	1.2	0.1	0.4	-
Other PKP Group related parties	19.0	391.5	2.9	62.1

	9 months ended 30/09/2020		31/12/2020	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent Company	0.3	56.3	1.2	589.4
Subsidiaries/co-subsidiaries – unconsolidated	3.9	9.7	0.1	1.7
Associates	5.3	0.5	-	0.2
Other PKP Group related parties	15.0	362.6	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 property, 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 5.11.** of these Quarterly 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	
	9 months ended 30/09/2021	9 months ended 30/09/2020	9 months ended 30/09/2021	9 months ended 30/09/2020
Short-term benefits	3.1	1.7	4.7	4.3
Post-employment benefits	-	0.3	0.5	0.1
Termination benefits	-	0.1	0.3	0.1
Total	**3.1**	**2.1**	**5.5**	**4.5**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	9 months ended 30/09/2021	9 months ended 30/09/2020	9 months ended 30/09/2021	9 months ended 30/09/2020
Short-term benefits	0.9	1.0	0.2	0.4
Total	**0.9**	**1.0**	**0.2**	**0.4**

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	9 months ended 30/09/2021	9 months ended 30/09/2020	9 months ended 30/09/2021	9 months ended 30/09/2020
Short-term benefits	4.8	5.2	12.5	13.0
Post-employment benefits	-	-	0.4	0.7
Total	**4.8**	**5.2**	**12.9**	**13.7**

In the period of 9 months ended 30 September 2021 and 30 September 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

	30/09/2021	31/12/2020
Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment	674.7	856.4
Contractual liabilities on account of non-commenced lease contracts	0.3	5.9
Total	**675.0**	**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 September 2021 in the amount of approx. PLN 94.6 million.

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

7.3 Contingent liabilities

Structure of contingent liabilities

	30/09/2021	31/12/2020
Guarantees issued on the Group's request	102.4	93.9
Other contingent liabilities	120.6	114.9
Total	**223.0**	**208.8**

Guarantees issued on the Group's order

As at 30 September 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

On 18 October 2021, the Supervisory Board of the Parent Company adopted resolutions, under which:
1. Czesław Warsewicz – President of the Management Board
2. Leszek Borowiec – Management Board Member in charge of Finance
3. Witold Bawor – Management Board Member in charge of Operations
4. Piotr Wasaty – Management Board Member in charge of Commerce

were dismissed from their functions.

The Supervisory Board resolutions came into force on the date of their adoption. At the same time, on 18 October 2021 the Supervisory Board of the Parent Company adopted a resolution by which it decided to second Mr. Władysław Szczepkowski, PKP CARGO S.A. Supervisory Board Member, to act in the capacity of President of the Company's Management Board for a period not longer than 3 months and to entrust him with discharging the duties of President of the PKP CARGO S.A. Management Board.

As a result of these changes, the Management Board is now composed of the following persons:
1. Władysław Szczepkowski – Acting President of the Management Board
2. Zenon Kozendra – Management Board Member – Employee Representative

Events after the balance sheet date are described in **Chapter 4.6** the Additional Information to the Consolidated Quarterly Report of the PKP CARGO Group in Q3 2021.

7.5 Approval of the financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 23 November 2021.

Parent Company's Management Board

Władysław Szczepkowski
Acting President of the Management Board

Zenon Kozendra
Management Board Member

Warsaw, 23 November 2021

Quarterly Financial Information of **PKP CARGO S.A.** for the period of 9 months ended 30 September 2021

PREPARED IN ACCORDANCE WITH IFRS EU (in millions of PLN)

QUARTERLY SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	9 months ended 30/09/2021	3 months ended 30/09/2021	9 months ended 30/09/2020	3 months ended 30/09/2020
Revenues from contracts with customers	2,291.5	808.6	2,152.3	738.2
Consumption of traction electricity and traction fuel	(367.0)	(132.5)	(325.2)	(114.1)
Services of access to infrastructure	(381.3)	(121.5)	(374.6)	(132.1)
Other services	(263.2)	(94.2)	(213.9)	(73.9)
Employee benefits	(918.0)	(304.7)	(940.8)	(286.0)
Other expenses	(124.4)	(48.4)	(108.4)	(33.4)
Other operating revenue and (expenses)	16.7	11.6	106.3	64.6
Operating profit without depreciation (EBITDA)	**254.3**	**118.9**	**295.7**	**163.3**
Depreciation, amortization and impairment losses	(424.2)	(144.5)	(465.5)	(152.7)
Profit / (loss) on operating activities (EBIT)	**(169.9)**	**(25.6)**	**(169.8)**	**10.6**
Financial revenue and (expenses)	(20.6)	(13.5)	7.8	(14.6)
Profit / (loss) before tax	**(190.5)**	**(39.1)**	**(162.0)**	**(4.0)**
Income tax	33.4	4.9	35.8	(1.3)
NET PROFIT / (LOSS)	**(157.1)**	**(34.2)**	**(126.2)**	**(5.3)**
OTHER COMPREHENSIVE INCOME				
Measurement of hedging instruments	2.5	(14.1)	(38.3)	(9.0)
Income tax	(0.5)	2.7	7.3	1.7
Total other comprehensive income subject to reclassification in the financial result	**2.0**	**(11.4)**	**(31.0)**	**(7.3)**
Actuarial profits / (losses) on post-employment benefits	34.7	-	(52.0)	-
Income tax	(6.6)	-	9.9	-
Measurement of equity instruments at fair value	-	-	(0.7)	-
Total other comprehensive income not subject to reclassification in the financial result	**28.1**	**-**	**(42.8)**	**-**
Total other comprehensive income	**30.1**	**(11.4)**	**(73.8)**	**(7.3)**
TOTAL COMPREHENSIVE INCOME	**(127.0)**	**(45.6)**	**(200.0)**	**(12.6)**
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	**(3.51)**	**(0.77)**	**(2.82)**	**(0.12)**

PREPARED IN ACCORDANCE WITH IFRS EU (in millions of PLN)

QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION

	30/09/2021	31/12/2020
ASSETS		
Rolling stock	3,891.9	3,809.2
Other property, plant and equipment	460.3	474.7
Rights-of-use assets	593.9	641.5
Investments in related parties	840.0	840.0
Lease receivables	23.7	24.4
Financial assets	4.9	4.9
Other assets	53.8	22.6
Deferred tax assets	158.1	131.6
Total non-current assets	**6,026.6**	**5,948.9**
Inventories	89.8	95.0
Trade receivables	411.9	366.5
Lease receivables	1.8	2.8
Income tax receivables	1.7	1.8
Financial assets	-	2.3
Other assets	80.3	56.5
Cash and cash equivalents	29.7	180.5
Total current assets	**615.2**	**705.4**
Non-current assets classified as held for sale	18.3	12.7
TOTAL ASSETS	**6,660.1**	**6,667.0**
EQUITY AND LIABILITIES		
Share capital	2,239.3	2,239.3
Supplementary capital	744.7	744.7
Other items of equity	(109.4)	(139.5)
Retained earnings / (Uncovered losses)	(42.8)	114.3
Total equity	**2,831.8**	**2,958.8**
Debt liabilities	1,892.1	1,897.6
Investment liabilities	126.0	143.0
Provisions for employee benefits	533.2	606.1
Other provisions	0.7	-
Total long-term liabilities	**2,552.0**	**2,646,7**
Debt liabilities	507.0	353,7
Trade liabilities	245.6	215,6
Investment liabilities	157.0	141,3
Provisions for employee benefits	113.1	93,7
Other provisions	10.6	13,0
Other financial liabilities	68.0	2,7
Other liabilities	175.0	241,5
Total short-term liabilities	**1,276.3**	**1,061.5**
Total liabilities	**3,828.3**	**3,708.2**
TOTAL EQUITY AND LIABILITIES	**6,660.1**	**6,667.0**

PREPARED IN ACCORDANCE WITH IFRS EU (in millions of PLN)

QUARTERLY SEPARATE 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 benefit	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	-	-	-	-	-	(157.1)	**(157.1)**
Other comprehensive income for the period (net)	-	-	-	28.1	2.0	-	**30.1**
Total comprehensive income	-	-	-	28.1	2.0	(157.1)	**(127.0)**
30/09/2021	**2,239.3**	**744.7**	**(12.9)**	**(64.5)**	**(32.0)**	**(42.8)**	**2,831.8**
1/01/2020	**2,239.3**	**744.7**	**(12.2)**	**(55.8)**	**6.2**	**288.2**	**3,210.4**
Net result for the period	-	-	-	-	-	(126.2)	**(126.2)**
Other comprehensive income for the period (net)	-	-	(0.7)	(42.1)	(31.0)	-	**(73.8)**
Total comprehensive income	-	-	(0.7)	(42.1)	(31.0)	(126.2)	**(200.0)**
30/09/2020	**2,239.3**	**744.7**	**(12.9)**	**(97.9)**	**(24.8)**	**162.0**	**3,010.4**

PREPARED IN ACCORDANCE WITH IFRS EU (in millions of PLN)

QUARTERLY SEPARATE STATEMENT OF CASH FLOWS

	9 months ended 30/09/2021	9 months ended 30/09/2020
Cash flow from operating activities		
Profit / (loss) before tax	**(190.5)**	**(162.0)**
Adjustments		
Depreciation, amortization and impairment losses	424.2	465.5
(Profits) / losses on the sale and liquidation of non-financial non-current assets	(16.0)	(4.7)
(Profits) / losses on FX differences	2.9	6.4
(Profits) / losses on interest, dividends	13.0	(22.2)
Received / (paid) interest	0.4	0.7
Received / (paid) income tax	(0.1)	40.9
Movement in working capital	(96.9)	30.1
Other adjustments	37.3	(60.9)
Net cash from operating activities	**174.3**	**293.8**
Cash flow from investing activities		
Expenditures on the acquisition of non-financial non-current assets	(535.9)	(450.5)
Proceeds from the sale of non-financial non-current assets	40.0	32.7
Expenditures on the acquisition of related parties	(33.0)	-
Proceeds from dividends received	9.2	58.3
Other investment expenditures	(27.0)	-
Other inflows from investing activities	2.8	2.4
Net cash from investing activities	**(543.9)**	**(357.1)**
Cash flow from financing activities		
Payments on lease liabilities	(56.8)	(60.3)
Proceeds from bank loans and borrowings	408.3	285.5
Repayment of bank loans and borrowings	(206.1)	(225.8)
Interest paid on lease liabilities and bank loans and borrowings	(28.7)	(35.6)
Grants received	34.7	11.3
Inflows / (outflows) as part of cash pool	69.9	(20.4)
Other outflows from financing activities	(2.5)	(3.7)
Net cash from financing activities	**218.8**	**(49.0)**
Net increase / (decrease) in cash and cash equivalents	(150.8)	(112.3)
Cash and cash equivalents as at the beginning of the reporting period	180.5	380.0
Cash and cash equivalents as at the end of the reporting period, including:	**29.7**	**267.7**
Restricted cash	*16.8*	*29.8*

Other information to **PKP CARGO GROUP'S** consolidated quarterly report for Q3 2021

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1. Introduction

Dear Stakeholders,

Q3 2021 was accompanied by an elevated degree of instability in the economic environment, which also affected the PKP CARGO Group's day-to-day operations. In particular, unexpected changes occurred in terms of the rapid growth of certain costs incurred on a regular basis by PKP CARGO S.A. and other members of the Group.

REVENUES FROM CONTRACTS	EBITDA	NET RESULT
PLN 3,145.9 million	PLN 392.3 million	PLN -153.5 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.

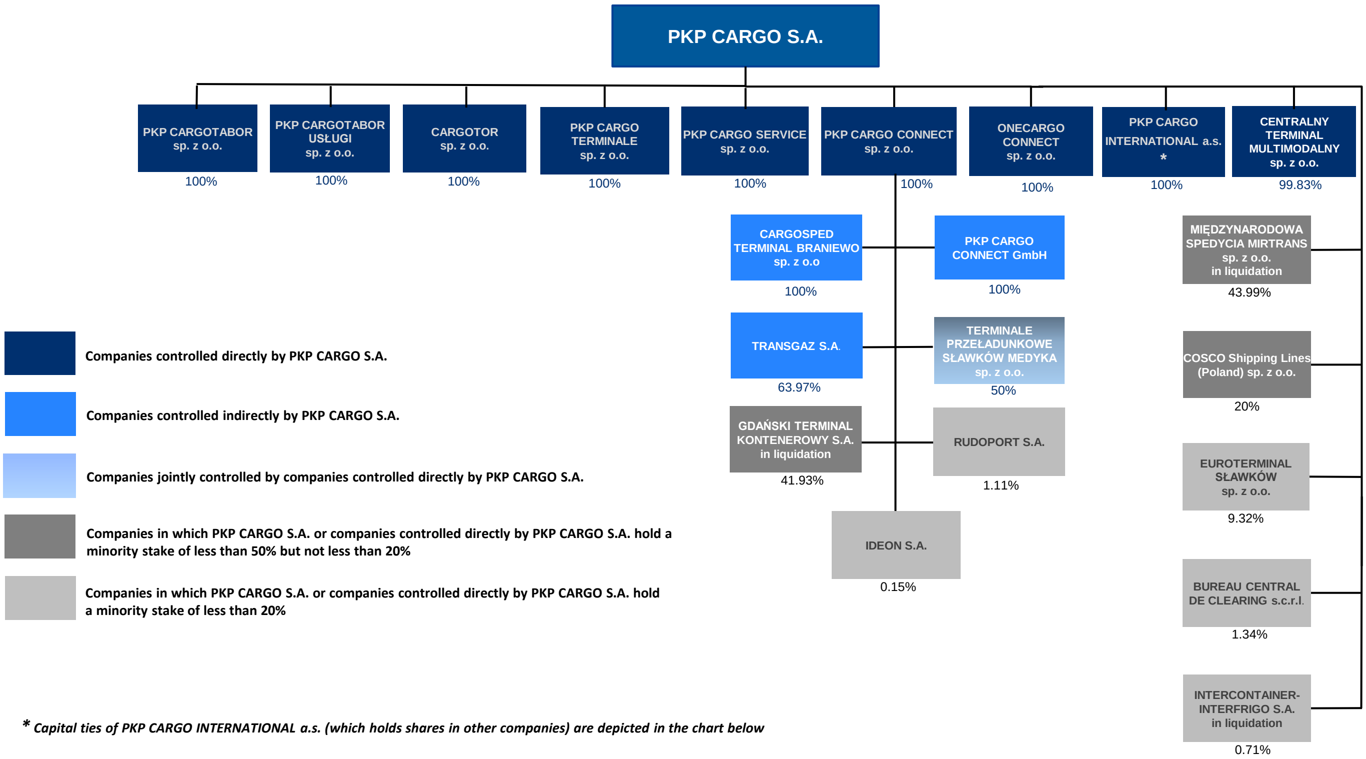
The Group (including the Parent Company, PKP CARGO INTERNATIONAL a.s., PKP CARGO SERVICE Sp. z o.o.) offers domestic and international transport of cargo as well as comprehensive logistics services for rail freight. In addition, the following services are provided by the Group to support clients and 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)

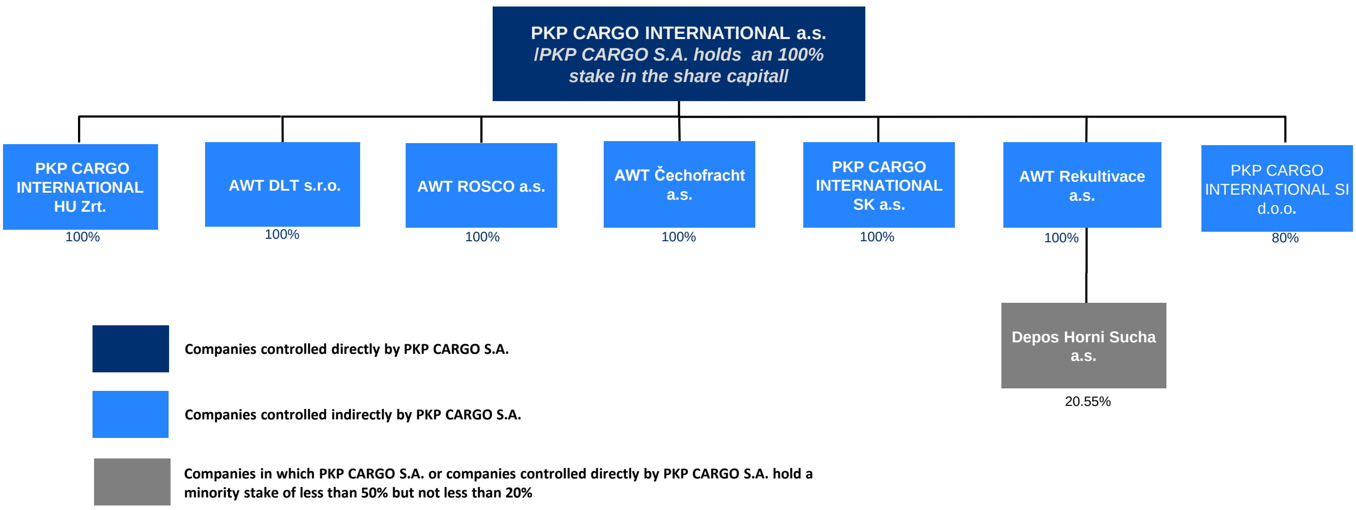
The chart below presents the structure of capital links with the companies, in which PKP CARGO S.A. or its subsidiaries hold shares – as at 30 September 2021:

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



Source: Proprietary material

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

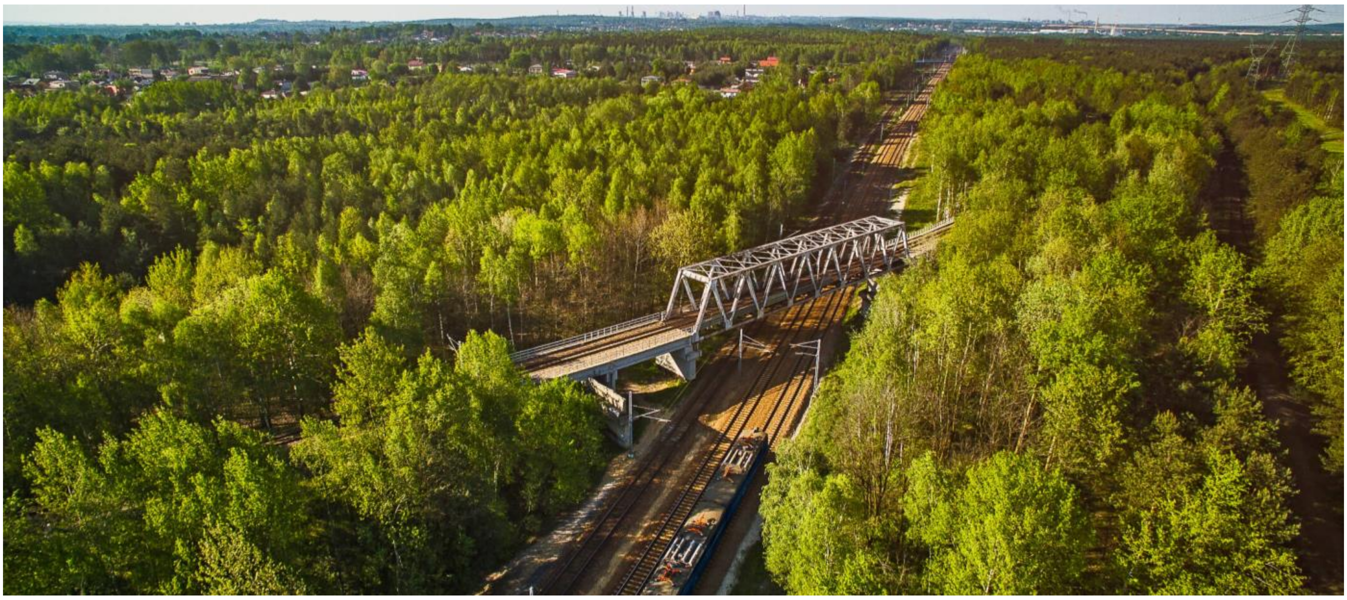


Source: Proprietary material

During the first 9 months of 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.
- With effect as of 9 September 2021, PRIMOL-RAIL d.o.o. with its registered office in Grčarevec, Slovenia, an 80% owned subsidiary of PKP CARGO INTERNATIONAL a.s., changed its name and currently does business as PKP CARGO INTERNATIONAL SI d.o.o. with its registered office in Grčarevec, Slovenia. Neither the amount of the share capital of PKP CARGO INTERNATIONAL SI d.o.o. nor the stake in its share capital held by PKP CARGO INTERNATIONAL a.s. have changed.

Moreover, on 27 October 2021, PKP CARGO S.A. acquired a 100% stake in PKP Linia Chełmska Szerokotorowa sp. z o.o. with its registered office in Chełm (hereinafter: "PKP LCHS") from PKP Linia Hutnicza Szerokotorowa sp. z o.o. for the total price of PLN 5,000. PKP LCHS has been acquired for the purposes of developing transport services on broad-gauge line no. 63 running between Dorohusk and Chełm. However, these transport services will not represent a major item in PKP CARGO S.A.'s business within a foreseeable timeframe.



2.2 Consolidated entities

The Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group as at 30 September 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") (formerly CL Medyka-Żurawica and CL Małaszewicze)	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company 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") (formerly Advanced World Transport a.s.)	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. (formerly AWT Rail 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 5.4** to the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group prepared as at 30 September 2021.

3. Information about the Parent Company

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

MANAGEMENT BOARD

In 9M 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);[2]
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.

[2] 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.

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
Władysław Szczepkowski	acting President of the Management Board	18 October 2021	for a period of at most three months
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Czesław Warsewicz	President of the Management Board	27 March 2018	18 October 2021
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	18 October 2021
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	18 October 2021
Piotr Wasaty	Management Board Member in charge of Commerce	1 September 2020	18 October 2021

Source: Proprietary material

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

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

- business strategy,
- 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.

By resolution of 19 October 2021, the PKP CARGO S.A. Management Board temporarily entrusted supervisory duties over the organizational units in the Company's Head Office to:

1. Mr. Władysław Szczepkowski – seconded by the PKP CARGO S.A. Supervisory Board in accordance with the resolution of 18 October 2021 to perform the duties of the President of the PKP CARGO S.A. Management Board for a period not longer than 3 months, with the exception of the organizational units entrusted to Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative, falling within the scope of duties of the following functions:
   - PKP CARGO S.A. Management Board Member in charge of Commerce,
   - PKP CARGO S.A. Management Board Member in charge of Finance,
   - PKP CARGO S.A. Management Board Member in charge of Operations.
2. Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative, for a period not longer than 3 months, over the following units:
   - HR Management Department at the PKP CARGO S.A. Head Office,
   - ICT Department at the PKP CARGO S.A. Head Office,
   - Procurement Department at the PKP CARGO S.A. Head Office.

By resolutions of 16 November 2021, the PKP CARGO S.A. Management Board appointed the following PKP CARGO S.A. Commercial Proxies: Ms. Anna Wierzchowska, Ms. Alicja Chyła and Mr. Karol Sikora.

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, relatives or relatives and second degree next of kin, 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	Supervisory Board Chairman Supervisory Board Member	26 June 2019 26 June 2019	to date to date
Marcin Kowalczyk	Supervisory Board Member Supervisory Board Deputy Chairman	14 January 2021 25 January 2021	to date 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 (seconded to temporarily perform the duties of President of the Management Board)	26 June 2019 18 October 2021	to date for a period of at most three months
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
Izabela Wojtyczka	Committee Member	21 September 2020	to date
Paweł Sosnowski	Committee Member	18 October 2021	to date
Władysław Szczepkowski	Committee Member	1 July 2019	18 October 2021

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 its supervision over the establishment of the strategy as well as the proper pursuit of the strategy and annual and long-term activity plans for the Company and its Group.

Table 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 September 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 20 August 2021, i.e. the delivery date of the H1 2021 report, to the delivery date of this report, were 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	
Władysław Szczepkowski	0
Zenon Kozendra	46
as at 20 August 2021	
Czesław Warsewicz	3,700
Leszek Borowiec	0
Piotr Wasaty	500
Witold Bawor	46
Zenon Kozendra	46

Source: Proprietary material

The holdings of the Company's shares or rights to such shares by members of the Company's Supervisory Board from 20 August 2021, i.e. the delivery date of the H1 2021 report, to the delivery date of this report, were 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 20 August 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 main factors that have been affecting the performance of the Polish economy in recent quarters are the COVID-19 pandemic and its economic consequences. The impact of the pandemic on economic processes is reflected not only in changes in the absolute number of infections and hospitalizations or in the economic and social restrictions imposed to counteract it, but also, for instance, in the observed disturbances, especially in recent months, of international supply chains and the intensification of global inflation processes.

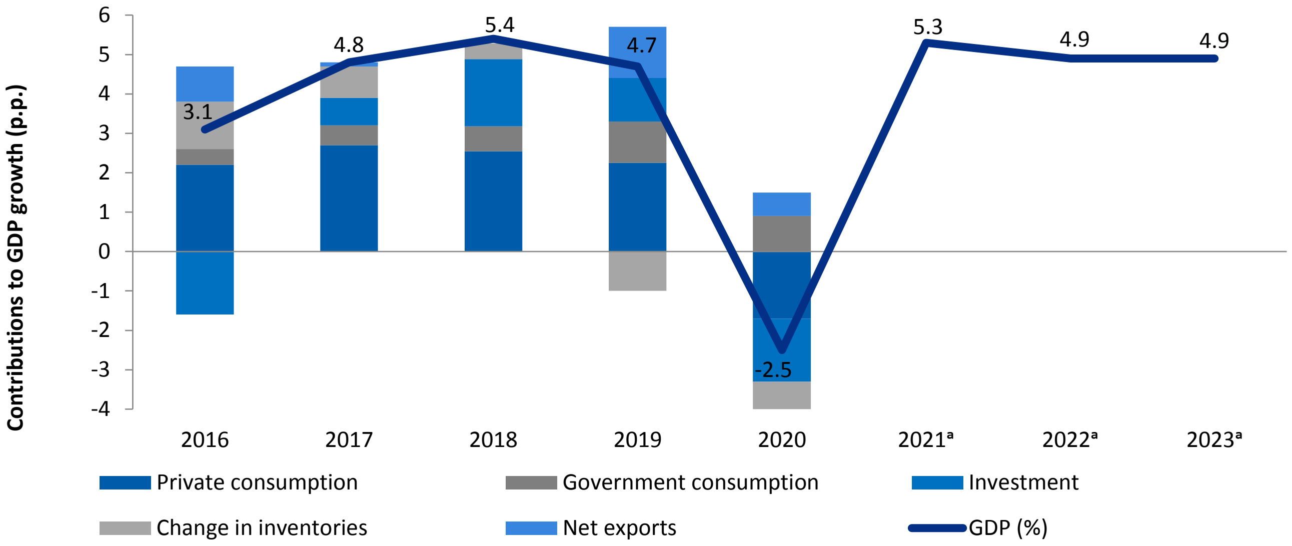
After the Polish economy suffered from recession in 2020 and at the beginning of 2021, it returned to the path of economic growth in Q2 2021. In this period, the domestic GDP growth rate reached 11.2% yoy (compared to -0.8% yoy in Q1 2021), followed by a strong GDP rebound triggered by various factors, including the easing of the previously imposed anti-epidemic restrictions in numerous sectors of the economy and the effect of a very low statistical reference base from the corresponding period of 2020 (which was a period of a comprehensive lockdown characterized by the application of the most severe restrictions, which translated into a major slump in economic activity in Poland and the country's macroeconomic environment). In quarterly terms (adjusted for the impact of calendar and seasonal factors), the domestic GDP growth rate accelerated in Q2 2021 to 1.6% qoq from 1.4% qoq in Q1 2021, indicating a lasting nature of the observed economic recovery.[3]

The key driver of economic growth in Q2 2021 was household consumption (+13.1% yoy, with a +7.2 p.p. yoy contribution to the overall growth rate), which was favored, among other factors, by the significantly smaller extent of mandatory restrictions than that existing in the corresponding period of 2020, the relatively good situation on the labor market, the materialization of deferred demand and the general adaptation of consumers and commercial undertakings to the new economic reality. Other favorable contributions to GDP were also provided by the level of inventories (+2.8 p.p. yoy), public consumption (+3.0% yoy and +0.6 p.p. yoy) and capital expenditures (+5.6% yoy and +0.9 p.p. yoy). In Q2 2021, the contribution of the balance of trade to GDP remained negative (at -0.3 p.p.), due to the larger rate of growth in imports compared to that in exports (+29.2% yoy and +34.5% yoy, respectively).[4]

According to forecasts by economists, in Q3 2021, an sharply lower year-over-year growth rate of Polish GDP should be expected, partly because of the major increase in the reference base for 2020 and the slightly weaker than anticipated monthly data on economic activity (industrial and construction output, real retail sales) in July-September 2021.[5] As a consequence, the median of market analysts' forecasts expects a rate of growth in Poland's real GDP in Q3 2021 at 4.8% yoy.[6]

[3] Statistics Poland
[4] Statistics Poland
[5] Bankier.pl
[6] Bankier.pl

Figure 3 Real GDP growth rate in Poland in 2016-2020, its decomposition and forecasts for 2021-2023 – seasonally unadjusted data



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

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

The better than previously anticipated data on the domestic economy in Q2 and Q3 2021 (driven by, among other factors, the favorable epidemic situation enabling the lifting of most of the previously imposed restrictions coupled with the rebound experienced in the macroeconomic environment) translated into an upward revision of economic activity growth forecasts by the National Bank of Poland for 2021, as published in early November 2021 (compared to the July 2021 projection). In parallel, in the opinion of NBP analysts, the medium-term outlook for the domestic economy has slightly deteriorated, suppressed by, among other factors, the intensification of inflationary processes reducing the purchasing power of consumers and translating into increased costs of running a business, the supply obstacles experienced in Poland and throughout the global economy, and the delay in the approval of Poland's National Reconstruction Plan by EU authorities. As a consequence, in 2021, NBP economists expect to see an average annual real GDP growth of 5.3% yoy (vis-à-vis the 5.0% yoy growth projected in July 2021), followed by a slight decline and stabilization at 4.9% yoy in 2022 and 2023 (compared to 5.4% yoy and 5.3% yoy, respectively, according to the July 2021 forecast).[7]

In the opinion of NBP analysts, household consumption will be the primary driver of domestic GDP growth in the coming quarters, supported by such phenomena as the continuing good situation on the labor market and the announced tax changes under the Polish Deal program to be rolled out by the country's government. NBP economists also believe that, across the projection horizon, a positive contribution to GDP will also be brought by capital expenditures (largely due to the observed improvement in corporate investment sentiments, the still low degree of automation and robotization of the domestic economy in the face of increasing labor costs, the execution of the National Reconstruction Plan and the stable demand for residential real estate) as well as public consumption. At the same time, according to NBP analysts, the balance of trade (net exports) will adversely affect the GDP growth rate due to its anti-cyclical nature and the significantly greater rate of growth in imports than that in exports (including the forecasted increase in capital expenditures, which are normally characterized by a large import intensity).[8]

NBP economists also expect to see a noticeably greater (compared to the July 2021 projection) value of consumer price inflation (CPI) in the coming quarters. In their assessment, the average annual CPI will be +4.9% yoy in 2021 (against +4.2% yoy in the July 2021 projection), +5.8% yoy in 2022 (+3.3% yoy in the July projection) and +3.6% yoy in 2023 (+3.4% yoy in the July 2021 projection), meaning that across the projection horizon this indicator will remain significantly above the NBP's target inflation rate (of 2.5%). A number of factors have contributed to this larger inflation rate, including major upsurges in energy prices (driven by the increasing prices of energy commodities such as coal or gas on the global markets and the more expensive CO_2 emission allowances) as well as fuel and food prices, exacerbated by disruptions in international supply chains – causing the

[7] National Bank of Poland
[8] National Bank of Poland

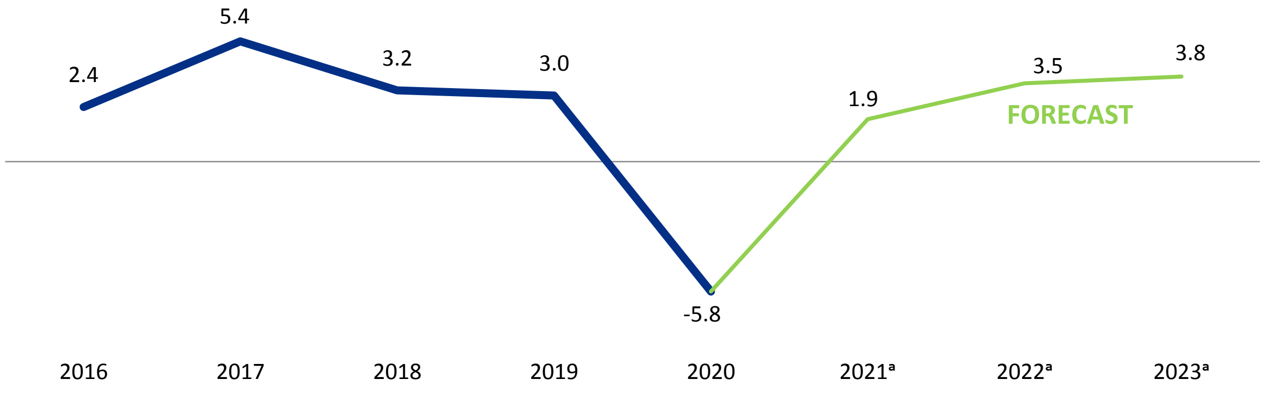
emergence of temporary disequilibria between supply and demand, the materialization of deferred demand in industries previously affected by restrictions (including tourism) and the symptoms of intensifying wage pressures.[9]

Czech economy

According to preliminary data published by the Czech Statistical Office (CZSO), Czech GDP increased in Q3 2021 by 2.8% yoy compared to an increase by 8.1% yoy in Q2 2021.[10] In this period, the Czech economy remained on the path of recovery followed since the spring of 2021, while the observed slowdown in the year-over-year GDP growth rate was primarily a consequence of the effect of a higher statistical reference base from 2020. At the same time, in quarterly terms (adjusted for the impact of calendar and seasonal factors), the Czech GDP growth rate accelerated in Q3 2021 to 1.4% qoq from 1.0% qoq in Q2 2021, largely due to the gradual lifting of the economic and social restrictions previously imposed with a view to counteracting the COVID-19 pandemic and the progressive adaptation of market players to the new economic reality.[11]

Detailed data on the impact of distinct components of GDP on the overall rate of economic growth in the Czech Republic in Q3 2021 will be published at the end of November 2021. Meanwhile, however, according to a CZSO announcement, the main driver of economic growth in this period was domestic demand, chiefly household consumption (mostly the materialization of deferred demand coupled with the decrease in the savings rate, the rebound of the growth rate of real wages and the decline in the unemployment rate) and capital expenditures (the recovery of domestic and international demand, the intensification of public sector investments co-financed under the EU structural funds, the high level of production capacity utilization and the need to rebuild the production potential).[12] According to CZSO, in Q3 2021, public consumption also provided a favorable contribution to the country's GDP. In this period, the GDP growth rate was adversely affected by the balance of trade (net exports), largely as a result of the observed deterioration in exports caused by the supply problems experienced by economic operators, especially in the automotive sector (where the vast majority of output is intended for sales to foreign customers). According to information published by CZSO, in terms of value added, the strongest year-over-year increases in Q3 2021 were recorded in trade and other service sectors, as opposed to the declines experienced by the industrial processing sector.[13]

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



a Macroeconomic forecasts of the Czech National Bank – November 2021

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

The macroeconomic projections of the Czech Central Bank (CNB) published in early November 2021 revealed a downward revision of the medium-term GDP growth forecasts as compared to the assumptions presented in August 2021. This revision of the GDP projection was chiefly caused by supply-side challenges experienced in the macroeconomic environment, including

[9] National Bank of Poland
[10] Czech Statistical Office
[11] Czech Statistical Office
[12] Czech Statistical Office
[13] Czech Statistical Office

in global supply chains and as a result of the limited availability of commodities and components used or consumed in production processes. The Czech economy remains strongly integrated with international value-added chains and, on top of this, is characterized by a relatively small internal market. The lion's share of the country's industrial output (including, especially, goods manufactured by the automotive sector and the machining industry) is intended for exports. As a consequence, the supply-side disruptions described above are currently exerting a strong adverse impact on the level of output and the growth rate of exports, and thereby on the overall performance of the Czech economy. At the same time, CNB analysts expect to see a gradual disappearance of the supply-side problems by mid-2022. Moreover, in the baseline scenario, they anticipate the absence of a noticeable impact of a possible next wave of the COVID-19 pandemic on the performance of the Czech economy, largely due to the increasing percentage of vaccinated members of the country's population and the increasing adjustment of commercial undertakings and consumers to operating in the pandemic reality.[14]

According to CNB economists' forecasts, the country's GDP growth rate in 2021 will reach 1.9% yoy compared to -5.8% yoy in 2020. At the same time, in the opinion of CNB analysts, an acceleration of the economic growth rate should be expected in the coming years, with GDP growing by 3.5% yoy in 2022 and 3.8% yoy in 2023. As a consequence, Czech GDP should return to its pre-COVID-19 level by the end of 2022 at the latest. In the opinion of CNB economists, key drivers of the country's economic growth over the projection horizon will be household consumption (largely supported by the continued good situation on the labor market), capital expenditures (both in the private sector and the public sector) and – after the supply disruptions have ebbed away – a positive balance of trade (a significant rebound of the growth rate of exports).[15]

In 2021, CNB analysts also expect the growth rate of the consumer price index (CPI) to accelerate to the average level of 3.7% compared to 3.2% in 2020, partly due to intensified demand pressures in the economy caused by shortages of commodities and merchandise coupled with more expensive energy and fuels. In the opinion of CNB economists, the growth rate of CPI inflation in the Czech Republic will reach its peak in Q1 2022 (chiefly due to higher food prices and a further upsurge in electricity and gas prices in an environment affected by persisting pro-inflationary forces coming from the already observed factors), after which in the following quarters the inflation rate should gradually subside towards the CNB inflation target (of 2.0%). According to CNB analysts, the decline in CPI inflation will be largely driven by the disappearance of the currently experienced disturbances in international supply chains, the expected stabilization of crude oil prices on the global markets and the forecasted appreciation of the Czech koruna translating favorably into the prices of imported goods. The series of interest rate hikes initiated in 2021 by the CNB will also act as a counter-inflationary factor across the projection horizon. As a result, the CNB analysts expect the average annual rate of CPI growth in the Czech Republic to stand at 5.6% in 2022 and 2.1% yoy in 2023.[16]

Industry in Poland

According to data published by Statistics Poland, during the first three quarters of 2021, the country's total industrial output sold was +15.5% greater yoy (compared to a decrease by -3.2% yoy in the corresponding period of 2020). Of this, in Q3 2021 alone, output increased by +10.5% yoy, in Q2 the rate of growth reached as much as +30.2%, and in Q1 it stood at +7.8% yoy.[17] The very high rate of growth in industrial output in Q2 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.

During the first three quarters of 2021, sold industrial output increased in year-over-year terms in all industrial branches, including most of all in the production and supply of electricity, gas, steam and hot water by +21.3% yoy, in industrial processing by +15.6% yoy (this sector accounts for approx. 90% of total industrial output) and in water supply, sewage and waste management, land reclamation by +11.2% yoy. In turn, only a slight increase by +1.5% yoy was recorded in mining and quarrying.[18]

Also across all major industrial groupings in January-September 2021, sold industrial output improved in year-over-year terms. The largest increase in sold output was recorded in durable consumer goods, intermediate goods and investment goods: by +26.3%, +19.0% and +17.3%, respectively. In the same period, sales increased to a lesser degree in the production of energy-related goods by +11.5% yoy and non-durable consumer goods by +4.5% yoy.[19]

During the first three quarters of 2021, an increase in sold industrial output was recorded in 30 branches, with a decrease in output in 4 industries. Sales in industrial branches where increases are recorded in the period accounted for approx. 93% of the

[14] Czech National Bank
[15] Czech National Bank
[16] Czech National Bank
[17] Statistics Poland,
[18] Statistics Poland
[19] Statistics Poland

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 during the first 9 months of 2021 was recorded, among others, in: motor vehicles and automotive parts (+21.2%), metal products (+21.1%), rubber and plastic products (+20.7%), furniture (+18.9%), wood (+18.2%), metals (+17.9%), machinery and equipment (+17.3%), chemicals and chemical products (+14.3%), paper and paper products (+13.9%), products made of other non-metallic commodities (+13.8%) and mining of hard coal and lignite (+10.1%). In turn, the output of coke and refined petroleum products was lower than in the first three quarters of 2020 (by -3.1% yoy).[20]

What should be noticed is continued 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 Q3 2021 should deserve 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 the strong upsurges recorded at the turn of 2021). The performance figures for both Q2 and Q3 indicate slight increases in output. However, this small magnitude of growth should still be interpreted as a positive result in the context of maintaining a positive rate of growth in industrial output in an environment marred by the already significantly lower degree of global optimism in the industrial sector or the supply-side problems experienced in the global economy (e.g. the deepened decline in output from the automotive industry). The primary driver of year-over-year growth in industrial output is currently the industrial processing segment, where robust performance is recorded, for instance, in sectors related to construction (manufacture of metals and metal products, manufacture of products from other non-metallic commodities) and sectors that are not as strongly integrated with global supply chains and less susceptible to price fluctuations or the availability of commodities (production of food, clothing and footwear). In turn, export branches have not been quite as successful, especially the manufacture of automotive products.

The latest values of the Purchasing Managers' Index (PMI) for industrial processing indicate a major improvement in the economic situation in the industrial sector in Poland during the first three quarters of 2021 compared to the corresponding period of last year. After the first 9 months of 2020, the PMI decreased to an average level of 45.8 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 55.2 points. In Q3 2021 alone, the PMI stood at 55.7 points, which was the second-best result during the pandemic (the best result of 56.8 points was achieved in Q2 2021). In September 2021, the PMI for the industrial sector in Poland dipped to 53.4 points from 56.0 points in August 2021. This was the third consecutive monthly decline in the domestic PMI and its lowest level since February 2021.[21]

The current PMI values indicate the continuing good economic standing of the Polish manufacturing sector, although the deterioration of the index value over time hints to a potential economic slowdown, which may be caused, among other factors, by the challenging situation on the commodities market. The H2 2021 decline in the PMI was chiefly triggered by factors related to poorer rates of growth in both output and new orders. As the surveyed companies explained, the main causes for the slower rates of growth in output volumes than in previous months were supply-side problems related to the availability of commodities, materials and components used in production processes, labor shortages and persistent disturbances in international supply chains. At the same time, the upsurge in prices exerted an adverse impact on the volume of new orders (both domestic and export ones).The business tendency indicator for industrial processing published by Statistics Poland after the first 3 quarters of 2021 stood at -4.0 points on average compared to -13.2 points in the corresponding period of 2020 (a value below the 0.0 point threshold means that more companies expect a downturn than improvement in the sector). In Q3 2021, the business tendency indicator published by Statistics Poland for the industrial processing sector in Poland stood at an average of -2.0 points. This means that negative sentiments continue to dominate the current economic climate in industrial processing, yet they are much less pessimistic than in Q1 2021 (when it stood at -8.3 points).[22]

During the first three quarters of 2021, the situation of the domestic industry remained affected by the consequences of the COVID-19 pandemic (especially in Q1) 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 2020. The industry was clearly catching up. However, 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, while 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, it may be expected that the level

[20] Statistics Poland
[21] Markit IHS
[22] Statistics Poland

of activity in the industrial sector will stabilize (following the strong increases at the turn of 2021). Assuming the stabilization of the current economic situation and the absence of a further major slowdown in domestic and global economic activity as a consequence of the reoccurrence of the COVID-19 pandemic, by the end of 2021 the rate of growth in Polish industrial output should hover above 5% yoy, affected chiefly by changes in calendar-related factors.

During the first three quarters of 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:

Mining industry

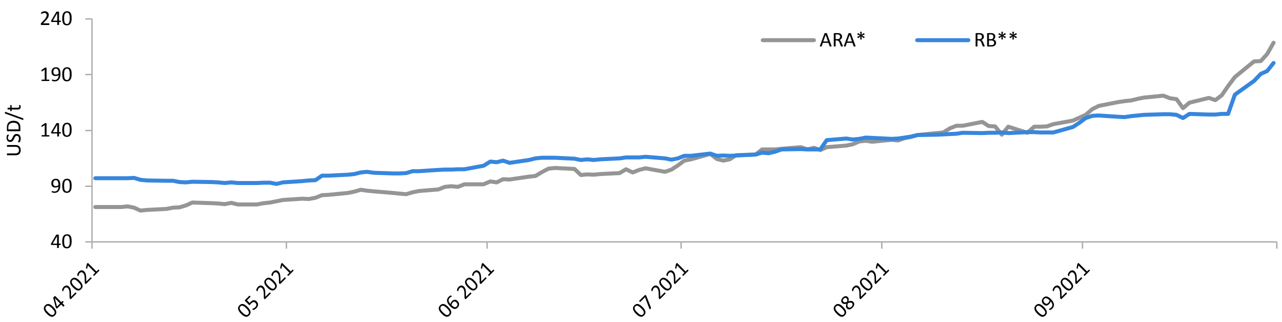
- in Q1-Q3 2021, a yoy increase was recorded in hard coal output to 40.9 million tons, up by 0.7 million tons (+1.8% yoy). After the first quarter of the year, the negative rate of growth prevailed (with a decrease in coal output by 1.0 million tons, or -6.3% yoy). The best month in terms of coal output during the first 9 months of 2021 was March, when mines extracted 5.2 million tons of this commodity. In the other months of 2021, the Polish hard coal mining industry showed rather balanced performance with monthly output oscillating around 4.3-4.6 million tons.[23]
- at the same time, in the period under analysis, hard coal sales improved significantly by 5.5 million tons yoy (+14.9% yoy) to 42.8 million tons. Total hard coal sales in the first 9 months of the year turned out to be higher than output by 1.9 million tons, which translated into a reduction in inventories. From January to September 2021, sales of hard coal continued an upward trend compared to the corresponding months of 2020.[24]
- 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 three quarters of 2021, the inventory level is noticeably lower at only 3.7 million tons of coal (compared to 7.8 million tons held in storage yards in the corresponding period of 2020 and 5.3 million tons still held in storage after H1 of this year). This represents a decrease by as much as 4.1 million tons, or -52.1% yoy.[25] 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 8M 2021 to 8.4 million tons (+9.6% yoy). During this period, the commodity was imported predominantly from Russia (up +4.6% yoy to 5.5 million tons, accounting for 65.9% of total imports to Poland) and Australia (up by 141.9% yoy to 1.6 million tons, accounting for 18.7% of total imports to Poland).[26]
- strong upward trend and major global recovery across the global hard coal market (after a year and a half of stagnation caused by the COVID-19 pandemic). The uncertainty on the international coal market and the disequilibrium between supply and demand have translated into further price increases. The significantly limited supply of commodities both in Europe and Asia has failed to keep up with the rapidly growing demand (due to economic growth and post-pandemic rebound coupled with the typical seasonal factors). Among the major factors driving the growth in demand for coal in the European market are also the marked strengthening of the bulk cargo market, the increase in gas prices (the uncompetitively high gas prices caused by the storage deficit and low imports of this commodity resulted in the deterioration of the profitability of gas-fired sources of electricity compared to their coal-fired counterparts) and the declining stock levels at the ARA transshipment center (due to increased coal consumption). The ARA market is currently among the world's highest priced marine coal markets.[27] During the first three quarters of 2021, the average coal price in the European ARA ports (Amsterdam, Rotterdam, Antwerp) was USD 101.5 per ton (compared to USD 53.5 per ton in the corresponding period of 2020), and was thus by 89.9% higher year-over-year.
- in Q3 2021, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 246.62 per ton (-0.1% yoy compared to Q3 2020 and -6.0% qoq compared to Q2 2021). PSCMI 2 for the heating industry in Q3 2021 reached PLN 299.05 per ton (+1.3% yoy and -5.5% qoq).[28]
- increase in electricity consumption in Poland in Q1-Q3 2021 by +6.4% yoy to 128.6 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 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.[29]
- major increase in total electricity generation in Poland in Q1-Q3 2021 by +14.2% yoy to 126.3 TWh. Of which the increase in hard coal-fired commercial power plants stood at +32.1% yoy and in lignite-fired power plants

[23] Industrial Development Agency (ARP)
[24] Industrial Development Agency (ARP)
[25] Industrial Development Agency (ARP)
[26] Eurostat
[27] Industrial Development Agency (ARP)
[28] Industrial Development Agency (ARP)
[29] Polskie Sieci Elektroenergetyczne

at +16.5% yoy, with a concurrent decrease in electricity generated in gas-fired power plants by -3.6% yoy (due to the spikes in gas prices) and wind farms by -8.1% yoy.[30]

- changes in the national energy mix favorable for hard coal – a further increase in the share of hard coal in total energy output in the first three quarters of 2021 to 53.8% (+7.3 p.p. yoy, from a level when the share of hard coal in total energy output was 46.5%).[31]
- continued 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), during the first three quarters of 2021 a significant decline in electricity imports was recorded (the negative foreign trade balance was 2.2 TWh, or -78.1% yoy, compared to 10.3 TWh the year before). In September 2021, Poland exported over 0.8 TWh of electricity more than it imported in the same period (in September 2020, imports were greater than exports by more than 1.0 TWh), having marked the second consecutive month when Poland was a net exporter rather than importer of electricity.[32]
- changes in electricity prices, which are a consequence of the increasing costs of energy generation and the roll-out of the European Union's climate policy. In 2021, the Polish power sector is being hit the hardest predominantly by the rapidly rising record-high prices of CO_2 emission allowances (these prices have already exceeded EUR 60 per ton, since the beginning of 2021 they have spiked over 80%, while over the last 4 years this increase has been 12-fold).[33] The main factors translating into the increase in electricity prices in 2021 were: the purchase of CO_2 emission allowances (which now account for up to 50% of energy costs), the lower production of energy from renewable sources and the markedly increased demand for energy due to the economic recovery caused by the loosening of restrictions related to the ongoing COVID-19 pandemic. 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 Global Carbon Project, in 2021, global CO_2 emissions will reach 36.4 Gt, up 4.9% from 2020, when it dipped significantly due to the slowdown of economic activity during the COVID-19 pandemic. Accordingly, it will return to the level recorded in 2019. Currently, CO_2 emissions in China (accounting for almost a third of global CO_2 emissions from the combustion of fossil fuels) are 5.5% greater than before the pandemic (due to the evident attempts at making up for economic losses caused by the pandemic setback).[34]

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



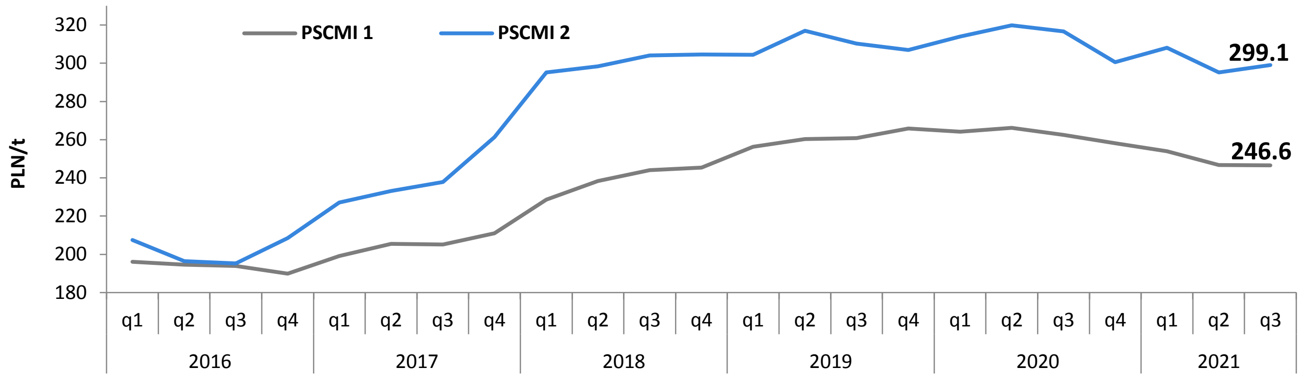
* ARA – Amsterdam, Rotterdam and Antwerp;
** RB – Richards Bay (South Africa)

Source: Proprietary material based on Virtual New Industry data

[30] Polskie Sieci Elektroenergetyczne
[31] Polskie Sieci Elektroenergetyczne
[32] Polskie Sieci Elektroenergetyczne

[33] Polish Electricity Association
[34] Global Carbon Project

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

- during the first three quarters of 2021, the country's construction and assembly output was +1.4% greater yoy (compared to a decrease by -1.6% yoy in the corresponding period of the previous year and by -2.8% after H1 2021).[35] September 2021 was the fifth consecutive month in which sales of construction works were greater than the year before.[36]
- in this period, construction and assembly output by enterprises erecting civil engineering structures remained unchanged year-over-year with a concurrent decrease in output by enterprises involved in the construction of buildings (by -4.0% yoy). In turn, an increase was recorded by enterprises performing specialized construction works (by +10.6% yoy). In terms of works related to the construction of civil engineering structures, an increase in construction and assembly output was recorded in relation to the performance recorded during the first three quarters of the previous year by entities specializing chiefly in the construction of pipelines and telecommunications and power lines (by +11.8% yoy). In turn, a dip was recorded by entities involved in the construction of other civil engineering structures (decline in sales by -6.2% yoy) and enterprises specializing in the construction of roads and railways (by -3.0% yoy).[37]
- cement production in Poland during the first 9 months of 2021 totaled 14.4 million tons, up +1.6% yoy. In parallel, the production of cement clinker decreased by -3.7% yoy (to 10.2 million tons).[38] 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 allowances. 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). 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).[39] During the first 7 months of 2021, imports of Belarusian cement already reached 290 thousand tons. In the whole of 2021, it will likely exceed 0.5 million tons. 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).[40] 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

[35] Statistics Poland (preliminary estimate for the whole population)
[36] Statistics Poland, enterprises employing more than 9 persons
[37] Statistics Poland, enterprises employing more than 9 persons
[38] Statistics Poland
[39] WNP
[40] Institute for Economic Forecasts and Analyses

European Green Deal (including the introduction by the European Commission of the Fit for 55 package and a border tax on CO_2 emissions (CBAM), aimed at protecting the EU industry).[41]

- currently, intense development of the national road network is underway. The General Directorate for National Roads and Motorways announced that 112 tasks are in progress under the National Road Construction Program (NRCP) with a total length of 1,494.9 km along with 13 tasks being executed under the Governmental Program for the Construction of 100 Ring Roads (PB100) with a total length of 106.9 km. At the tender stage, there are currently 21 tasks (under the NRCP) with a total length of 272 km and 1 task (under the PB100) with a total length of 3 km. At the preparation stage, there are currently 86 tasks (under the NRCP) with a total length of 1,852 km and 86 ring roads (under the PB100) with a total length of 745 km.[42]
- currently, the Governmental Program for the Construction of 100 Ring Roads for 2020-2030 is being executed (under the program, a total of 100 tasks will be completed in Poland with a total length of approx. 820 km; for this purpose, the government will earmark PLN 28 billion from the National Road Fund).[43]
- the governmental National Road Construction Program until 2030 (with an outlook until 2033) assumes total spending of PLN 258 billion (or approx. PLN 292 billion if this period is extended). The total expenditures on the completion of investments under in the new program include approx. PLN 292 billion (of which the financial cap of PLN 187 billion for new tasks and approx. PLN 105 billion for continued tasks). It is the largest road construction program in the history of Poland.[44]
- under the first edition of the Polish Deal Governmental Fund: Strategic Investments Program (aimed at co-financing investment projects carried out by municipalities, counties, towns and cities in order to help rebuild the economy affected by the economic consequences of the pandemic and at stimulating investments), 97% of Polish local governments will receive a total of PLN 23 billion. A significant portion of investments intended for execution under this program involve local roads.[45]
- the EU budget for 2021-2027 (including the Reconstruction Fund) provides for PLN 770 billion as the total amount of money earmarked for Poland. Out of this amount, Poland will receive approx. EUR 58 billion under the Reconstruction Fund (of which EUR 24 billion in the form of subsidies from the EU's own funds and EUR 34 billion as a loan repayable directly by the state – this translates into approx. PLN 260 billion) and approx. EUR 108 billion as part of the new EU budget for 2021-2027 (approx. PLN 500 billion). Approx. PLN 300 billion should be allocated to infrastructural investments (in road and rail projects). It will 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;[46]
- the current climate in the construction sector is favorable, although along with the economic recovery from the pandemic decline, the rapidly growing prices of building supplies and materials used in construction especially steel and steel products (which started to rise at the turn of Q4 2020 and have kept climbing up steeply), coupled with the related increasing labor costs, have brought a considerable degree of uncertainty and increased the level of risk in the construction market. Profitability keeps declining, especially in the road construction sector. The market continues to experience supply shortages with a simultaneous increase in demand. In particular, contractors working on large and long-term infrastructural investments have been facing major challenges preparing their bids or estimating construction costs for their projects. Moreover, in the coming years, due to the significant accumulation of gigantic construction projects planned for the new EU financial perspective (road, rail and infrastructural projects, intended investments by the power sector and local governments), the industry expects major problems with the availability of labor and necessary equipment. According to the Polish Association of Construction Industry Employers (PZPB), the piling up of these works will also trigger a further uncontrolled increase in the prices of materials and services.[47]
- the steady improvement in the construction sector's business tendency 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

[41] Cement Producers Association
[42] General Directorate for National Roads and Motorways
[43] Republic of Poland Website
[44] Republic of Poland Website
[45] Local Government Website
[46] Wirtualny Nowy Przemysł [Virtual New Industry]
[47] Wirtualny Nowy Przemysł [Virtual New Industry]

benefitting from the expected increase in public spending). However, the consequences of the increasingly higher reference base and the still very expensive commodities, materials and construction works will translate into an unfavorable impact on the rate of growth in the construction sector in the coming months, which is expected to oscillate around +5% yoy.

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. During the first three quarters of 2021, the economic recovery across the world ramped up the demand for steel; 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 (when steel mills halted their operations, logistics problems abounded and the volume of orders was significantly reduced) by tapping into the current significant increase in demand and the noticeable supply gap. 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 during the first three quarters of 2021 totaled 1,461.2 million tons (+7.8% yoy).[48] Steel production in the European Union increased to 114.8 million tons (+19.8% yoy), while steel production in Asia totaled 1,066.0 million tons (+5.5% yoy). The market clearly shows the growing advantage of China in steel output, which in the period under analysis independently produced 805.9 million tons of this commodity (+2.0% yoy).
- increase in crude steel output in Poland during the first three quarters of 2021 by 5.0% yoy to 6.3 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 and improvement after H1 by +2.7% yoy coupled with production increases, among others, in the volume of manufactured hot-rolled products by +6.7% yoy to 6.9 million tons, rods and flat bars by +8.5% yoy to 2.8 million tons, thin sheets by +8.7% yoy to 0.9 million tons, hot-rolled bars and rods by +10.5% yoy to 1.0 million tons and steel pipes by +16.9% yoy to 0.7 million tons. At the same time, output of cold-rolled sheets decreased by -1.3% yoy to 1.5 million tons.[49]
- increase in coke output in Poland during the first three quarters of 2021 by +24.6% yoy to 6.9 million tons.[50]
- the Polish economy currently consumes more steel than it did before the pandemic, while the volume of demand for steel is twice that of current production. The recovery of the country's economy after the pandemic manifests itself in the growing demand for steel in the construction sector and those industrial branches where steel is used in large quantities (such as the production of motor vehicles and household appliances). In H1 2021, the Polish economy consumed a record-high 7.7 million tons of steel (+23% yoy). In the same period, domestic steel production failed to keep up with demand (output increased by only +7% yoy), which triggered a major hike in steel imports to Poland (out of the7.7 million tons of steel consumed, as much as 6.7 million tons originated from imports).[51] According to data, Polish steel mills, when operating at peak production capacity, are unable to satisfy domestic demand. Currently, only 20% of the steel used in Poland comes from its own production, the remaining 80% being filled in by imports – including from outside the European Union, which increased in H1 2021 by +42% yoy (in this respect, some countries have already exceeded their last year's totals). In the same period, domestic output of finished products reached 3.9 million tons (thus accounting for half the consumption, but much greater than the difference between consumption and imports).[52]
- the increase in demand for steel, supply shortages and limitations coupled with, above all, the increasing difference between the demand and supply resulted in a dramatic, abrupt increase in the prices of steel products. The prices of metallurgical products have increased significantly (for instance, compared to the prices from the first week of 2020, the price of bars has shot up by 200%, the price of hot-rolled sheet and sections has done so by more than 250%, the price of cold-rolled steel has skyrocketed by approx. 350% and the price of iron ore – which is the main cost component in steel production – has more than doubled at 106%; the same is true for the prices of coking coal

[48] World Steel Association
[49] Statistics Poland
[50] Statistics Poland
[51] WNP
[52] WNP

and scrap metals. These high prices of steel and their rapid growth are been driven chiefly by the growing demand for steel in large economies, especially China (which currently accounts for 75% of global demand).[53] Price increases on the domestic market are largely a consequence of supply shortages. Certain symptoms of an imminent normalization of this situation are already noticeable. However, and in the long term, steel prices will be affected primarily by the climate policy pursued by the European Union (including the intended rollout of the Carbon Border Adjustment Mechanism (CBAM) and the steel industry's transition to the production of 'green steel,' that is the use of hydrogen instead of coke in the production process in order to eliminate CO_2 emissions).[54]

- 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.
- the World Steel Association's latest forecast for 2021 and 2022 assumes that demand for steel in 2021 will total 1,855.4 million tons (up by +4.5% yoy), following an increase by +0.1% yoy in 2020. In 2022, demand for steel will continue its upward trend to reach 1,896.4 million tons (up by +2.2% yoy).[55]
- another major factor that continues to affect 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. These restrictions significantly diminish the competitiveness of European steel producers, which translates directly into shortages and perpetuates the continued pressure on price increases, exerting an adverse impact on manufacturing enterprises. Moreover, the regulations implemented to date by the European Commission aimed at boosting growth and protecting European manufacturers have failed to succeed in the realities of the pandemic crisis due to the interruptions of a number of crucial supply chains and increased costs of maritime transport – which brought about capacity cuts of European steel makers, forcing many EU countries to import this commodity for a hefty price. 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.
- demand for steel will continue to grow, this time by 2.2% to 1,896.4 million tons. The current forecast assumes that as vaccination progresses across the globe, the spread of COVID variants will be less harmful and destructive than was the case with previous waves. the improving performance of the steel industry during the first three quarters of 2021, the noticeable recovery and the huge spike in demand coupled with the prices increases of metallurgical products suggest that the recovery in the steel market will persist and the industry will likely improve in the following months of 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 the later months of 2021 and in the ensuing quarters of 2022 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.

Industry in the Czech Republic

During the first three quarters of 2021, the volume of industrial output in the Czech Republic increased by +9.7% yoy, following a dip by -10.2% yoy in the corresponding period of 2020.[56] After the Czech industrial sector recorded an increase in production in H1 2021 by +15.2% yoy (which resulted chiefly from the very low statistical reference base from 2020), in Q3 2021 output decreased again in year-over-year terms with a growth rate of -0.7% yoy compared to +30.0% yoy in Q2 2021.[57] In this period, the downturn in the industrial sector was caused primarily by the intensification of supply-side problems, including the disturbances in international supply chains and the growing shortages of commodities and components (such as those experienced by the automotive manufacturing segment).

In parallel with the increase in overall industrial output, the volumes of new orders also grew rapidly during the first three quarters of 2021. In this period, new orders increased in aggregate by +18.7% yoy, of which domestic orders by +14.4% and export orders by +20.7% yoy. Contrary to current output, the growth rate of new orders (both domestic and foreign) remained

[53] WNP, Obserwator Gospodarczy [Economic Observer], Polish Economic Institute
[54] WNP
[55] World Steel Association
[56] Czech Statistical Office
[57] Czech Statistical Office

positive also in Q3 2021, which suggests the continued strong demand for industrial products and clearly attests to the supply-side nature of the stagnation in output witnessed in Q3 2021.[58]

The increase in industrial output in 9M 2021 was driven primarily by the industrial processing segment (+10.7% yoy). In the same period, positive year-over-year growth was also experienced by other industrial sectors reported on by the CZSO, namely coal mining and extraction of raw materials (+3.7% yoy) as well as energy generation and water and gas supply (+3.0% yoy). In parallel, in Q3 2021 alone, the industrial processing segment recorded a negative rate of growth (-1.1% yoy), caused primarily by supply-side disruptions, most evident in the marked decline in output generated by the automotive sector (-23.7% yoy).[59]

During the first 9 months of 2021, in most key branches of industry (that are important in terms of their potential for the transport business of PKP CARGO Group companies), a year-over-year increase in output was recorded. In this period, production increased in year-over-year terms in such sectors as metals (+15.3% yoy), metal products (+13.3% yoy), motor vehicles (+13.1% yoy), machinery and equipment (+11.6% yoy) and chemicals and chemical products (+10.0% yoy).[60] At the same time, hard coal and lignite output was lower than in the corresponding period of 2020 (-0.9% yoy), largely as a result of the continued gradual phasing out of mining operations in OKD's mines.

The current PMI values remain consistent with the data on economic activity in industry published by the CZSO, in a situation where the strong demand for industrial products is pushed back by supply-side problems. In Q3 2021, the PMI for the Czech Republic averaged 60.3 points compared to 61.1 points in Q2 2021 and 59.2 points in H1 2021, clearly above its long-term average and the 50.0 threshold delineating the technical boundary between recovery and recession in the industrial sector. At the same time, following the PMI's historical maximum of 62.7 points in June 2021, the following months brought its gradual decline to 58.0 points in September 2021. The kay reason for the dip in the index value was the growing shortage of materials and components consumed in the production process, which translated into a negative impact on the production capacity (especially in the automotive segment). Moreover, the existing supply-side problems also contributed to a drop in expectations among the surveyed companies regarding the level of output in the coming 12 months. Even though the surveyed managers still expect to see growth in output, in September 2021, the future production sub-index was at its lowest value since the end of 2020.[61]

Transport services rendered by members of the PKP CARGO Group on the Czech market involve predominantly the carriage of solid fuels (hard coal and coke), crude oil and its derivatives, chemicals and chemical products, metals and metal products, and intermodal cargo (with a large share of automotive sector products).[62] As a consequence, the overall situation in the country's economy and in related industries (mining of raw materials, power generation, metallurgy and manufacture of motor vehicles and machinery) exerts a direct impact on the volume of freight volume ordered in the market, and thus on the operating and financial performance of members of the PKP CARGO Group rendering services in the Czech Republic.

In addition to the supply-side problems highlighted above, during the first three quarters of 2021, the following factors significantly affected the economic standing in the respective industries:

- increase in hard coal (chiefly coking coal) output. According to data released by the Czech Ministry of Industry and Trade, in 9M 2021, the volume of hard coal mined in the Czech Republic was 1.7 million tons (+37.1% yoy), including 1.0 million tons of coking coal (+78.6 % yoy) and 0.7 million tons of thermal coal (+0.8% yoy).[63] In parallel, since the beginning of 2021, a gradual decline in mining output has been recorded quarter-over-quarter, largely due to the cessation of mining operations by OKD's ÇSA and Darkov mines at the end of February 2021, leaving ČSM as the only active hard coal mine in the Czech Republic. As a result, according to OKD's press release, in the whole of 2021, total hard coal output in the Czech Republic should reach approx. 2.0 million tons.[64] At the same time, the volume of hard coal imports in 8M 2021 reached 2.9 million tons (+43.0% yoy), while exports of this commodity stood at 0.8 million tons (+82.5% yoy).[65]
- increase in coke production in response to stronger demand generated by the metallurgical industry. According to data published by the Czech Ministry of Industry and Trade, in 9M 2021, the volume of coke produced in the Czech Republic was 1.9 million tons (+21.6% yoy).[66]
- 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. 1.3 million tons, having increased significantly compared to the corresponding period of 2020 (affected by the

[58] Czech Statistical Office
[59] Czech Statistical Office
[60] Czech Statistical Office
[61] Markit PMI
[62] own statistics prepared by the PKP CARGO Group
[63] Ministry of Industry and Trade of the Czech Republic
[64] OKD a.s.
[65] Ministry of Industry and Trade of the Czech Republic; data for September 2021 were not yet available at the time of preparation of this report
[66] Ministry of Industry and Trade of the Czech Republic

pandemic). According to Liberty Ostrava's press releases, the continued strong demand for steel and metallurgical products in the Czech Republic and in the country's macroeconomic environment has translated for this company into a gradual improvement in financial performance and the maintenance of a full portfolio of orders. In the opinion of Liberty Ostrava, by the end of 2021, the company will operate at its full production capacity, as a result of which the total volume of steel to be produced in 2021 may reach approx. 2.5 million tons, compared to 1.7 million tons in 2020.[67]

- slight increase in the automotive sector's output compared to earlier forecasts. In 9M 2021, Czech manufacturers made a total of 0.9 million motor vehicles of various types (passenger, trucks, buses and motorcycles), +3.1% yoy more compared to the year 2020 which was strongly affected by the pandemic. In Q3 2021 alone, automotive production totaled a meager 0.2 million units (-43.2% yoy). The main cause of the strong year-over-year decline in output was the limited availability of components used in production processes (mainly microchips) and the resulting forced downtimes. According to AutoSAP's estimates, in 2021, due to the experienced supply chain disruptions, automotive manufacturers will fail to produce approx. 250 thousand passenger cars. At the same time, the increase in demand for the sector's products generated by the macroeconomic environment suggests the likelihood of a rapid increase in output once the currently observed supply-side disruptions disappear.[68]

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 112 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 1 September 2021).[69] Three members of the PKP CARGO Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s., currently render rail freight transport services on the Polish market.[70]

During the first three quarters of 2021, rail freight operators transported a total of 179.7 million tons of cargo (+10.9% yoy) and achieved a freight turnover of 41.1 billion tkm (+8.4% yoy). The more rapid improvement in freight volume compared to freight turnover was caused by a decrease in the average haul, which in Q1-Q3 2021 stood at 229 km, compared to 234 km in the corresponding period of 2020 (-2.2% yoy).[71]

The freight volume transported by rail in Q3 2021 totaled 62.9 million tons, meaning that the market figures significantly surpassed the 2020 and 2019 performance, having reached the level recorded 2018.[72] This is a significant symptom of the recovery in the rail freight market, heralding the market's increasingly improved standing and potential.

In 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 uncertainty caused by the ongoing pandemic. 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. Ultimately, despite the continued risk of weakened demand generated by companies and consumers, industrial output in 9M 2021 was +15.5% higher yoy, which translated noticeably into an improvement in the situation of the rail transport sector and an optimistic outlook for the following months of 2021.[73]

During the first 8 months of 2021, the following changes in rail transport year-over-year performance were recorded in the cargo categories defined by Statistics Poland:[74]

- hard coal (freight volume up by 12.8% yoy to 57.1 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

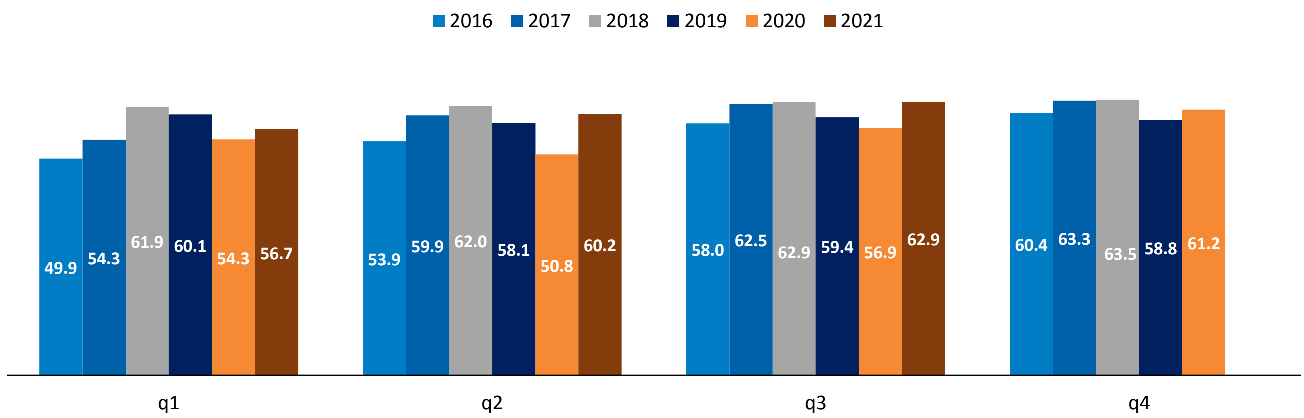
[67] Liberty Ostrava
[68] AutoSap
[69] Office of Rail Transport (as at 1 September 2021), the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating on the market under an international license.
[70] Office of Rail Transport
[71] Office of Rail Transport
[72] Office of Rail Transport
[73] Office of Rail Transport
[74] Statistics Poland – data for the first 11 months of 2020. Data for December and the whole 2020 will be available at the end of February 2020.

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 2.6% yoy to 29.6 million tons). In the construction sector, the persisting uncertain and volatile economic situation has become visibly more favorable than the year before, but the improvement is still only moderate. The plunge in demand generated by buyers executing large infrastructural investments under the National Road Construction Program and the National Railway Program (the slower than expected rebound in public investment projects), the persisting problem of high production costs and the reduced availability of production factors, i.e. disturbed supply chains, translated into only a slight year-over-year increase in the volumes of aggregates transported by rail;
- iron ore (up 16.3% yoy to 4.6 million tons), metals and metal products (up 16.2% yoy to 6.9 million tons) and coke (up 20.0% yoy to 7.5 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 the first 9 months of 2021 brought the expected recovery and significant rebound to this market,
- refined petroleum products (up 9.3% yoy to 11.7 million tons). The revival in liquid fuel transport services resulted chiefly from the increase in demand, following significant drops related to the COVID-19 epidemic.

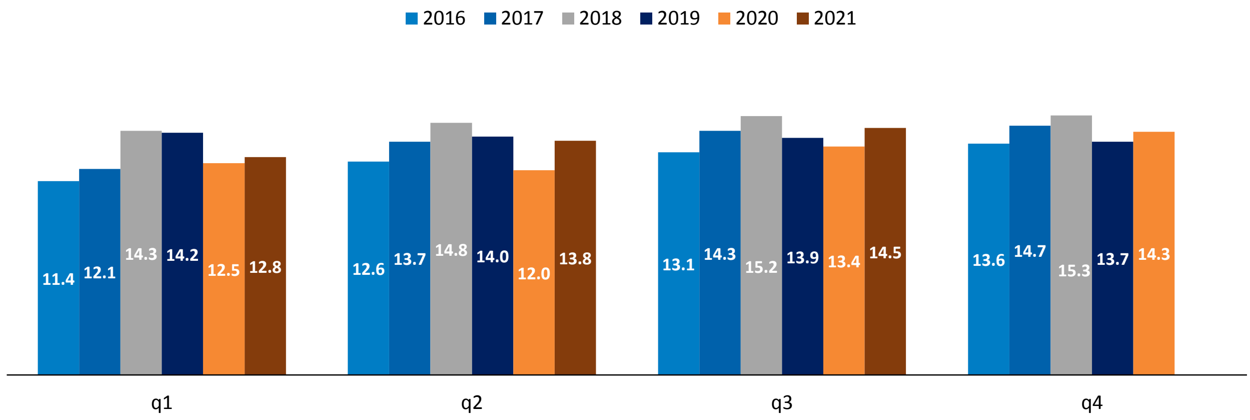
In aggregate, during the first 8 months of 2021, these cargo categories accounted for 76% of the market's total freight volume.

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



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

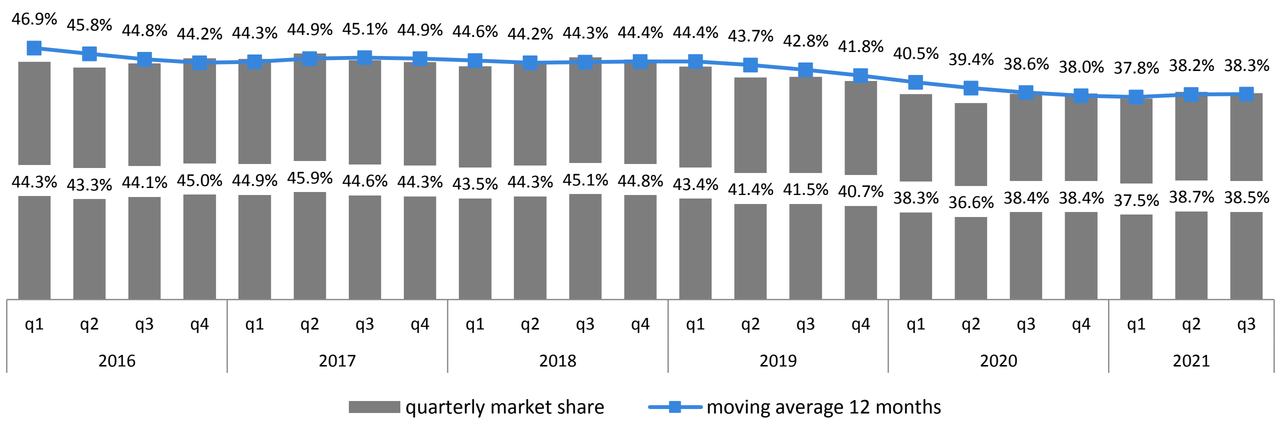


Source: Proprietary material based on the Office of Rail Transport's data

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

In Q3 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 Q1-Q3 2021 was 38.2% (+0.4 p.p. yoy) in terms of freight volume and 41.5% in terms of freight turnover (+0.7 p.p. yoy).[75] Accordingly, the PKP CARGO Group[76] 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% (+0.2 p.p. yoy) and 41.1% (+0.6 p.p. yoy) during the first 9 months of 2021.[77]

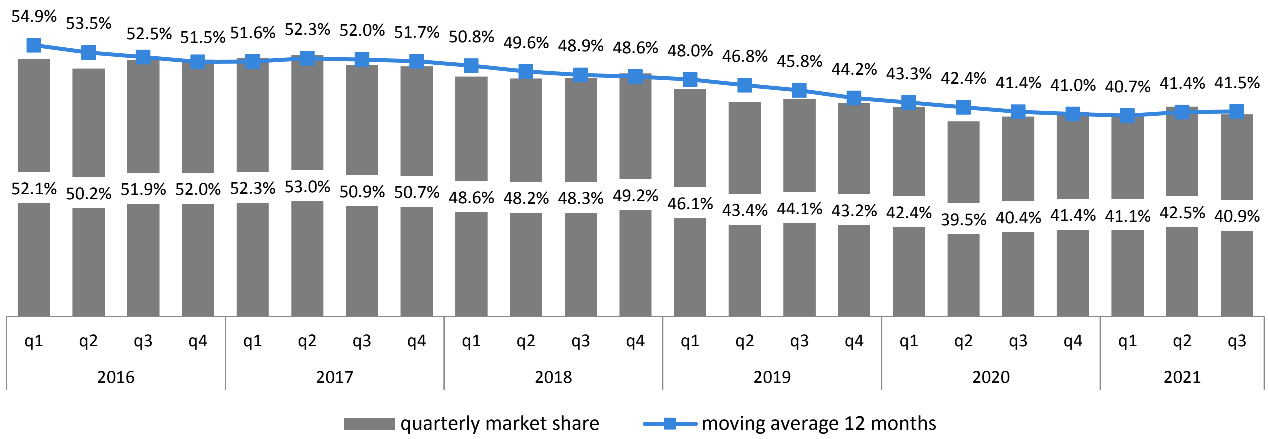
Figure 9 Share of the PKP CARGO Group in freight volume in Poland in 2016-2021



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

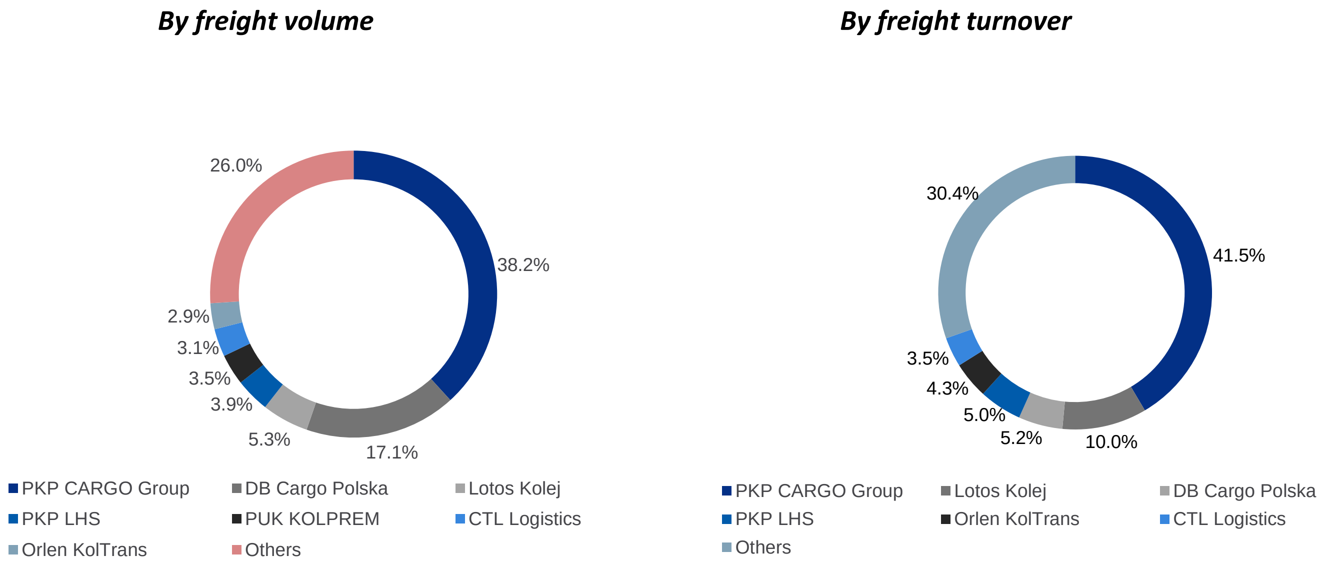
[75] PKP CARGO Group and Office of Rail Transport data
[76] The freight volume of the PKP CARGO Group also takes into account the cargo transported by PKP CARGO International a.s. in Poland.
[77] Office of Rail Transport

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

Figure 11 Market shares of the largest rail operators in Poland in the first 3 quarters of 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 the first 3 quarters of 2021, the PKP CARGO Group's competitors transported a total of 111.0 million tons of freight (+10.1% yoy). In this period, the largest freight volume was transported by DB Cargo Polska companies (30.7 million tons, up 12.2% yoy), Lotos Kolej (9.5 million tons, up 1.5% yoy) and PKP LHS (6.9 million tons, up 16.1% yoy).[78]

At the same time, in 9M 2021, freight turnover generated by operators competing with the PKP CARGO Group increased by 7.1% yoy, to 24.1 billion tkm. In this period, the largest freight turnover was achieved by the following competitors: Lotos Kolej (4.1 billion tkm, up 3.1% yoy), DB Cargo Polska (2.1 billion tkm, up 13.4% yoy) and PKP LHS (2.1 billion tkm, up 10.4% yoy).[79]

During the first three quarters of 2021, the average haul of competitive rail operators was shortened to 217 km (-2.8% yoy).[80]

[78] Proprietary material based on Office of Rail Transport data
[79] Proprietary material based on Office of Rail Transport data
[80] Proprietary material based on Office of Rail Transport data

4.2.3 Rail freight transport market in the Czech Republic

In H1 2021, a total of 294.2 million tons of cargo was transported in the Czech Republic (+16.4% yoy) and freight turnover stood at 41.8 billion tkm (+29.0% yoy). 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 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 H1 2021, the average haul in the Czech Republic increased by 10.8% yoy and reached 142.2 km, as part of which the road transport segment recorded an extension of the average haul by 14.5% yoy to 135.5 km, whereas in rail transport the average haul declined by -0.5% yoy to 167.9 km. 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.[81]

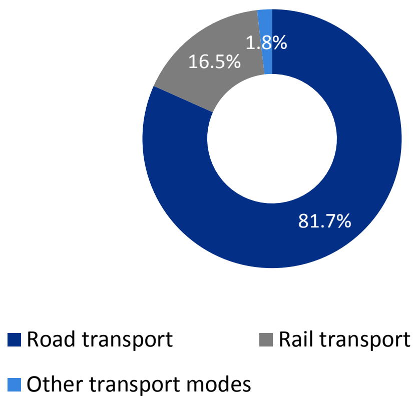
Table 11 Freight transport market in the Czech Republic in H1 2021

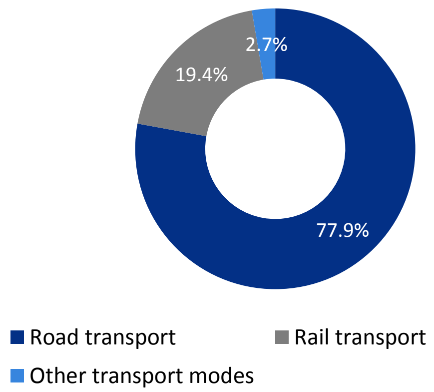
Description	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (million tons)	Change yoy	Change % yoy	Volume (billion tkm)	Change yoy	Change % yoy	Distance (km)	Change yoy	Change % yoy
Total market	294.2	41.4	16.4%	41.8	9.4	29.0%	142.2	13.9	10.8%
Road transport	240.3	36.7	18.0%	32.6	8.5	35.2%	135.5	17.2	14.5%
Rail transport	48.4	4.3	9.8%	8.1	0.7	9.3%	167.9	-0.8	-0.5%
Other transport branches	5.4	0.4	8.7%	1.1	0.2	25.5%	205.9	27.6	15.5%

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

In H1 2021, rail transport in the Czech Republic recorded a yoy increase in freight volume to 48.4 million tons (9.8% yoy) with a concurrent increase in freight turnover to 8.1 billion tkm (9.3% yoy).[82] In light of the major increases in the quantum of cargo transported by road in the same period (up by 18.0% in terms of freight volume and 35.2% 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 -1.0 p.p. of the market share yoy, with a concurrent decrease in the market share in terms of freight turnover by -3.5 p.p. yoy. [83]

Figure 12 Shares of various modes of transport in the transport market in the Czech Republic in H1 2021: freight volume (L) and freight turnover (R)

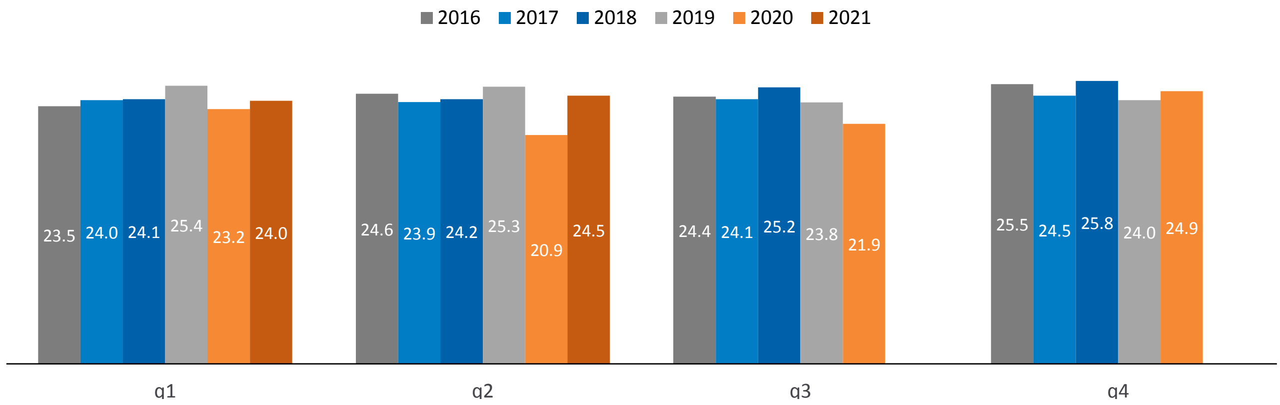




Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

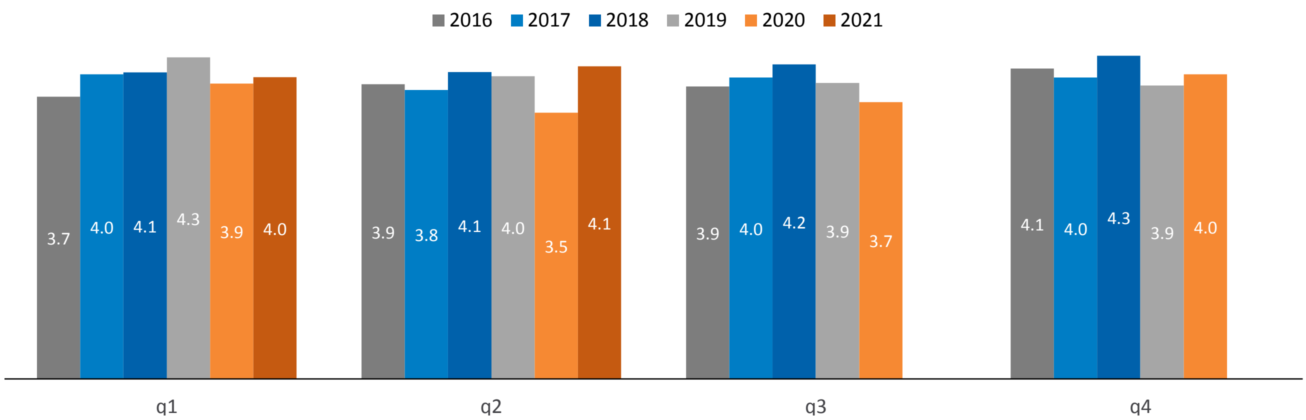
[81] Ministry of Transport of the Czech Republic
[82] Ministry of Transport of the Czech Republic
[83] Ministry of Transport of the Czech Republic

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

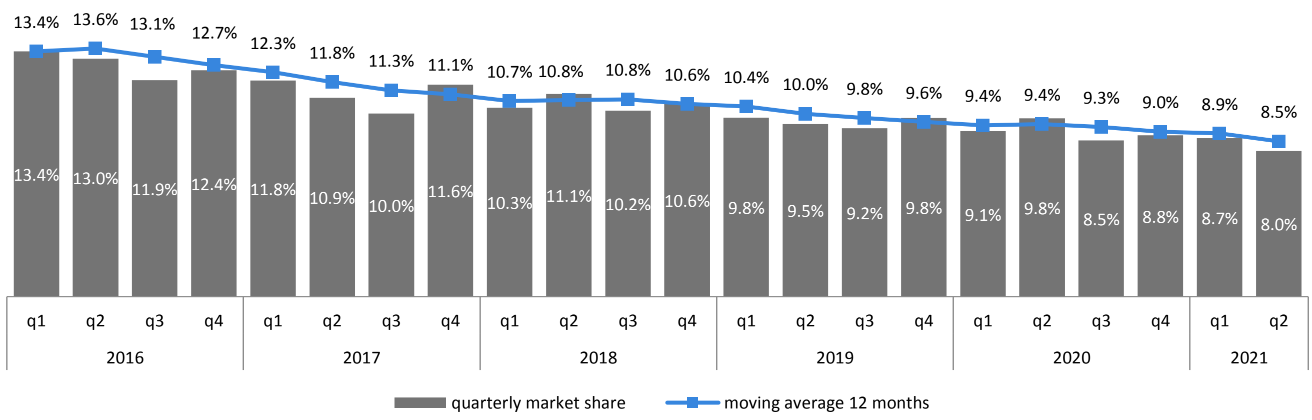
According to data published by the Czech rail infrastructure manager (SŽDC), 125 operators were licensed in 9M 2021 to provide rail freight services in this country, including 2 members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s.[84]

In 9M 2021, PKP CARGO International a.s. transported 6.1 million tons of freight (+1.5% yoy) and achieved a freight turnover of 0.8 billion tkm (-0.5% yoy). In the same period, the average haul of PKP CARGO International decreased to 129.9 km (-2.0% yoy), chiefly as a result of a rearranged mix of transported freight. In parallel, an increase was recorded in the freight volume of hard coal (+7.3% yoy to 2.2 million tons), metals and ores (+175.5% yoy to 0.2 million tons), chemicals (+6.5% yoy to 0.4 million tons) and liquid fuels (+3.8% yoy to 0.8 million tons). Another very favorable signal is the recorded increase in completed intermodal transport services in 9M 2021 (by +2.4% yoy to 1.2 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 reached +20% yoy).[85] The quantum of transport services decreased in the following categories: aggregates and construction materials, wood and agricultural products, and other cargo. Besides the economic factors reflecting the continued 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).

[84] SŽDC (as at 29 September 2021)
[85] PKP CARGO International's own statistics

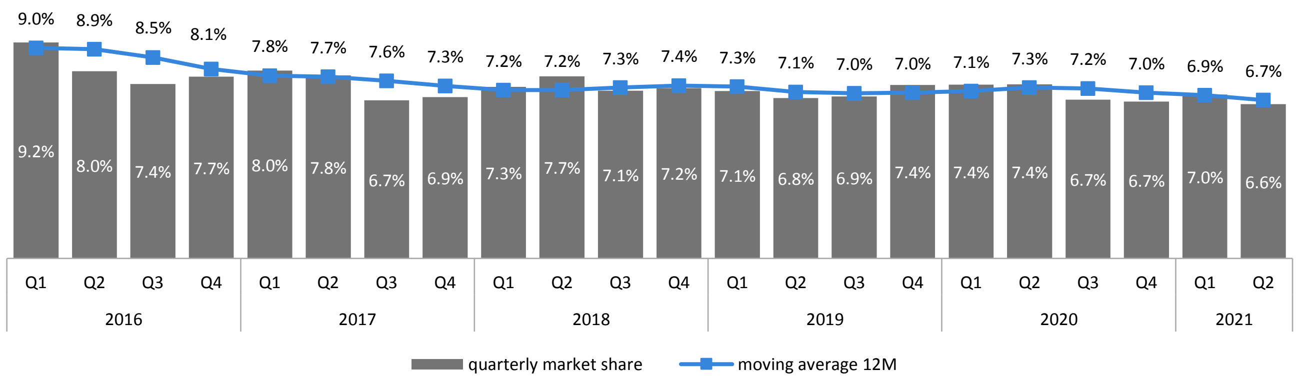
According to SŽDC data on the shares in the rail transport market in terms of gross freight turnover in 9M 2021, PKP CARGO International's competitive position on the Czech market deteriorated slightly: its share decreased by -1.0 p.p. yoy to 6.6%. However, the company continues to hold a stable position as the third largest carrier on the Czech market.[86]

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



** data for Q3 2021 will be available at the turn of Q1 2022*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

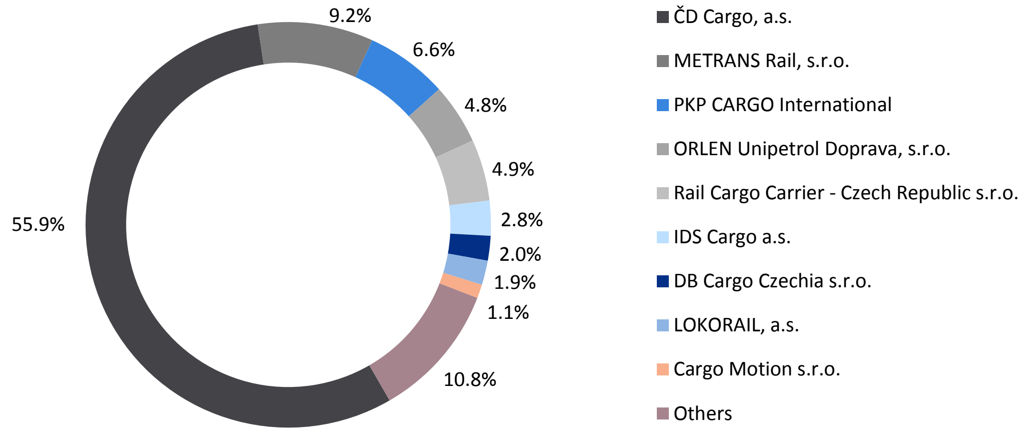
Figure 16 PKP CARGO International's quarterly market shares in terms of freight turnover in the Czech Republic in 2016-2021*



** data for Q3 2021 will be available at the turn of Q1 2022*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

[86] SŽDC

Figure 17 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 9M 2021 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

In 9M 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 55.9% (-2.4 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 6.6%) were also lower than in the corresponding period of 2020. In 9M 2021, the largest increases in year-over-year market shares were recorded by ORLEN Unipetrol Doprava (+0.7 p.p. yoy, to 4.8%; the operator focuses on the fuel transport segment), Rail Cargo Carrier – Czech Republic (+0.6 p.p. yoy, to 4.9%) and Metrans Rail (+0.3 p.p. yoy, to 9.2%) – 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 9M 2020, namely DB Cargo Czechia s.r.o. (with a share of 2.0%) and LOKORAIL a.s. (1.9%). A major increase in the market share was also achieved 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 10.8%).[87]

The list of the largest rail operators on the Czech market in 9M 2021 published by SŽDC does not include PKP CARGO S.A. In this period, 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 from Hungary and Slovakia to Poland and imported to the Czech Republic via Gdynia).

At the same time, year-over-year exports increased in the following cargo categories: calcium flux from Poland to the Czech Republic, coking coal to the steelworks in Ostrava, raw wood from Poland to Slovakia and cement clinker from Poland to the Czech Republic. The volume of transit freight also increased in the following categories: paper via the Czech Republic from Slovakia to Poland and from Poland to Serbia and Hungary, container transport via the Czech Republic between Poland and Italy and Romania, ores via Poland from Ukraine to the steelworks in Ostrava, and chemicals via the Czech Republic.[88]

4.2.5 PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group in the first 9 months of 2020 and the first 9 months of 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 MM KWIDZYN (formerly: International Paper).

[87] SŽDC
[88] PKP CARGO S.A.'s own statistics

Table 12 Freight turnover of the PKP CARGO Group in 9M and Q3 2021 and 2020

Description	9M 2021	9M 2020	Change 9M 2021/9M 2020		9M 2021	9M 2020	Q3 2021	Q3 2020	Change Q3 2021/Q3 2020	
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*			*%*
Solid fuels[1]	7,016	6,207	810	13.0%	37%	36%	2,219	2,082	138	6.6%
of which hard coal	5,707	5,114	593	11.6%	30%	30%	1,832	1,716	116	6.8%
Aggregates and construction materials[2]	3,757	3,317	440	13.3%	20%	19%	1,512	1,319	193	14.7%
Metals and ores[3]	1,679	1,401	278	19.8%	9%	8%	600	432	168	39.0%
Chemicals[4]	1,700	1,353	347	25.6%	9%	8%	593	453	140	31.0%
Liquid fuels[5]	466	557	-91	-16.4%	2%	3%	159	140	20	14.0%
Timber and agricultural produce[6]	570	728	-158	-21.7%	3%	4%	160	217	-57	-26.1%
Intermodal transport	3,415	3,086	329	10.7%	18%	18%	1,177	1,160	17	1.5%
Other[7]	385	473	-88	-18.6%	2%	3%	127	188	-61	-32.4%
Total	**18,987**	**17,121**	**1,866**	**10.9%**	**100%**	**100%**	**6,548**	**5,989**	**559**	**9.3%**

Source: Proprietary material

Table 13 Freight volume of the PKP CARGO Group in 9M and Q3 2021 and 2020

Description	9M 2021	9M 2020	Change 9M 2021/9M 2020		9M 2021	9M 2020	Q3 2021	Q3 2020	Change Q3 2021/Q3 2020	
	(million tons)			*%*	*percentage of total (%)*		*(million tons)*			*%*
Solid fuels[1]	38.1	33.9	4.2	12.5%	51%	50%	12.9	11.9	1.0	8.5%
of which hard coal	33.7	30.4	3.3	10.9%	45%	45%	11.6	10.8	0.8	7.3%
Aggregates and construction materials[2]	14.6	13.3	1.3	9.6%	19%	20%	5.9	5.2	0.7	14.0%
Metals and ores[3]	5.6	4.5	1.1	23.5%	7%	7%	2.0	1.4	0.6	43.2%
Chemicals[4]	4.9	4.1	0.8	19.7%	7%	6%	1.6	1.4	0.3	19.7%
Liquid fuels[5]	1.3	1.6	-0.3	-17.5%	2%	2%	0.5	0.4	0.1	18.3%
Timber and agricultural produce[6]	1.7	2.0	-0.3	-14.3%	2%	3%	0.5	0.6	-0.1	-13.5%
Intermodal transport	7.4	6.9	0.5	6.7%	10%	10%	2.6	2.6	0.0	-0.5%
Other[7]	1.4	1.5	-0.1	-5.8%	2%	2%	0.5	0.5	-0.1	-17.2%
Total	**75.0**	**67.8**	**7.2**	**10.6%**	**100%**	**100%**	**26.4**	**23.9**	**2.5**	**10.4%**

Source: Proprietary material

In 9M 2021, the average haul of freight transported by rail by the Group was 253 km (unchanged yoy).

Table 14 Average haul of the PKP CARGO Group in 9M and Q3 2021 and 2020

Description	9M 2021	9M 2020	Change 9M 2021/9M 2020		Q3 2021	Q3 2020	Change Q3 2021/Q3 2020	
	(km)			*%*	*(km)*			*%*
Solid fuels[1]	184	183	1	0.4%	172	175	-3	-1.7%
of which hard coal	169	168	1	0.6%	158	159	-1	-0.5%
Aggregates and construction materials[2]	258	250	8	3.3%	257	255	1	0.6%
Metals and ores[3]	300	309	-9	-3.0%	305	314	-9	-3.0%
Chemicals[4]	348	332	17	5.0%	360	329	31	9.5%
Liquid fuels[5]	346	341	5	1.3%	346	359	-13	-3.6%
Timber and agricultural produce[6]	335	367	-32	-8.7%	316	370	-54	-14.5%
Intermodal transport	462	445	17	3.8%	458	449	9	2.0%
Other[7]	281	325	-44	-13.5%	280	343	-63	-18.3%
Total	**253**	**253**	**1**	**0.2%**	**248**	**250**	**-2**	**-0.9%**

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.

Key factors affecting the volume of transport in various cargo categories in 9M 2021:

solid fuels

- greater yoy production and sales of hard coal;
- increase in domestic demand for coal caused by, among other factors:
  - increase in electricity generation due to stronger 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;
- greater hard coal imports via Poland's eastern border and passing through seaports,
- increase in the volume of transported coke, domestically and internationally;
- decrease in the average speed, chiefly due to the continuing high number of track closures on the PKP PLK network, which exerted an adverse impact on fulfilling demand for the transport of solid fuels;
- increase in OKD's coal output (increase in the volume of coal transported in the Czech Republic by PKP CARGO INTERNATIONAL and in imports to Poland in cooperation with PKP CARGO);
- decrease in the average haul of coal transported by PKP CARGO INTERNATIONAL;
- lower volume of coke transport services in the Czech Republic.

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;
- stronger customer demand for the renovation and modernization of the E59, E75 railway routes and railway stations (including Warszawa Zachodnia [Warsaw West]);
- 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.

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 steel imports from within and without the EU (the current production of metals in Poland fails to satisfy the demand);
- decrease in the volume of PKP CARGO INTERNATIONAL's transport services rendered in cooperation with PKP CARGO due to the reduced output of Czech steelworks and the takeover of a portion of the transport market by another rail operator in 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, associated with the increased demand for fertilizers on the agricultural market and the takeover of contracts from other rail carriers;
- increase in transport services of soda glaze in exports through seaports (recovery of the chemical market following the restrictions related to the COVID-19 pandemic);
- increase in transport services of hydrocarbons across the eastern border (upsurge in demand for natural gas by customers).

intermodal

- increase in the volume of transport of semi-trailers as part of operator connections to Duisburg and from Lithuania to the Netherlands;
- launch of an intermodal connection to Turkey in cooperation with PKP CARGO CONNECT;
- decrease in the volume of transported woodchips;
- decrease in transport services on the New Silk Road due to the reduced capacity of rail routes in Poland and Germany;
- decrease in the number of trains from and to ports due to modernization works currently in progress in the Tri-City area, restraining the capacity of rail routes and extending travel time;

- decrease in car transport services from the Czech Republic to Russia and Slovenia provided by PKP CARGO INTERNATIONAL (reduced output of cars due to problems with vehicle part supplies).

liquid fuels

- increase in fuel (petroleum coke) transport services 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;
- decrease in freight volume and change in the supply logistics of the largest client in this segment (due to changes resulting from the provision of transport services by an operator from the client's own group).

timber and agricultural produce

- decrease in timber shipments to main recipients (paper manufacturers) due to restrictions imposed on imports of timber from Belarus;
- cessation of timber transport services from the Czech Republic to seaports;
- decrease in the average haul for the largest recipients (paper manufacturers) caused by the deliveries of wood to paper mills on domestic routes.

others

- decrease in car part transport services in the Czech Republic provided by PKP CARGO INTERNATIONAL (reduced output of cars due to problems with vehicle part supplies)
- decreased average haul in transport of other cargo in Poland due to a change in the structure of freight routes;
- increased shipments of arsenic sulfide from Belarus;
- increase in clay imports (greater demand generated by ceramic manufacturers).

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 Quarterly Condensed Consolidated Financial Statements of the Group. 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 9M 2021 and in the corresponding period of 2020 is provided below.

Figure 18 Headcount in the Company and the PKP CARGO Group in 9M 2021 and 2020

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

30/09/2021
20,963

30/06/2021
21,390

31/12/2020
21,766

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

30/06/2021
15,131

30/06/2021
15,473

31/12/2020
15,771

AVERAGE HEADCOUNT
IN **GROUP** (FTEs)

9 MONTHS 2021
21,350

9 MONTHS 2020
22,344

AVERAGE HEADCOUNT
IN **COMPANY** (FTEs)

9 MONTHS 2021
15,473

9 MONTHS 2020
16,222

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

30/09/2021
16,041

30/06/2021
16,375

31/12/2020
16,687

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

30/09/2021
11,624

30/06/2021
11,873

31/12/2020
12,127

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

30/09/2021
4,922

30/06/2021
5,015

31/12/2020
5,079

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

30/09/2021
3,507

30/06/2021
3,600

31/12/2020
3,644

Since the beginning of 2021, the PKP CARGO Group recorded a decrease in headcount by 803 persons, of which PKP CARGO S.A. by 640 persons.

4.5 PKP CARGO Group's investments

In the first 9 months of 2021, the PKP CARGO Group incurred capital expenditures of PLN 610.1 million, up 2.2% 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 9M 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 513.5 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 7.6 million, investment construction activity in the amount of PLN 27.6 million, purchases of other machinery and other workshop and office equipment for PLN 19.1 million as well as right-of-use assets for PLN 42.3 million, including PLN 25.1 million in real estate leases, PLN 5.7 million in rental of wagons and locomotives and PLN 11.5 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 9M 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 9M 2021 as compared to 9M 2020 (millions of PLN)

Description	9M 2021	9M 2020	Change yoy	Change yoy in %
Investment construction activity	27.6	26.3	1.3	4.9%
Purchases of locomotives	0.0	33.0	-33.0	-100.0%
Modernization of locomotives	98.1	118.0	-19.9	-16.9%
Purchases of wagons	125.4	113.4	12.0	10.6%
Wagon upgrades	0.0	3.7	-3.7	-100.0%
Workshop machinery and equipment	18.8	8.3	10.5	126.5%
ICT development	7.6	6.5	1.1	16.9%
Other	0.3	2.2	-1.9	-86.4%
Components in overhaul, including:	290.0	222.4	67.6	30.4%
Repairs and periodic inspections of locomotives	*85.7*	*66.2*	*19.5*	*29.5%*
Repairs and periodic inspections of wagons	*204.3*	*156.2*	*48.1*	*30.8%*
Right-of-use assets*	*42.3*	*63.2*	-20.9	-33.1%
Total	**610.1**	**597.0**	**13.1**	**2.2%**

** Expenditures for right-of-use assets for 9M 2021 do not include increases of PLN 8.6 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 CFS**[89].

- 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 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.
- On 12 July 2021, by Resolution No. 61/VII/2021, the PKP CARGO S.A. Supervisory Board adopted the consolidated text of the Articles of Association of PKP CARGO S.A. The amendments to the Articles of Association of PKP CARGO S.A. were approved by the Ordinary Shareholder Meeting on 28 June 2021 and notified to the National Court Register. The Company received a decision issued by the District Court for the Capital City of Warsaw in Warsaw to enter amendments to the Company’s Articles of Association adopted by the Ordinary Shareholder Meeting of PKP CARGO S.A. in the National Court Register. According to the decision obtained, the entry was made on 16 July 2021.

AUGUST

- Execution of a memorandum of agreement between the parties to the Collective Bargaining Agreement regarding a non-recurring bonus and an increase in the Railway Employee Day cash benefit. According to the Company’s estimates, the total cost of this benefit will be PLN 23.9 million, to be captured in the results for Q3 (PLN 21.4 million) and Q4 (2.5 million) 2021.

SEPTEMBER

- change of the company name from PROMOL RAIL d.o.o. to PKP CARGO INTERNATIONAL SI d.o.o.
- On 13 September 2021, the Voivode of Lubelskie Voivodship approved the construction design and granted a building and demolition permit for the construction project entitled “Expansion and construction of rail infrastructure at the Małaszewicze Transshipment Zone of corridor no. 8 for cargo lines at the EU border with Belarus”.

[89] Interim Condensed Consolidated Financial Statements of the PKP CARGO Group

- On 16 September 2021, the collective dispute initiated against PKP CARGO CONNECT sp. z o.o. by the NSZZ Solidarność Inter-Company Trade Union Organization at PKP S.A. regarding pay rises for all employees of the company.
- Signing of an annex to the contract for the delivery of 31 locomotives with a consortium of Newag and Newag Lease. The annex provides for the rescheduling of the delivery of 12 locomotives from 2021 to 2022 and the last 12 locomotives from 2022 to 2023. The need for the rescheduling resulted, among other factors, from obstacles in the locomotive approval process caused chiefly by the COVID-19 pandemic and the restrictions imposed to counteract it. No other terms of the contract have been amended.

OCTOBER

- Signing of a letter of intent with Wagony Świdnica sp. z o.o. regarding possible cooperation in the production of freight wagons in connection with PKP CARGO's intended construction of a freight wagon manufacturing facility. The letter of intent will remain in effect until the earlier of 30 June 2022 or the signing of the agreement.
- Acquisition from Forespo Poland sp. z o.o. of the perpetual usufruct right and ownership title to seven real properties in Gniewczyna Łańcucka, including buildings, structures, movables and infrastructure, for a total gross price of EUR 7.38 million.
- On 18 October, the Supervisory Board dismissed 4 members of the PKP CARGO S.A. Management Board, namely Mr. Czesław Warsewicz – President of the Management Board, Mr. Leszek Borowiec – Management Board Member in charge of Finance, Mr. Piotr Wasaty – Management Board Member in charge of Commerce, Mr. Witold Bawor – Management Board Member in charge of Operations, and decided to second Mr. Władysław Szczepkowski, a member of the Supervisory Board, to act in the capacity of President of the Management Board for a period not longer than 3 months and to entrust him with discharging the duties of President of the PKP CARGO S.A. Management Board.
- On 18 October 2021, the Supervisory Board adopted a resolution dismissing Mr. Władysław Szczepkowski from the Nomination Committee of the PKP CARGO S.A. Supervisory Board of the 7th term and appointing Mr. Paweł Sosnowski to the same Committee.
- On 22 October 2021, by Resolution No. 81/VII/2021, the Supervisory Board initiated a recruitment procedure for the positions of President of the PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Commerce, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Operations.
- Acquisition by PKP CARGP S.A. from PKP Linia Hutnicza Szerokotorowa sp. z o.o. of a 100% stake in PKP Linia Chełmska Szerokotorowa sp. z o.o. with its registered office in Chełm.

NOVEMBER

- By resolutions of 16 November 2021, the PKP CARGO S.A. Management Board appointed the following PKP CARGO S.A. Commercial Proxies: Ms. Anna Wierzchowska, Ms. Alicja Chyła and Mr. Karol Sikora.
- On 18 November 2021, the Shareholder Meeting of PKP CARGO INTERNATIONAL a.s. expressed its consent to the following:
  - execution of an EUR 8.5 million term loan agreement between PKP CARGO INTERNATIONAL a.s. and ING Bank N.V. for 5 years and a multi-product loan agreement involve the granting of credit facilities to PKP CARGO INTERNATIONAL a.s. in the total amount of EUR 12.5 million, consisting of a EUR 3 million overdraft facility and a bank guarantee limit (guarantee facility) of EUR 9.5 million,
  - execution of a master agreement for bank loan products between PKP CARGO INTERNATIONAL a.s. and Raiffeisenbank a.s. providing for the granting of a credit facility up to a total amount of CZK 60 million, with the term of validity of each issued bank guarantee expiring on 30 September 2029, bank guarantees payable until 30 September 2029 and letters of credit valid until 31 March 2023,
  - encumbrance of certain accounts receivable and assets of PKP CARGO INTERNATIONAL a.s., encumbrance of certain assets of AWT ROSCO a.s. and encumbrance of certain assets of AWT Rekultivace a.s. through the establishment by these companies of pertinent security interests in favor of the said banks under the aforementioned contracts.

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

5.1 Economic and financial highlights of the PKP CARGO Group

5.1.1. 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[90]		EUR million	
	9M 2021	9M 2020	9M 2021	9M 2020
Exchange rates (PLN/EUR)			**4.5585**	**4.4420**
Operating revenue	3,190.1	3,125.5	699.8	703.6
Operating profit / loss	-138.4	-145.4	-30.4	-32.7
Profit / loss before tax	-180.6	-208.4	-39.6	-46.9
Net profit / loss	-153.5	-176.3	-33.7	-39.7
Total comprehensive income attributable to the owners of the parent company	-95.2	-260.9	-20.9	-58.7
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)	-3.43	-3.94	-0.75	-0.89
Diluted earnings / losses per share (PLN)	-3.43	-3.94	-0.75	-0.89
Net cash flow from operating activities	313.9	381.1	68.9	85.8
Net cash flow from investing activities	-590.7	-459.2	-129.6	-103.4
Net cash flow from financing activities	103.5	-93.8	22.7	-21.1
Movement in cash and cash equivalents	-173.3	-171.9	-38.0	-38.7
	30/09/2021	**31/12/2020**	**30/09/2021**	**31/12/2020**
Exchange rates (PLN/EUR)			**4.6329**	**4.6148**
Non-current assets	6,436.4	6,397.4	1,389.3	1,386.3
Current assets	1,052.0	1,149.3	227.1	249.1
Non-current assets classified as held for sale	18.3	12.7	3.9	2.7
Share capital	2,239.3	2,239.3	483.3	485.2
Equity attributable to the owners of the parent company	3,048.6	3,143.8	658.0	681.2
Non-current liabilities	2,924.7	3,029.5	631.3	656.5
Current liabilities	1,533.4	1,386.1	331.0	300.4

Source: Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2021 prepared according to EU IFRS

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

Table 17 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million[91]		EUR million	
	9M 2021	9M 2020	9M 2021	9M 2020
Exchange rates (PLN/EUR)			**4.5585**	**4.4420**
Operating revenue	2,322.2	2,273.4	509.4	511.8
Operating profit / loss	-169.9	-169.8	-37.3	-38.2
Profit / loss before tax	-190.5	-162.0	-41.8	-36.5
Net profit / loss	-157.1	-126.2	-34.5	-28.4
Total comprehensive income attributable to the owners of the parent company	-127.0	-200.0	-27.9	-45.0
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)	-3.51	-2.82	-0.77	-0.63
Diluted earnings / losses per share (PLN)	-3.51	-2.82	-0.77	-0.63
Net cash flow from operating activities	174.3	293.8	38.2	66.1
Net cash flow from investing activities	-543.9	-357.1	-119.3	-80.4
Net cash flow from financing activities	218.8	-49.0	48.0	-11.0
Movement in cash and cash equivalents	-150.8	-112.3	-33.1	-25.3
	30/09/2021	**31/12/2020**	**30/09/2021**	**31/12/2020**
Exchange rates (PLN/EUR)			**4.6329**	**4.6148**
Non-current assets	6,026.6	5,948.9	1,300.8	1,289.1
Current assets	615.2	705.4	132.8	152.9
Non-current assets classified as held for sale	18.3	12.7	3.9	2.7
Share capital	2,239.3	2,239.3	483.3	485.2
Equity attributable to the owners of the parent company	2,831.8	2,958.8	611.2	641.2
Non-current liabilities	2,552.0	2,646.7	550.8	573.5
Current liabilities	1,276.3	1,061.5	275.5	230.0

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2021 prepared according to 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 Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group and the Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2021:

- exchange rate as at the last day of the reporting period: 30 September 2021: EUR 1 = PLN 4.6329; 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 September 2021: EUR 1 = PLN 4.5585, 1 January – 30 September 2020: EUR 1 = PLN 4.4420.

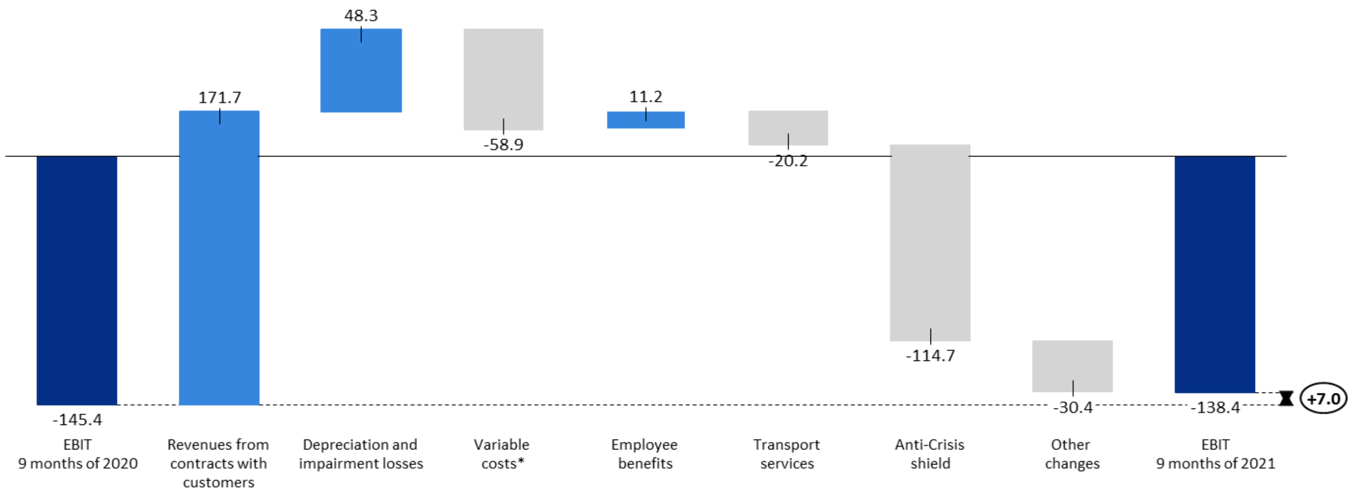
[91] To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data are presented with greater accuracy.

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 9 months of 2021, EBIT reached PLN -138.4 million, having gone up by PLN 7.0 million compared to the corresponding period of 2020.

Figure 19 EBIT in 9M 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 a description of the most significant deviations affecting EBIT in the first 9 months of 2021 as compared to the first 9 months of 2020:

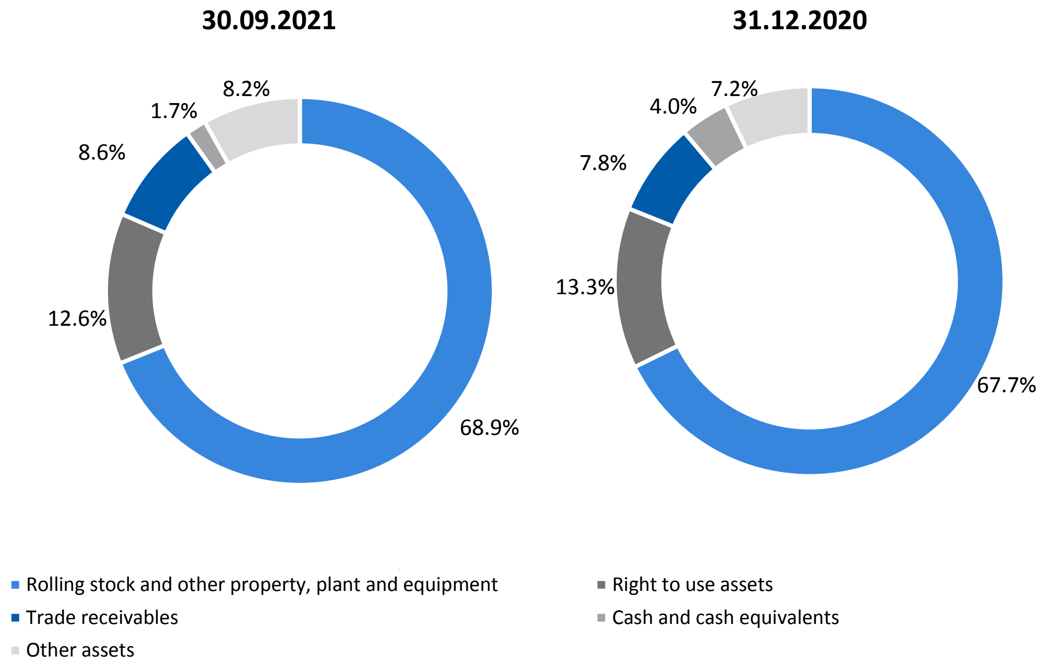
- increase in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services and also revenues from siding and traction services) as a direct consequence of the greater volume of transport (including in freight volume by 10.6% and freight turnover by 10.9%). At the same time, in the period under analysis, a decrease in transport rates was recorded, resulting chiefly from the intensification of competition on the rail freight market affected by the COVID-19 pandemic, especially in the bulk cargo segment. 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 revaluation of the rolling stock residual value as at 31 December 2020 (reduced depreciation of property, plant and equipment) and lower total capital expenditures in 2020 and 2021 than in previous years;
- increase in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 8.0% associated with an increase in the quantum of transport services as well as the observed increases in wholesale energy prices and fuel prices on the global markets;
- increase in the costs of transport services (including, in particular, freight forwarding) correlated with a greater volume of transport;
- impact of non-recurring events – the effect of the inflow of funding obtained in 2020 under the anti-crisis shield in the total amount of PLN 114.7 million (decrease in other operating revenues on a yoy basis);
- increase in costs in the line item of other changes by PLN 30.4 million as a result of, among other factors, an increase in the value of goods and materials sold by PLN 19.4 million in the wake of the increased revenues in this category, higher costs of other services by PLN 17.1 million and higher costs of energy, non-traction fuel, water and gas by PLN 5.1 million (due to the increase in the prices of energy carriers and fuels), with a simultaneous decline in the consumption of materials by PLN 8.5 million, among other factors.

Statement of financial position of the PKP CARGO Group

ASSETS

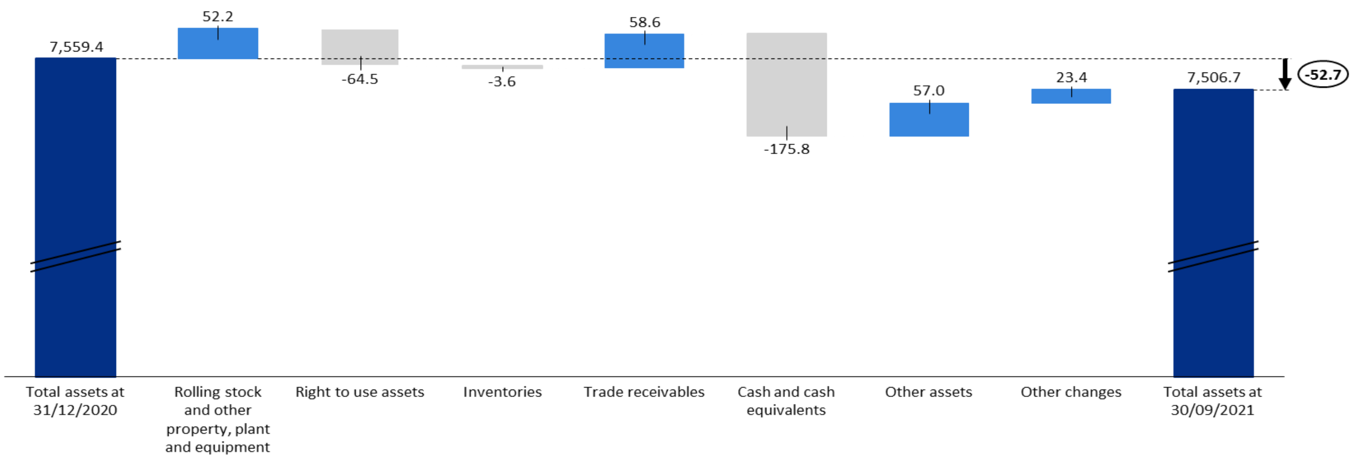
The biggest share in the PKP CARGO Group's asset structure as at 30 September 2021 was held by rolling stock and other property, plant and equipment, which in aggregate accounted for 68.9% of total assets, compared to 67.7% as at 31 December 2020.

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



Source: Proprietary material

Figure 21 Movement in the Group's assets in the first 9 months of 2021 (PLN million)



Source: Proprietary material

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

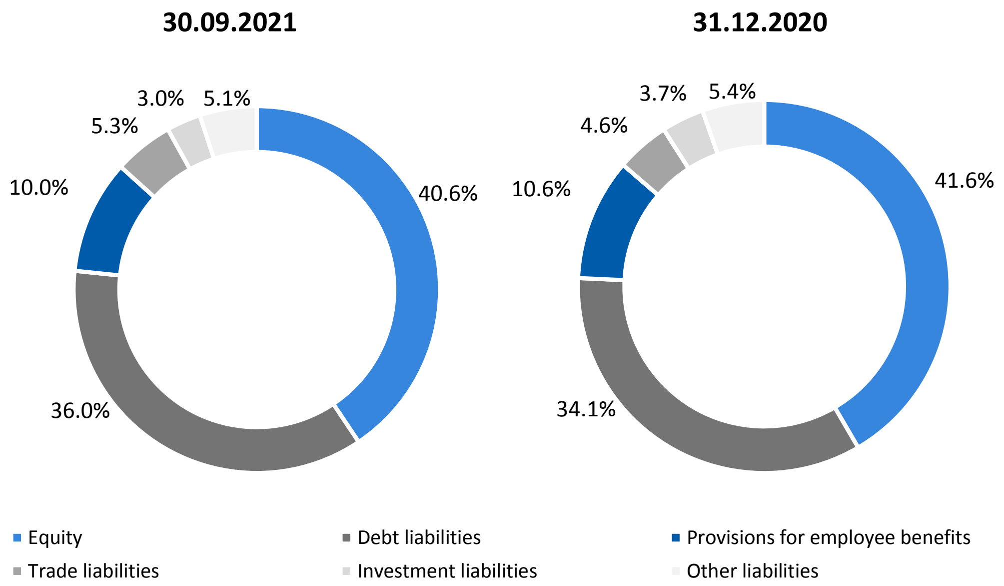
- the increase in the value of rolling stock and other property, plant and equipment was due to the execution of investments in property, plant and equipment (chiefly rolling stock), the value of which in the period under analysis was greater than depreciation;

- the decrease in the right-of-use assets was mainly caused by the value of depreciation exceeding that of capital expenditures (a small scale of acquisition of new right-of-use assets with a simultaneous progressive depreciation of the assets already in use);
- the increase in trade receivables was largely due to an increase in revenues in segments with extended payment terms;
- the decrease in cash by PLN 175.8 million resulted predominantly from expenditures related to the acquisition of non-current assets in the amount of PLN 619.6 million, repayment of bank loans and leases along with interest in the amount of PLN 350.3 million, with simultaneous operating revenues of PLN 313.9 million and new loans of PLN 418.0 million;
- the increase in the value of the line item of other assets was 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 16.0 million (including prepayments for the purchase of electricity, purchase of employee transportation benefits, purchase of insurance) and in receivables from the sale of shares in Rentrans Cargo Sp. z o.o. in the amount of PLN 5.6 million.

EQUITY AND LIABILITIES

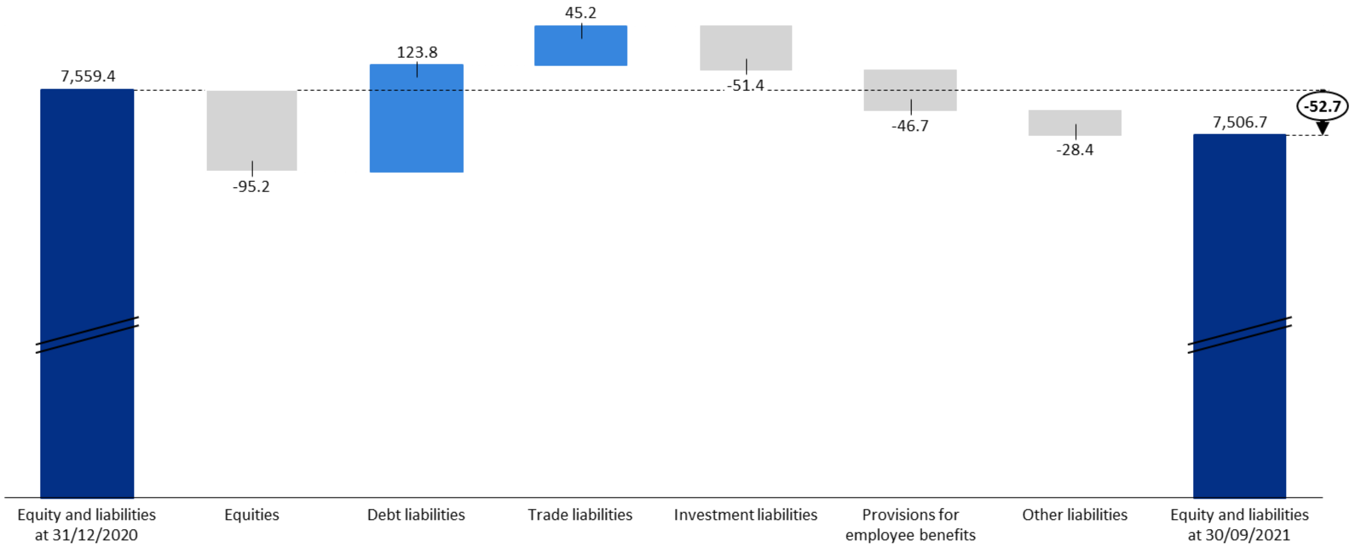
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 30 September 2021 was attributable to equity, which accounted for 40.6% of the sum of equity and liabilities, compared to 41.6% as at 31 December 2020. Debt liabilities accounted for 36.0% of total equity and liabilities, compared to 34.1% as at 31 December 2020.

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



Source: Proprietary material

Figure 23 Movement in the Group's equity and liabilities in the first 9 months of 2021 (PLN million)



Source: Proprietary material

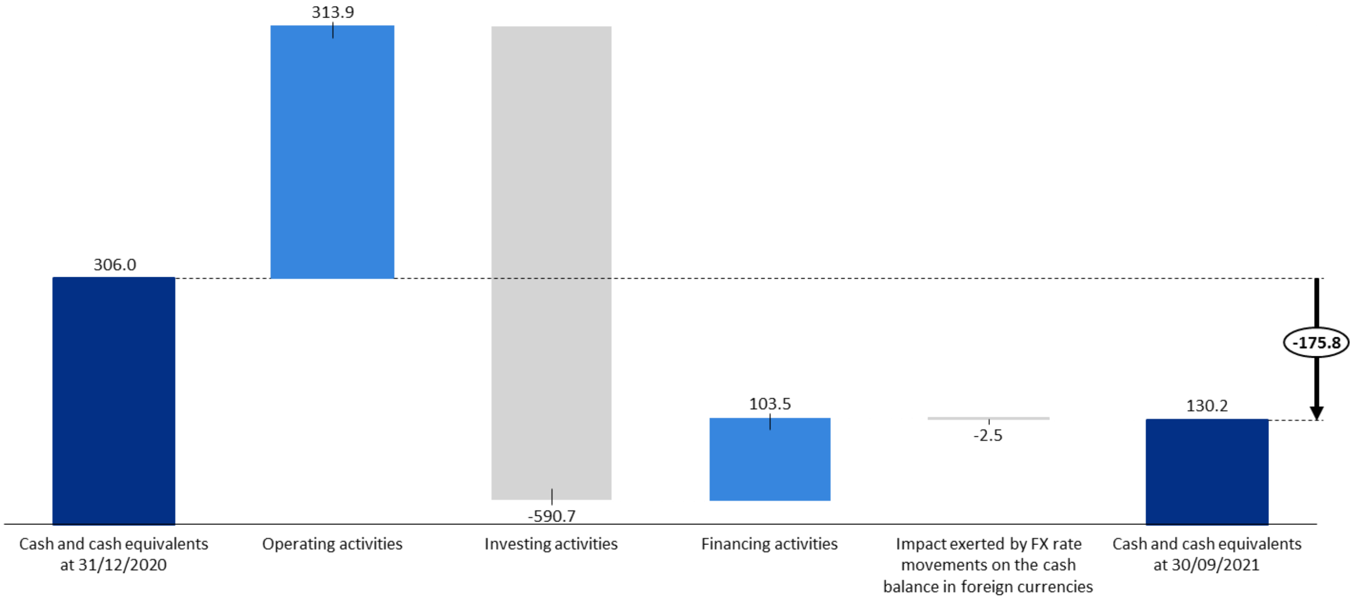
The most significant changes affecting the value of equity and liabilities as at 30 September 2021, as compared to 31 December 2020, are discussed below:

- the decrease in the value of equity was chiefly due to the negative financial result generated by the PKP CARGO Group (lower value of retained earnings). The simultaneous increase in other items of equity by PLN 33.8 million was caused by, 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. An increase was also recorded in foreign exchange gains due to the conversion of financial statements of foreign operations;
- the decrease in the value of debt liabilities reflected the addition of new loan and lease liabilities in the amount of PLN 436.2 million, modification of existing leases of PLN 22.6 million and an increase in leaseback liabilities by PLN 8.7 million with a simultaneous repayment loans and leases along with in the amount of PLN 350.3 million. Detailed information on debt liabilities is presented in **Note 4.1 to the Consolidated Financial Statements**;
- the increase in trade liabilities resulted from the active management of working capital;
- the decrease in investment liabilities was caused mainly by a decrease in investment liabilities related to rolling stock by PLN 40.3 million;
- the decrease in the value of provisions for employee benefits was caused by decreases in provisions for jubilee awards by PLN 30.0 million, provisions for the Company Social Benefits Fund for old-age and disability pensioners by PLN 18.3 million, retirement and disability severance pays by PLN 13.5 million and transportation benefits by PLN 8.1 million;
- the decrease in the value of other liabilities was chiefly due to decreases in liabilities on account of security interests (security deposits, bid deposits, guarantees) by PLN 12.6 million and public law liabilities by PLN 8.2 million.

5.3.3 Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 30 September 2021 decreased by PLN 175.8 million compared to 31 December 2020.

Figure 24 Cash flows of the PKP CARGO Group in the first 9 months of 2021 (PLN million)



Source: Proprietary material

- cash flows from operating activities were generated, among other sources, on the loss before tax of PLN 180.6 million, depreciation and impairment losses of 530.7 million PLN and negative cash flows caused by movement in working capital of PLN 86.8 million;
- cash flows from investing activities were a consequence of expenses incurred on the purchase of non-financial non-current assets in the amount of PLN 619.6 million and the deposit paid for the purchase of fixed assets (wagon plant in Gniewczyn), with simultaneous proceeds from the sale of non-financial non-current assets of PLN 51.7 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 350.3 million, offset by inflows of PLN 418.0 million from new loans and PLN 38.4 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 9 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 9M 2021 as compared to the corresponding period of 2020

Description	9M 2021	9M 2020	Change	Rate of change
			2021 - 2020	2021/2020
EBITDA margin[1]	12.3%	13.9%	-1.6	-11.4%
Net profit margin[2]	-4.8%	-5.6%	0.8	-
ROA[3]	-2.7%	-3.1%	0.4	-
ROE[4]	-6.6%	-7.6%	0.9	-
Average distance covered per locomotive (km per day)[5]	209.8	216.3	-6.5	-3.0%
Average gross train tonnage per operating locomotive (tons)[6]	1,468.0	1,430.0	38.0	2.7%
Average running time of train locomotives (hours per day)[7]	14.6	14.1	0.5	3.5%
Freight turnover per employee (thousands tkm/employee)[8]	889.4	766.3	123.1	16.1%

Source: Proprietary material

1. Calculated as the ratio of the operating result plus depreciation and amortization (EBITDA) to total operating revenue.
2. Calculated as the ratio of net result to total operating revenue.
3. Calculated as the ratio of net result for the last 12 months to total assets.
4. Calculated as the ratio of net 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 respective period).
6. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the respective 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 9M 2021, the EBITDA margin slightly deteriorated, chiefly due to the non-recurring events that occurred in the corresponding period of 2020 (funding obtained under the anti-crisis shield). At the same time, an improvement in the net profit margin was recorded compared to the corresponding period of 2020 as a consequence of the lower net loss. Detailed information on the reasons for movement in EBITDA and the net result is presented 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 better net result in the period under analysis;
- 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, reflecting predominantly an increase in freight turnover by 10.9% yoy coupled with a decrease in the average headcount by 4.4% yoy.

5.2 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.
- Various solutions were implemented to trigger changes in the organization and efficiency of work.

Market for commodities and aggregates

- The gradual increase in electricity consumption in the Polish economy will translate into greater demand for coal transport services. The significantly limited supply of commodities both in Europe and Asia has failed to keep up with the rapidly growing demand.
- Scheduled infrastructural investments (road and rail) with the support of EU funds and governmental programs 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 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. 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).

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

- A build-up of subsequent modernizations to be completed at the final stage of execution of the National Railway Program (KPK) is anticipated, which may affect both the capacity of rail lines and the travel time.
- 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 and energy

- Continuing increase in the purchase prices of rolling stock replacement parts.
- Sales of locomotives, wagons and wrecks, made possible owing to the completion of procurement proceedings conducted by PKP CARGO S.A., will exert a favorable impact on the bottom line.
- The increase in electricity prices is a consequence of the rising costs of energy generation and the implementation of the European Union's climate policy – the purchase of CO_2 emission allowances (which now account for up to 50% of energy costs), the lower production of energy from renewable sources and the markedly increased demand for energy.

Social dialog

- On 27 August 2021, a memorandum of agreement was entered into by the parties to the Collective Bargaining Agreement regarding a non-recurring bonus and an increase in the Railway Employee Day cash benefit. The execution of these arrangements by the Company is in compliance with the provisions of the Employee Guarantee Package of 2 September 2013. In January 2022, the Parties will commence negotiations on the roll-out of a systemic wage increase from 1 April 2022, taking into account both the Company's financial results for 2021 and its current standing.

5.3 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.

5.4 Information about production assets

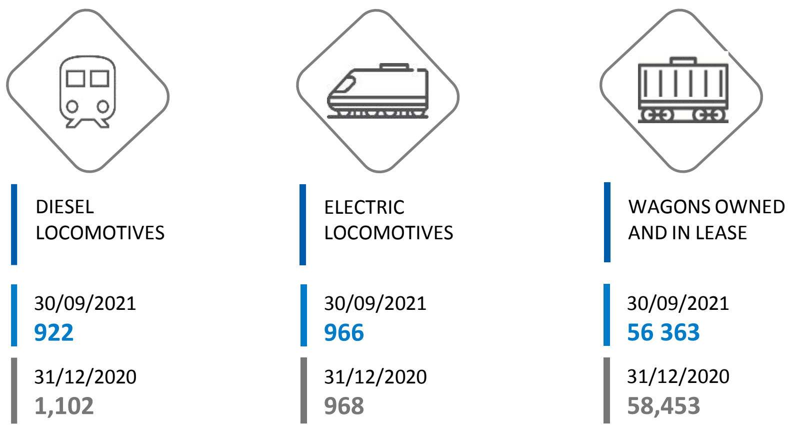
5.4.1 Rolling stock

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[92] and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, the Group's establishments also repair rolling stock and sub-assemblies for other owners.

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale or purchase of rolling stock. In the period under analysis, procurement procedures were conducted to enable the sale of wagons, locomotives and wrecks. 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 9 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 September 2021 and 31 December 2020



[92] 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

5.4.2 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 9 months of 2021.

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

Description	30/09/2021	31/12/2020	Change 2021-2020
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,416	1,415	1
Buildings - owned, leased and rented from other entities [sqm]	683,285	693,213	-9,927

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.

6. Other relevant information and events

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

During the first 9 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. However, continued clear symptoms are noticeable of a recovery in the Polish industry and a relatively high resilience of the industrial sector to the economic impact of the pandemic.

This notwithstanding, despite the gradual improvement in the economic situation, the volume of transport services in PKP CARGO's key cargo categories (hard coal, metals and ores) increased only slightly compared to 2020, thus remaining clearly below the values attained in the corresponding period of 2019. Moreover, in the period under analysis, a dip was recorded in construction and assembly output by entities involved in the construction of other civil engineering structures and enterprises specializing in the construction of roads and railways. 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, after the first 9 months of 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

In the first 9 months of 2021, no entity from the PKP CARGO Group entered into 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 Additional Information to the Consolidated Quarterly Report has been prepared by the PKP CARGO S.A. Management Board.

Management Board

Władysław Szczepkowski
acting President of the Management Board

Zenon Kozendra
Management Board Member

Warsaw, 23 November 2021

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