# QUARTERLY REPORT FOR Q1 2021


**PKP CARGO GROUP'S**
consolidated quarterly report
for Q1 2021

PKPCARGO

# Quarterly Condensed Consolidated Financial Statements of the **PKP CARGO GROUP** for the period of 3 months ended 31 March 2021

prepared in accordance with EU IFRS

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

## QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 | |
|---|---|---|---|
| Revenues from contracts with customers | 996.0 | 1,035.7 | *Note 2.1* |
| | | | |
| Consumption of traction electricity and traction fuel | (120.2) | (123.1) | *Note 2.2* |
| Services of access to infrastructure | (127.5) | (127.6) | |
| Transport services | (84.3) | (94.6) | |
| Other services | (85.9) | (91.0) | *Note 2.2* |
| Employee benefits | (414.4) | (441.6) | *Note 2.2* |
| Other expenses | (69.7) | (73.9) | *Note 2.2* |
| | | | |
| Other operating revenue and (expenses) | 10.4 | 6.1 | *Note 2.3* |
| **Operating profit without depreciation (EBITDA)** | **104.4** | **90.0** | |
| Depreciation, amortization and impairment losses | (175.4) | (195.6) | *Note 2.2* |
| **Profit / (loss) on operating activities (EBIT)** | **(71.0)** | **(105.6)** | |
| Financial revenue and (expenses) | (15.6) | (33.8) | *Note 2.4* |
| Share in the profit / (loss) of entities accounted for under the equity method | 1.4 | 0.5 | *Note 5.3* |
| **Profit / (loss) before tax** | **(85.2)** | **(138.9)** | |
| Income tax | 13.9 | 24.5 | *Note 3.1* |
| **NET PROFIT / (LOSS)** | **(71.3)** | **(114.4)** | |
| | | | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Measurement of hedging instruments | (3.3) | (45.8) | *Note 6.1* |
| Income tax | 0.6 | 8.7 | *Note 3.1* |
| FX differences resulting from translation of financial statements | 11.4 | (7.0) | |
| **Total other comprehensive income subject to reclassification in the financial result** | **8.7** | **(44.1)** | |
| **Total other comprehensive income** | **8.7** | **(44.1)** | |
| **TOTAL COMPREHENSIVE INCOME** | **(62.6)** | **(158.5)** | |
| | | | |
| **Net profit / (loss) attributable:** | | | |
| Net profit/(loss) attributable to shareholders of the Parent Company | (71.3) | (114.4) | |
| **Total other comprehensive income attributable:** | | | |
| Total other comprehensive income attributable to shareholders of the Parent Company | (62.6) | (158.5) | |
| | | | |
| **Earnings / (losses) per share (PLN per share)** | | | |
| Weighted average number of ordinary shares | 44,786,917 | 44,786,917 | |
| Basic and diluted earnings / (losses) per share | **(1.59)** | **(2.56)** | |

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

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

## QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 31/03/2021 | 31/12/2020 | |
|---|---|---|---|
| **ASSETS** | | | |
| Rolling stock | 4,280.7 | 4,245.0 | *Note 5.1* |
| Other property, plant and equipment | 857.8 | 875.6 | *Note 5.1* |
| Rights-of-use assets | 1,004.3 | 1,008.6 | *Note 5.2* |
| Investments in entities accounted for under the equity method | 36.5 | 42.0 | *Note 5.3* |
| Trade receivables | 3.4 | 3.0 | *Note 5.5* |
| Lease receivables | 10.1 | 10.3 | |
| Other assets | 43.4 | 35.1 | *Note 5.6* |
| Deferred tax assets | 193.1 | 177.8 | *Note 3.1* |
| **Total non-current assets** | **6,429.3** | **6,397.4** | |
| Inventories | 177.3 | 165.8 | *Note 5.4* |
| Trade receivables | 613.8 | 585.8 | *Note 5.5* |
| Lease receivables | 0.7 | 0.7 | |
| Income tax receivables | 3.0 | 2.9 | |
| Other assets | 96.9 | 88.1 | *Note 5.6* |
| Cash and cash equivalents | 124.6 | 306.0 | *Note 4.3* |
| **Total current assets** | **1,016.3** | **1,149.3** | |
| Non-current assets classified as held for sale | 2.2 | 12.7 | |
| | | | |
| **TOTAL ASSETS** | **7,447.8** | **7,559.4** | |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 2,239.3 | 2,239.3 | *Note 4.2* |
| Supplementary capital | 782.4 | 782.4 | |
| Other items of equity | (162.9) | (160.2) | |
| FX differences resulting from translation of financial statements | 116.2 | 104.8 | |
| Retained earnings | 106.2 | 177.5 | |
| **Total equity** | **3,081.2** | **3,143.8** | |
| Debt liabilities | 2,046.7 | 2,101.8 | *Note 4.1* |
| Trade liabilities | 1.6 | 1.5 | |
| Investment liabilities | 155.6 | 145.5 | *Note 5.7* |
| Provisions for employee benefits | 682.6 | 684.3 | *Note 5.8* |
| Other provisions | 5.8 | 5.7 | *Note 5.9* |
| Deferred tax liability | 90.0 | 90.7 | *Note 3.1* |
| **Total long-term liabilities** | **2,982.3** | **3,029.5** | |
| Debt liabilities | 484.2 | 478.5 | *Note 4.1* |
| Trade liabilities | 360.5 | 347.5 | |
| Investment liabilities | 135.1 | 133.5 | *Note 5.7* |
| Provisions for employee benefits | 132.6 | 116.3 | *Note 5.8* |
| Other provisions | 16.0 | 24.1 | *Note 5.9* |
| Other liabilities | 255.9 | 286.2 | *Note 5.10* |
| **Total short-term liabilities** | **1,384.3** | **1,386.1** | |
| **Total liabilities** | **4,366.6** | **4,415.6** | |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | **7,447.8** | **7,559.4** | |

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

## QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Supplementary capital | Other items of equity | | | FX differences resulting from translation of financial statements | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | | Profits / (losses) on measurement of equity instruments at fair value | Actuarial profits/ (losses) on post-employment benefits | Measurement of hedging instruments | | | |
| **1/01/2021** | **2,239.3** | **782.4** | **(12.9)** | **(115.7)** | **(31.6)** | **104.8** | **177.5** | **3,143.8** |
| Net result for the period | - | - | - | - | - | - | (71.3) | **(71.3)** |
| Other comprehensive income for the period (net) | - | - | - | - | (2.7) | 11.4 | - | **8.7** |
| **Total comprehensive income** | - | - | - | - | (2.7) | 11.4 | (71.3) | **(62.6)** |
| **31/03/2021** | **2,239.3** | **782.4** | **(12.9)** | **(115.7)** | **(34.3)** | **116.2** | **106.2** | **3,081.2** |
| | | | | | | | | |
| **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 | - | - | - | - | - | - | (114.4) | **(114.4)** |
| Other comprehensive income for the period (net) | - | - | - | - | (37.1) | (7.0) | - | **(44.1)** |
| **Total comprehensive income** | - | - | - | - | (37.1) | (7.0) | (114.4) | **(158.5)** |
| **31/03/2020** | **2,239.3** | **781.4** | **(12.2)** | **(75.0)** | **(27.6)** | **70.5** | **288.4** | **3,264.8** |

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

## QUARTERLY CONSOLIDATED CASH FLOW STATEMENT

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 | |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit / (loss) before tax** | **(85.2)** | **(138.9)** | |
| **Adjustments** | | | |
| Depreciation, amortization and impairment losses | 175.4 | 195.6 | *Note 2.2* |
| (Profits) / losses on interest, dividends | 12.7 | 15.8 | |
| Received / (paid) interest | 0.3 | 1.3 | |
| Received / (paid) income tax | (1.4) | (5.5) | |
| Movement in working capital | (43.9) | 35.1 | |
| Other adjustments | (0.1) | (0.6) | |
| **Net cash from operating activities** | **57.8** | **102.8** | |
| **Cash flows from investing activities** | | | |
| Expenditures on the acquisition of non-financial non-current assets | (179.4) | (249.5) | |
| Proceeds from the sale of non-financial non-current assets | 17.2 | 5.2 | |
| Other inflows from investing activities | 0.4 | 1.6 | |
| **Net cash from investing activities** | **(161.8)** | **(242.7)** | |
| **Cash flows from financing activities** | | | |
| Payments on lease liabilities | (34.9) | (35.8) | *Note 4.1* |
| Proceeds from bank loans and borrowings | 24.3 | 18.2 | *Note 4.1* |
| Repayment of bank loans and borrowings | (72.8) | (77.6) | *Note 4.1* |
| Interest paid on lease liabilities and bank loans and borrowings | (12.0) | (14.9) | *Note 4.1* |
| Grants received | 17.9 | 12.7 | |
| Other outflows from financing activities | (1.0) | (0.8) | |
| **Net cash from financing activities** | **(78.5)** | **(98.2)** | |
| Net increase / (decrease) in cash and cash equivalents | (182.5) | (238.1) | |
| Cash and cash equivalents at the beginning of the reporting period | 306.0 | 550.4 | *Note 4.3* |
| Impact exerted by FX rate movements on the cash balance in foreign currencies | 1.1 | 1.1 | |
| **Cash and cash equivalents as at the end of the reporting period, including:** | **124.6** | **313.4** | *Note 4.3* |
| *Restricted cash* | *32.7* | *45.3* | *Note 4.3* |

(in millions of PLN) (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). Basic information about the Parent Company is presented in the table below.

| Basic information about the Parent Company | |
|---|---|
| Name | PKP CARGO S.A. |
| Domicile | Poland |
| Address of the registered office of the Parent Company | 02-021 Warsaw at Grójecka Street no 17, |
| KRS | 0000027702 – District Court for the capital city of Warsaw,<br>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 31 March 2021 are presented in the Additional Information to the Consolidated Quarterly Report for Q1 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:

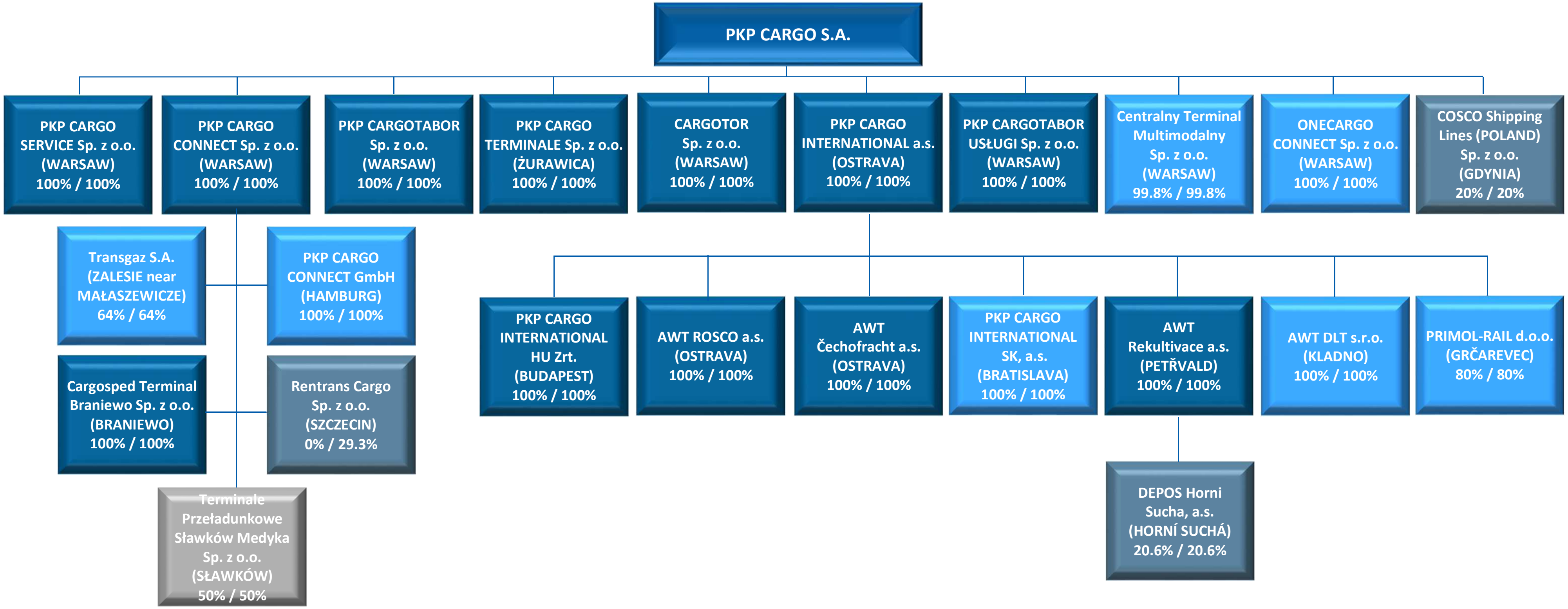

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 19 subsidiaries. In addition, the Group held shares in 2 associated entities and 1 joint venture.

On 22 March 2021, the subsidiary PKP CARGO CONNECT Sp. z o.o. signed an agreement to sale the shares 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.

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 31 March 2021 and 31 December 2020 is as follows:




Subsidiaries – consolidated by the full method
Associates in the Group
Other subsidiaries in the Group
Shares in the Group's joint ventures

## 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 3 months ended 31 March 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 Financial Statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue its business as a going concern for a period of at least 12 months from the end of the reporting period.

These 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 cash flow statement at the average exchange rate in the reporting period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period.

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

In these 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 | |
|---|---|---|---|---|
| | 31/03/2021 | 31/12/2020 | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
| EUR | 4.6603 | 4.6148 | 4.5721 | 4.3963 |
| CZK | 0.1783 | 0.1753 | 0.1751 | 0.1691 |

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 20 May 2021.

(in millions of PLN) (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", IFRS 16 "Leases" - IBOR Reform - phase 2 | 1 January 2021 |

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

### Standards and interpretations adopted by the IASB and 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 31 March 2021 were not yet endorsed by the EU and did not enter into effect. In the opinion of the Parent Company's Management Board, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Group:

| Standard / Interpretation | Effective date |
|---|---|
| Amendments to IFRS 16 "Leases" – COVID-19-Related Rent Concessions after 30 June 2021 | 1 April 2021 |
| Amendments to 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 |
| Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term | 1 January 2023 |
| IFRS 17 "Insurance contracts" | 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 impairment tests with respect to three cash-generating units defined at the level of assets of the Parent Company, PKP CARGOTABOR Sp. z o.o. and the PKP CARGO INTERNATIONAL Group. The results of tests did not show any need for revaluation of the non-current assets held by the Group.

In Q1 2021, the Group achieved lower than expected financial results due to the prolonged economic recession caused by the COVID-19 pandemic, which affected, among other things, lower production volumes in the steel sector, mining of raw materials or transshipments at sea ports, coupled with adverse weather conditions causing delays in the execution of construction/infrastructure projects. Both the COVID-19 pandemic and the adverse weather conditions contributed to the lower demand for cargo transport and increasing price competition leading to a decline in prices. At the same time, the Group expects the negative trend not to continue over the coming months. The Management Board of the Parent Company believes that short-term deviations from the accepted assumptions have no significant effect on the results of the conducted tests and will not require recognition of additional impairment losses on assets owned by the Group as at 31 March 2021. This judgment is based on best estimates, knowledge and data available as at the balance date. Nevertheless, there still exists uncertainty regarding long-term economic forecasts and consequently, the Parent Company's Management Board is analyzing the situation on an ongoing basis and these estimates may change in subsequent reporting periods as a result if future events.

### 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 31 March 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.

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

#### Impact on other expenses

Other expenses incurred by the Group in Q1 2021 for COVID-19 preventive measures amounted to PLN 0.9 million and included mainly the costs incurred for personal protection equipment.

#### Liquidity standing of the Group

In Q1 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. The economic slowdown caused by the COVID-19 pandemic was not without an effect on the Group's performance in Q1 2021, including, among others, a negative effect on the Group's liquidity.

Irrespective of the above, based on the availability of short- and long-term sources of financing operating and investing activities, as at 31 March 2021 the Group had full capacity to pay its liabilities at maturity. Risks associated with the ongoing COVID-19 pandemic persist, and if materialized - may have an additional adverse effect on the Group's financial standing.

Detailed information on the impact of the COVID-19 pandemic on the Group's activity are described in Additional Information to the Consolidated Quarterly Report for Q1 2021 in **Chapter 6.1**.

### 1.5 Significant values based on professional judgment and estimates

In the period of 3 months ended 31 March 2021, changes to significant values based on professional judgment and estimation related to:

- 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 3-month period ended 31 March 2021 by approximately PLN 4.0 million.
- deferred tax assets – in the period of 3 months ended 31 March 2021, in connection with the incurred tax loss, the Group created tax loss assets in the amount of PLN 3.6 million. As at 31 March 2021, the value of the tax loss assets was PLN 79.1 million. Based on the long-term financial forecasts developed by the Group, these assets are not impaired as at the balance sheet date.
- provisions for employee benefits – the movement in provisions for employee benefits as at 31 March 2021 results predominantly from movement in the provision for unused holidays in the amount of PLN 12.6 million. The measurement of provisions for employee benefits calculated using the actuarial method is based on the assumptions adopted for measurement as at 31 December 2020.
- rights-of-use assets and lease liabilities under IFRS 16 – key assumptions adopted for measurement of lease agreements pertain to the interest rate calculation model and the period of lease and depreciation of rights-of-use assets. In the period of 3 months ended 31 March 2021, the value of rights-of-use assets recognized in connection with the signing of new or modification of existing lease agreements was PLN 28.1 million.

During the 3 months ended 31 March 2021, no 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 millions of PLN) (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.

| 3 months ended 31/03/2021 | 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 | 73.2 | 0.4 | 189.0 | 529.6 | **792.2** |
| Revenue from other transportation activity | 0.3 | - | 0.2 | 37.9 | **38.4** |
| Revenue from siding and traction services | - | 2.7 | 38.5 | 39.4 | **80.6** |
| Revenue from transshipment services | - | - | - | 32.1 | **32.1** |
| Revenue from reclamation services | - | 0.1 | - | 9.4 | **9.5** |
| Revenue from sales of goods and materials | - | - | - | 13.3 | **13.3** |
| Other revenues | 0.3 | 5.1 | 2.6 | 21.9 | **29.9** |
| **Total** | **73.8** | **8.3** | **230.3** | **683.6** | **996.0** |
| **Revenue recognition date** | | | | | |
| At a point of time | - | - | - | 16.1 | **16.1** |
| Over a period | 73.8 | 8.3 | 230.3 | 667.5 | **979.9** |
| **Total** | **73.8** | **8.3** | **230.3** | **683.6** | **996.0** |

| 3 months ended 31/03/2020 | 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 | 84.7 | 0.3 | 226.1 | 519.5 | **830.6** |
| Revenue from other transportation activity | 0.3 | 0.1 | 0.2 | 32.2 | **32.8** |
| Revenue from siding and traction services | - | 1.7 | 36.2 | 33.7 | **71.6** |
| Revenue from transshipment services | 0.4 | - | - | 38.2 | **38.6** |
| Revenue from reclamation services | - | - | 0.6 | 19.4 | **20.0** |
| Revenue from sales of goods and materials | - | - | - | 14.3 | **14.3** |
| Other revenues | 0.4 | 3.4 | 2.5 | 21.5 | **27.8** |
| **Total** | **85.8** | **5.5** | **265.6** | **678.8** | **1,035.7** |
| **Revenue recognition date** | | | | | |
| At a point of time | - | - | - | 16.3 | **16.3** |
| Over a period | 85.8 | 5.5 | 265.6 | 662.5 | **1,019.4** |
| **Total** | **85.8** | **5.5** | **265.6** | **678.8** | **1,035.7** |

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

## 2.1 Revenues from contracts with customers (cont.)

### 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:

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Poland | 687.1 | 742.4 |
| Czech Republic | 119.8 | 131.8 |
| Germany | 70.3 | 53.5 |
| Slovakia | 21.3 | 19.3 |
| Austria | 18.4 | 15.2 |
| Denmark | 16.7 | 13.7 |
| Other countries | 62.4 | 59.8 |
| **Total** | **996.0** | **1,035.7** |

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

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Poland | 5,434.9 | 5,415.6 |
| Czech Republic | 770.6 | 779.6 |
| Other countries | 6.2 | 5.5 |
| **Total** | **6,211.7** | **6,200.7** |

### Information on key customers

In the period of 3 months ended 31 March 2021 and 3 months ended 31 March 2020, revenue from any single customer of the Group did not exceed 10% of the total revenues from contracts with customers.

### Assets from contracts with customers

| | 31/03/2021 | 31/03/2020 |
|---|---|---|
| **As at the beginning of the reporting period** | **24.2** | **18.6** |
| Recognition of revenue before the payment due date | 36.0 | 37.9 |
| Reclassification to receivables | (23.6) | (17.7) |
| **As at the end of the reporting period** | **36.6** | **38.8** |

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

## 2.2 Operating expenses

### Consumption of electricity and traction fuel

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Consumption of traction fuel | (31.4) | (34.1) |
| Consumption of traction electricity | (88.8) | (89.0) |
| **Total** | **(120.2)** | **(123.1)** |

### Other services

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Repair and maintenance services for non-current assets | (20.5) | (21.4) |
| Rent and fees for the use of real properties and rolling stock | (18.0) | (17.5) |
| Telecommunications services | (1.6) | (1.7) |
| Legal, consulting and similar services | (2.6) | (2.5) |
| IT services | (10.6) | (11.7) |
| Transshipment services | (3.1) | (4.2) |
| Reclamation services | (13.2) | (18.6) |
| Other services | (16.3) | (13.4) |
| **Total** | **(85.9)** | **(91.0)** |

### Employee benefits

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Payroll | (306.5) | (324.0) |
| Social security expenses | (64.4) | (67.6) |
| Expenses for contributions to the Company Social Benefits Fund | (7.8) | (9.4) |
| Other employee benefits during employment | (10.5) | (13.5) |
| Post-employment benefits | (0.8) | (1.3) |
| Movement in provisions for employee benefits | (24.4) | (25.8) |
| **Total** | **(414.4)** | **(441.6)** |

### Other expenses

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Consumption of non-traction fuel | (5.7) | (6.3) |
| Consumption of electricity, gas and water | (14.9) | (13.4) |
| Consumption of materials | (18.4) | (23.5) |
| Taxes and charges | (8.8) | (8.8) |
| Cost of materials sold | (9.8) | (8.1) |
| Business trips | (6.4) | (7.4) |
| Other | (5.7) | (6.4) |
| **Total** | **(69.7)** | **(73.9)** |

### Depreciation, amortization and impairment losses

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Depreciation of rolling stock | (124.0) | (136.4) |
| Depreciation of other property, plant and equipment | (18.6) | (20.2) |
| Depreciation of rights-of-use assets | (30.8) | (35.8) |
| Amortization of intangible assets | (2.0) | (3.2) |
| **Total** | **(175.4)** | **(195.6)** |

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

## 2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Profit on sales of non-financial non-current assets | 3.0 | 0.7 |
| Reversed impairment losses on trade receivables | 5.7 | 2.7 |
| Penalties and compensations | 2.4 | 3.7 |
| Reversal of other provisions | 1.3 | 1.0 |
| Interest on trade and other receivables | 0.7 | 1.4 |
| Net result on FX differences on trade receivables and liabilities | - | 3.4 |
| Other | 1.8 | 1.1 |
| **Total other operating revenue** | **14.9** | **14.0** |
| | | |
| Recognized impairment losses on trade receivables | (0.8) | (1.0) |
| Penalties and compensations | (1.3) | (3.8) |
| Costs of liquidation of non-current and current assets | (1.2) | (1.2) |
| Recognized other provisions | (0.5) | (0.3) |
| Other | (0.7) | (1.6) |
| **Total other operating expenses** | **(4.5)** | **(7.9)** |
| | | |
| **Other operating revenue and (expenses)** | **10.4** | **6.1** |

## 2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Interest income | 0.2 | 1.1 |
| Other | 0.4 | 0.1 |
| **Total financial revenue** | **0.6** | **1.2** |
| | | |
| Interest expenses | (13.1) | (17.8) |
| Settlement of the discount on provisions for employee benefits | (2.6) | (3.5) |
| Net result on FX differences | - | (12.9) |
| Other | (0.5) | (0.8) |
| **Total financial expenses** | **(16.2)** | **(35.0)** |
| | | |
| **Financial revenue and (expenses)** | **(15.6)** | **(33.8)** |

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

## 3. Notes on taxation

### 3.1 Income tax

Income tax recognized in profit or loss

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| **Current income tax** | | |
| Current tax charge | (3.0) | (1.9) |
| Adjustments recognized in the current year relating to tax from previous years | - | 1.6 |
| **Deferred tax** | | |
| Deferred income tax of the reporting period | 16.9 | 24.8 |
| **Income tax recognized in profit or loss** | **13.9** | **24.5** |

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

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Deferred tax on the measurement of hedging instruments | 0.6 | 8.7 |
| FX differences from translation of the balance of deferred income tax recognized in other comprehensive income (1) | (1.5) | 1.3 |
| **Deferred income tax recognized in other comprehensive income** | **(0.9)** | **10.0** |

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

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:

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Deferred tax assets | 193.1 | 177.8 |
| Deferred tax liabilities | (90.0) | (90.7) |
| **Total** | **103.1** | **87.1** |

Table of movements in deferred tax before the set-off

| 3 months ended 31/03/2021 | 1/01/2021 | Recognized in profit or loss | Recognized in other comprehensive income | FX differences resulting from translation of deferred tax balance | 31/03/2021 |
|---|---|---|---|---|---|
| **Temporary differences relating to deferred tax (liabilities) / assets:** | | | | | |
| Non-financial non-current assets | **(151.2)** | 9.2 | - | (1.4) | **(143.4)** |
| Rights-of-use assets and lease liabilities | **(9.7)** | (0.6) | - | (0.1) | **(10.4)** |
| Other provisions and liabilities | **13.3** | 1.9 | - | - | **15.2** |
| Inventories | **(9.3)** | (0.5) | - | - | **(9.8)** |
| Lease receivables | **(2.1)** | - | - | - | **(2.1)** |
| Trade receivables | **2.9** | (1.7) | - | - | **1.2** |
| Provisions for employee benefits | **152.0** | 2.9 | - | - | **154.9** |
| Other | **15.7** | 2.1 | 0.6 | - | **18.4** |
| Unused tax losses | **75.5** | 3.6 | - | - | **79.1** |
| **Total** | **87.1** | **16.9** | **0.6** | **(1.5)** | **103.1** |

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

### 3.1 Income tax (cont.)

| 3 months ended 31/03/2020 | 1/01/2020 | Recognized in profit or loss | Recognized in other comprehensive income | FX differences resulting from translation of deferred tax balance | 31/03/2020 |
|---|---|---|---|---|---|
| **Temporary differences relating to deferred tax (liabilities) / assets:** | | | | | |
| Non-financial non-current assets | **(167.0)** | (1.2) | - | 1.4 | **(166.8)** |
| Rights-of-use assets and lease liabilities | **(6.0)** | (0.3) | - | - | **(6.3)** |
| Other provisions and liabilities | **17.0** | 0.2 | - | - | **17.2** |
| Inventories | **(4.7)** | - | - | - | **(4.7)** |
| Lease receivables | **(2.1)** | - | - | - | **(2.1)** |
| Trade receivables | **1.7** | 0.9 | - | (0.1) | **2.5** |
| Provisions for employee benefits | **148.9** | 2.6 | - | - | **151.5** |
| Other | **(2.0)** | 2.8 | 8.7 | - | **9.5** |
| Unused tax losses | **35.6** | 19.8 | - | - | **55.4** |
| **Total** | **21.4** | **24.8** | **8.7** | **1.3** | **56.2** |

#### Maturity analysis of deferred tax assets from tax losses

Expiration dates of the tax losses to which deferred tax assets were recognized as at 31 March 2021

| Year | 2023 | 2024 | 2025 | 2026 | Total |
|---|---|---|---|---|---|
| Unused tax losses | 77.7 | 194.7 | 129.3 | 14.4 | **416.1** |

Based on the long-term forecasts adopted in the Group, as at 31 March 2021 the Parent Company's Management Board assesses the risk that the above assets cannot be realized is low.

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** |

#### 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:

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| PKP CARGO INTERNATIONAL HU Zrt. | 11.8 | 11.7 |
| AWT Čechofracht a.s. | 14.9 | 14.6 |
| PKP CARGOTABOR USŁUGI Sp. z o.o. | 3.8 | 3.8 |
| **Total** | **30.5** | **30.1** |

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 March 2021

| Year | 2021 | 2022 | 2023 | 2024 | 2025 | Total |
|---|---|---|---|---|---|---|
| Unused tax losses | 8.7 | 6.5 | 6.8 | 4.9 | 3.6 | **30.5** |

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

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

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

## 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

| 31/03/2021 | In the functional currency - PLN | In a foreign currency | | Total |
|---|---|---|---|---|
| | | EUR | CZK | |
| Bank loans and borrowings | 974.2 | 643.0 | - | **1,617.2** |
| Leases | 775.1 | 101.7 | 36.9 | **913.7** |
| **Total** | **1,749.3** | **744.7** | **36.9** | **2,530.9** |

| 31/12/2020 | In the functional currency - PLN | In a foreign currency | | Total |
|---|---|---|---|---|
| | | 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** |

Reconciliation of debt liabilities

| 3 months ended 31/03/2021 | Bank loans and borrowings | Leases | Total |
|---|---|---|---|
| **1/01/2021** | **1,659.3** | **921.0** | **2,580.3** |
| New liabilities contracted | 24.3 | 7.6 | **31.9** |
| Modifications of existing agreements | - | 20.5 | **20.5** |
| Leaseback | - | 5.2 | **5.2** |
| Transaction costs | 0.4 | - | **0.4** |
| Accrual of interest | 3.5 | 8.1 | **11.6** |
| Payments under debt, including: | | | |
| Repayments of the principal | (72.8) | (34.9) | **(107.7)** |
| Interest paid | (3.5) | (8.5) | **(12.0)** |
| Transaction costs | (0.4) | - | **(0.4)** |
| Other | - | (8.4) | **(8.4)** |
| FX valuation | 5.8 | 0.3 | **6.1** |
| FX resulting from translation | 0.6 | 2.8 | **3.4** |
| **31/03/2021** | **1,617.2** | **913.7** | **2,530.9** |
| Long-term | 1,266.2 | 780.5 | **2,046.7** |
| Short-term | 351.0 | 133.2 | **484.2** |
| **Total** | **1,617.2** | **913.7** | **2,530.9** |

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

### 4.1 Reconciliation of debt liabilities (cont.)

| 3 months ended 31/03/2020 | Bank loans and borrowings | Leases | Total |
|---|---|---|---|
| **1/01/2020** | **1,626.2** | **996.5** | **2,622.7** |
| New liabilities contracted | 18.2 | 21.3 | **39.5** |
| Modifications of existing agreements | - | 13.5 | **13.5** |
| Transaction costs | 0.6 | - | **0.6** |
| Accrual of interest | 7.7 | 9.4 | **17.1** |
| Payments under debt, including: | | | |
| Repayments of the principal | (77.6) | (35.8) | **(113.4)** |
| Interest paid | (7.8) | (7.1) | **(14.9)** |
| Other | - | (4.8) | **(4.8)** |
| FX valuation | 38.8 | 9.5 | **48.3** |
| FX resulting from translation | (0.6) | (1.5) | **(2.1)** |
| **31/03/2020** | **1,605.5** | **1,001.0** | **2,606.5** |
| Long-term | 1,331.7 | 843.1 | **2,174.8** |
| Short-term | 273.8 | 157.9 | **431.7** |
| **Total** | **1,605.5** | **1,001.0** | **2,606.5** |

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 | 31/03/2021 | 31/03/2020 |
|---|---|---|---|
| Revenues from operating leases | Revenues from contracts with customers | 7.3 | 10.2 |
| Interest income from leases | Financial revenue | 0.1 | 0.1 |
| Costs on account of: | | | |
| Short-term leases | Other services | (9.3) | (9.1) |
| Leases of low-value assets | Other services | (0.9) | (1.0) |
| Variable lease payments not included in the measurement of lease liabilities | Other services | (0.8) | (0.5) |

#### Terms and conditions of loan agreements

As described in more details in Note 4.1. of the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020, contracts signed with banks impose legal and financial obligations on the Group that are standard in such transactions. The key ratios indicating the performance of the agreements signed by the Group include: the Net Debt/EBITDA ratio and the total debt ratio. According to the provisions of most of the agreements signed by the Group, compliance with the terms and conditions of loan agreements is reviewed at the end of each financial year. In the case of two agreements, the above-mentioned ratios are reviewed semi-annually. The last review of the ratios was as at 31 December 2020. Before the balance sheet date the Parent Company had obtained from the creditors a one-time waiver of the covenant to maintain the net debt/EBITDA ratios calculated on the basis of standalone and consolidated financial data. In contracts with two financing banks the waiver was granted with a provision that the Net Debt/EBITDA ratio based on the PKP CARGO Group's consolidated data must not exceed 4.0. This condition was met as at 31 December 2020 and therefore the liabilities under the loans did not have to be reclassified from the long to the short part. In the case of other subsidiaries, there was no need to seek a waiver of any of the covenants set forth in the loan agreements as at 31 December 2020. The economic situation associated, among others, with the effects of the COVID-19 pandemic, may have an important effect on the value of the ratios from the loan agreements in successive periods. In the event of a further economic slowdown, there is a risk that the terms and conditions of loan agreements may not be satisfied in the future.

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

### 4.1 Reconciliation of debt liabilities (cont.)

Unused credit and lease facilities

| Type of loan | Bank Name | Period of availability | Currency of the contract | 31/03/2021 | 31/12/2020 |
|---|---|---|---|---|---|
| Overdraft[1] | Bank Polska Kasa Opieki S.A. | 24/05/2021 | PLN | 83.4 | 100.0 |
| Overdraft | Powszechna Kasa Oszczędności Bank Polski S.A. | 19/12/2021 | PLN | 100.0 | 99.9 |
| Overdraft | Bank Polska Kasa Opieki S.A. | 25/06/2021 | PLN | 10.0 | 10.0 |
| Investment loan | Bank Polska Kasa Opieki S.A. | 31/05/2021 | PLN | 2.3 | 10.0 |
| Overdraft | Bank Polska Kasa Opieki S.A. | 09/07/2021 | PLN | 1.6 | 1.6 |
| Leasing facility | Millennium Leasing Sp. z o.o. | 02/12/2021 | PLN | 29.0 | 38.7 |
| **Total** | | | | **226.3** | **260.2** |

[1] On 17 May 2021, the Parent Company executed Annex 3 to an overdraft facility agreement extending the availability period of the facility until 24 May 2022.

### 4.2 Equity

Share capital

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| The share capital consists of: | | |
| Ordinary shares – fully paid up and registered | 2,239.3 | 2,239.3 |

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

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

**In the period of 3 months ended 31 March 2021 and the period of 3 months ended 31 March 2020, there were no movements in the share capital of the Parent Company.**

Movement in supplementary capital and retained earnings

On 31 March 2021, the Parent Company's Management Board adopted a resolution to cover the loss for 2020 presented in the Standalone Financial Statements with retained earnings.

### 4.3 Cash and cash equivalents

Structure of cash and cash equivalents

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Cash on hand and on bank accounts | 116.5 | 134.0 |
| Bank deposits up to 3 months | 8.1 | 171.6 |
| Other cash | - | 0.4 |
| **Total** | **124.6** | **306.0** |
| *Including: restricted cash* | *32.7* | *49.1* |

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

(in millions of PLN) (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

| 3 months ended 31/03/2021 | 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 | - | - | - | - | - | 78.1 | **78.1** |
| Other acquisitions | - | - | - | - | - | 99.4 | **99.4** |
| Settlement of fixed assets under construction | 172.7 | 0.2 | 1.2 | - | 0.2 | (174.3) | **(172.7)** |
| Grant for non-current assets | (16.4) | - | (0.5) | - | - | (1.2) | **(1.7)** |
| Sales | (3.7) | - | (0.1) | (1.1) | - | - | **(1.2)** |
| Leaseback | - | - | (5.2) | - | - | - | **(5.2)** |
| Liquidation | (66.3) | (1.1) | (4.1) | (0.1) | (0.6) | (0.7) | **(6.6)** |
| FX differences | 13.5 | 2.6 | 0.8 | 0.6 | 0.1 | 0.7 | **4.8** |
| Other | 1.1 | - | - | - | - | - | **-** |
| **31/03/2021** | **7,144.9** | **946.9** | **471.5** | **100.1** | **44.3** | **80.3** | **1,643.1** |
| ***Accumulated depreciation*** | | | | | | | |
| **1/01/2021** | **(2,612.9)** | **(295.9)** | **(345.3)** | **(84.7)** | **(38.9)** | **-** | **(764.8)** |
| *(Increases) / decreases:* | | | | | | | |
| Depreciation | (124.0) | (9.8) | (7.4) | (0.9) | (0.5) | - | **(18.6)** |
| Sales | 3.0 | - | 0.1 | 1.1 | - | - | **1.2** |
| Leaseback | - | - | 0.2 | - | - | - | **0.2** |
| Liquidation | 61.5 | 1.1 | 4.0 | 0.1 | 0.6 | - | **5.8** |
| FX differences | (4.1) | (0.8) | (0.4) | (0.5) | - | - | **(1.7)** |
| Other | (0.6) | (0.1) | (0.2) | - | - | - | **(0.3)** |
| **31/03/2021** | **(2,677.1)** | **(305.5)** | **(349.0)** | **(84.9)** | **(38.8)** | **-** | **(778.2)** |
| ***Accumulated impairment*** | | | | | | | |
| **1/01/2021** | **(186.1)** | **(2.4)** | **(1.7)** | **-** | **-** | **(3.7)** | **(7.8)** |
| *(Increases) / decreases:* | | | | | | | |
| Utilization | 0.2 | - | - | - | - | 0.7 | **0.7** |
| FX differences | (1.2) | - | - | - | - | - | **-** |
| **31/03/2021** | **(187.1)** | **(2.4)** | **(1.7)** | **-** | **-** | **(3.0)** | **(7.1)** |
| ***Net value*** | | | | | | | |
| **1/01/2021** | **4,245.0** | **646.9** | **132.4** | **16.0** | **5.7** | **74.6** | **875.6** |
| **31/03/2021** | **4,280.7** | **639.0** | **120.8** | **15.2** | **5.5** | **77.3** | **857.8** |

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

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

| 3 months ended 31/03/2020 | 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 | - | - | - | - | - | 102.3 | **102.3** |
| Other acquisitions | - | - | - | - | - | 78.7 | **78.7** |
| Settlement of fixed assets under construction | 131.3 | 6.5 | 8.7 | 0.4 | 0.2 | (147.1) | **(131.3)** |
| Grant for non-current assets | (11.4) | - | - | - | - | (1.5) | **(1.5)** |
| Sales | (11.0) | (0.4) | (0.3) | (1.3) | - | - | **(2.0)** |
| Liquidation | (39.9) | - | (0.3) | - | - | - | **(0.3)** |
| Reclassified to assets held for sale | (40.0) | - | - | - | - | - | **-** |
| FX differences | (3.8) | (0.2) | (0.3) | (0.2) | - | (0.2) | **(0.9)** |
| Other | (0.5) | (0.1) | 0.1 | - | - | - | **-** |
| **31/03/2020** | **6,871.7** | **922.2** | **443.7** | **98.5** | **44.1** | **105.4** | **1,613.9** |
| ***Accumulated depreciation*** | | | | | | | |
| **1/01/2020** | **(2,310.2)** | **(262.0)** | **(309.7)** | **(81.0)** | **(36.8)** | **-** | **(689.5)** |
| *(Increases) / decreases:* | | | | | | | |
| Depreciation | (136.4) | (8.4) | (9.7) | (1.2) | (0.9) | - | **(20.2)** |
| Sales | 5.0 | - | 0.3 | 1.3 | - | - | **1.6** |
| Liquidation | 38.0 | - | 0.3 | - | - | - | **0.3** |
| Reclassified to assets held for sale | 14.7 | - | - | - | - | - | **-** |
| FX differences | 1.8 | 0.1 | 0.1 | 0.2 | - | - | **0.4** |
| Other | - | (0.1) | (0.5) | - | - | - | **(0.6)** |
| **31/03/2020** | **(2,387.1)** | **(270.4)** | **(319.2)** | **(80.7)** | **(37.7)** | **-** | **(708.0)** |
| ***Accumulated impairment*** | | | | | | | |
| **1/01/2020** | **(207.2)** | **(2.4)** | **(1.7)** | **-** | **-** | **(2.9)** | **(7.0)** |
| *(Increases) / decreases:* | | | | | | | |
| Utilization | 2.8 | - | - | - | - | - | **-** |
| Reclassified to assets held for sale | 3.1 | - | - | - | - | - | **-** |
| FX differences | (5.8) | - | - | - | - | - | **-** |
| **31/03/2020** | **(207.1)** | **(2.4)** | **(1.7)** | **-** | **-** | **(2.9)** | **(7.0)** |
| ***Net value*** | | | | | | | |
| **1/01/2020** | **4,329.6** | **652.0** | **124.4** | **18.6** | **7.1** | **70.3** | **872.4** |
| **31/03/2020** | **4,277.5** | **649.4** | **122.8** | **17.8** | **6.4** | **102.5** | **898.9** |

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

### 5.2 Rights-of-use assets

Movement in rights-of-use assets

| 3 months ended 31/03/2021 | 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 | - | 1.0 | 3.8 | 0.3 | 2.5 | **7.6** |
| Modifications of existing agreements | - | 20.5 | - | - | - | **20.5** |
| Leaseback | - | - | 5.0 | - | - | **5.0** |
| Return of leased items | (7.9) | (6.4) | (0.1) | (0.1) | - | **(14.5)** |
| Other | - | (0.1) | - | - | - | **(0.1)** |
| FX differences | 2.7 | 0.7 | 0.3 | 0.1 | - | **3.8** |
| **31/03/2021** | **462.0** | **807.8** | **38.1** | **17.9** | **4.4** | **1,330.2** |
| ***Accumulated depreciation*** | | | | | | |
| **1/01/2021** | **(157.5)** | **(122.8)** | **(8.7)** | **(9.7)** | **(0.6)** | **(299.3)** |
| *(Increases) / decreases:* | | | | | | |
| Depreciation | (13.7) | (14.5) | (1.3) | (1.2) | (0.1) | **(30.8)** |
| Return of leased items | 5.7 | 1.0 | - | - | - | **6.7** |
| Other | (0.1) | (0.9) | - | - | - | **(1.0)** |
| FX differences | (1.1) | (0.3) | (0.1) | - | - | **(1.5)** |
| **31/03/2021** | **(166.7)** | **(137.5)** | **(10.1)** | **(10.9)** | **(0.7)** | **(325.9)** |
| ***Net value*** | | | | | | |
| **1/01/2021** | **309.7** | **669.3** | **20.4** | **7.9** | **1.3** | **1,008.6** |
| **31/03/2021** | **295.3** | **670.3** | **28.0** | **7.0** | **3.7** | **1,004.3** |

| 3 months ended 31/03/2020 | 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 | 10.9 | 9.8 | 0.2 | 0.4 | - | **21.3** |
| Modifications of existing agreements | 3.0 | 10.7 | - | - | - | **13.7** |
| Periodic repairs of rolling stock | 0.3 | - | - | - | - | **0.3** |
| Return of leased items | (0.3) | (4.9) | (0.1) | - | - | **(5.3)** |
| Other | (0.8) | 0.6 | - | - | - | **(0.2)** |
| FX differences | (0.9) | (0.3) | (0.1) | - | - | **(1.3)** |
| **31/03/2020** | **462.8** | **782.9** | **23.7** | **18.9** | **1.7** | **1,290.0** |
| ***Accumulated depreciation*** | | | | | | |
| **1/01/2020** | **(109.2)** | **(61.8)** | **(4.9)** | **(6.4)** | **(0.4)** | **(182.7)** |
| *(Increases) / decreases:* | | | | | | |
| Depreciation | (16.5) | (16.8) | (0.8) | (1.5) | (0.2) | **(35.8)** |
| Return of leased items | 0.1 | 1.0 | - | - | - | **1.1** |
| Other | - | (0.5) | - | - | - | **(0.5)** |
| FX differences | 0.3 | 0.1 | - | - | - | **0.4** |
| **31/03/2020** | **(125.3)** | **(78.0)** | **(5.7)** | **(7.9)** | **(0.6)** | **(217.5)** |
| ***Net value*** | | | | | | |
| **1/01/2020** | **341.4** | **705.2** | **18.8** | **12.1** | **1.3** | **1,078.8** |
| **31/03/2020** | **337.5** | **704.9** | **18.0** | **11.0** | **1.1** | **1,072.5** |

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

## 5.3 Investments in entities accounted for under the equity method

Investments in entities accounted for under the equity method

| | Carrying amount | |
|---|---|---|
| | 31/03/2021 | 31/12/2020 |
| COSCO Shipping Lines (POLAND) Sp. z o.o. | 1.3 | 1.2 |
| Terminale Przeładunkowe Sławków - Medyka Sp. z o.o. | 21.3 | 21.2 |
| Transgaz S.A. | 6.7 | 6.3 |
| Rentrans Cargo Sp. z o.o. | - | 7.0 |
| PKP CARGO CONNECT GmbH | 0.3 | 0.2 |
| PKP CARGO INTERNATIONAL SK a. s. | 3.0 | 2.8 |
| PRIMOL-RAIL d.o.o. | 2.6 | 2.1 |
| Centralny Terminal Multimodalny Sp. z o.o. | 1.3 | 1.2 |
| **Total** | **36.5** | **42.0** |

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

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| **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 | 1.4 | 0.5 |
| FX differences from translation of financial statements | 0.1 | 0.3 |
| **As at the end of the reporting period** | **36.5** | **41.2** |

## 5.4 Inventories

Structure of inventories

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Strategic inventories | 32.6 | 33.7 |
| Rolling stock during liquidation | 41.7 | 40.3 |
| Other inventories | 106.8 | 97.2 |
| Impairment losses | (3.8) | (5.4) |
| **Net inventories** | **177.3** | **165.8** |

## 5.5 Trade receivables

Structure of trade receivables

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Trade receivables | 759.9 | 738.0 |
| Impairment loss on receivables | (142.7) | (149.2) |
| **Total** | **617.2** | **588.8** |
| Non-current assets | 3.4 | 3.0 |
| Current assets | 613.8 | 585.8 |
| **Total** | **617.2** | **588.8** |

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

### 5.6 Other assets

Structure of other assets

| | 31/03/2021 | 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 | 26.8 | 24.0 |
| Insurance | 6.7 | 7.0 |
| IT services | 6.1 | 8.1 |
| Purchase of transportation benefits | 9.3 | 0.2 |
| Other costs settled over time | 3.4 | 2.3 |
| Other | 1.2 | 1.9 |
| **Other receivables** | | |
| VAT settlements | 33.5 | 35.6 |
| Receivables from the sale of shares | 6.3 | - |
| Other | 12.0 | 12.6 |
| **Intangible assets** | | |
| Licenses | 24.3 | 20.8 |
| Other intangible assets | 0.3 | 0.3 |
| Intangible assets under development | 4.8 | 4.8 |
| **Total** | **140.3** | **123.2** |
| Non-current assets | 43.4 | 35.1 |
| Current assets | 96.9 | 88.1 |
| **Total** | **140.3** | **123.2** |

### 5.7 Investment liabilities

Structure of investment liabilities

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Investment liabilities related to rolling stock | 283.0 | 260.5 |
| Investment liabilities related to real properties | 1.1 | 9.8 |
| Other | 6.6 | 8.7 |
| **Total** | **290.7** | **279.0** |
| Long-term liabilities | 155.6 | 145.5 |
| Short-term liabilities | 135.1 | 133.5 |
| **Total** | **290.7** | **279.0** |

### 5.8 Provisions for employee benefits

Structure of provisions for employee benefits

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| **Post-employment defined benefit plans** | | |
| Retirement and disability severance benefits | 233.3 | 234.5 |
| Company Social Benefits Fund | 179.6 | 179.3 |
| Transportation benefits | 40.4 | 40.3 |
| Post-mortem benefits | 7.1 | 7.3 |
| **Other employee benefits** | | |
| Jubilee awards | 308.8 | 310.5 |
| Other employee benefits (unused vacation time/bonuses) | 46.0 | 28.7 |
| **Total** | **815.2** | **800.6** |
| Long-term provisions | 682.6 | 684.3 |
| Short-term provisions | 132.6 | 116.3 |
| **Total** | **815.2** | **800.6** |

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

## 5.9 Other provisions

Structure of other provisions

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Provision for penalties imposed by anti-monopoly authorities | - | 0.4 |
| Provision for land reclamation | 6.5 | 6.4 |
| Other provisions[1] | 15.3 | 23.0 |
| **Total** | **21.8** | **29.8** |
| Long-term provisions | 5.8 | 5.7 |
| Short-term provisions | 16.0 | 24.1 |
| **Total** | **21.8** | **29.8** |

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

## 5.10 Other liabilities

Structure of other liabilities

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| **Financial liabilities** | | |
| FX forwards | 2.1 | 2.7 |
| Cash pool | 1.2 | 1.1 |
| **Other liabilities** | | |
| Liabilities arising out of collateral (deposits, bid bonds, guarantees) | 33.7 | 46.5 |
| Public law liabilities | 104.5 | 121.5 |
| Settlements with employees | 91.7 | 97.0 |
| Received grants | 1.3 | 1.6 |
| Other settlements | 14.2 | 8.8 |
| VAT settlements | 3.7 | 5.3 |
| Current income tax liabilities | 3.5 | 1.7 |
| **Total** | **255.9** | **286.2** |
| Short-term liabilities | 255.9 | 286.2 |
| **Total** | **255.9** | **286.2** |

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

# 6. Financial instruments

## 6.1 Financial instruments

Categories and classes of financial instruments

| Financial assets by categories and classes | Note | 31/03/2021 | 31/12/2020 |
|---|---|---|---|
| **Financial assets measured at fair value through other comprehensive income** | | | |
| Investments in equity instruments | *Note 5.6* | 5.6 | 5.6 |
| **Financial assets measured at amortized cost** | | | |
| Trade receivables | *Note 5.5* | 617.2 | 588.8 |
| Receivables on account of sale of non-financial non-current assets | | - | 0.1 |
| Receivables from the sale of shares | *Note 5.6* | 6.3 | - |
| Cash and cash equivalents | *Note 4.3* | 124.6 | 306.0 |
| Financial assets excluded from the scope of IFRS 9 | | 10.8 | 11.0 |
| **Total** | | **764.5** | **911.5** |

| Financial liabilities by categories and classes | Note | 31/03/2021 | 31/12/2020 |
|---|---|---|---|
| **Hedging financial instruments** | | | |
| Derivatives | *Note 5.10* | 2.1 | 2.7 |
| Bank loans and borrowings | *Note 4.1* | 642.9 | 660.0 |
| Financial liabilities excluded from the scope of IFRS 9 | *Note 4.1* | 48.4 | 53.1 |
| **Financial liabilities measured at amortized cost** | | | |
| Bank loans and borrowings | *Note 4.1* | 974.3 | 999.3 |
| Trade liabilities | | 362.1 | 349.0 |
| Investment liabilities | *Note 5.7* | 290.7 | 279.0 |
| Cash pool | *Note 5.10* | 1.2 | 1.1 |
| Financial liabilities excluded from the scope of IFRS 9 | *Note 4.1* | 865.3 | 867.9 |
| **Total** | | **3,187.0** | **3,212.1** |

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

### Hedge accounting

In the period from 1 January 2021 to 31 March 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 31 March 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 31 March 2021, the nominal amount of the hedging instrument was EUR 138.0 million, which is an equivalent of PLN 642.9 million.
- leases denominated in EUR. The hedged cash flows will be realized until May 2024. As at 31 March 2021, the nominal amount of the hedging instrument was EUR 10.4 million, which is an equivalent of PLN 48.4 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 31 March 2021, the value of liabilities from measurement of a hedging instrument was PLN 2.1 million.

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

## 6.1 Financial instruments (cont.)

### Fair value hierarchy

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

| | 31/03/2021 | | 31/12/2020 | |
|---|---|---|---|---|
| | Level 2 | Level 3 | Level 2 | Level 3 |
| **Assets** | | | | |
| Derivatives – FX forward contracts | - | - | - | - |
| Investments in equity instruments - shares in unlisted companies | - | 5.6 | - | 5.6 |
| **Liabilities** | | | | |
| Derivatives – FX forward contracts | 2.1 | - | 2.7 | - |

### Measurement methods for financial instruments carried at fair value

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

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

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

In the period of 3 months ended 31 March 2021 and the period of 3 months ended 31 March 2020, there were no transfers between level 2 and level 3 of the fair value hierarchy.

(in millions of PLN) (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

| 3 months ended 31/03/2021 | 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) | (1.1) | 0.1 | 0.1 | (3.5) | (7.7) | **(12.1)** |
| FX differences | - | 0.2 | - | (0.1) | (0.3) | **(0.2)** |
| Impairment losses / revaluation | - | 4.9 | - | - | - | **4.9** |
| Transaction costs related to bank loans | - | - | - | (0.4) | - | **(0.4)** |
| Effect of settlement of cash flow hedge accounting | (3.7) | - | - | - | - | **(3.7)** |
| **Profit / (loss) before tax** | **(4.8)** | **5.2** | **0.1** | **(4.0)** | **(8.0)** | **(11.5)** |
| Revaluation | (3.3) | - | - | - | - | **(3.3)** |
| **Other comprehensive income** | **(3.3)** | **-** | **-** | **-** | **-** | **(3.3)** |

In the period of 3 months ended 31 March 2021, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (3.7) million.
In the period of 3 months ended 31 March 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 0.6 million, bank loans in the amount of PLN (4.2) million and lease liabilities in the amount of PLN 0.3 million, recognized as part of the hedge accounting applied by the Group.

| 3 months ended 31/03/2020 | Hedging financial instruments | Financial assets measured at amortized cost | Financial assets excluded from the scope of IFRS 9 | Financial liabilities measured at amortized cost | Financial liabilities excluded from the scope of IFRS 9 | Total |
|---|---|---|---|---|---|---|
| Interest income / (expense) | (0.6) | 1.4 | 0.1 | (7.9) | (9.4) | **(16.4)** |
| FX differences | - | 10.2 | - | (10.1) | (9.5) | **(9.4)** |
| Impairment losses / revaluation | - | 1.7 | - | - | - | **1.7** |
| Transaction costs related to bank loans | - | - | - | (0.6) | - | **(0.6)** |
| Effect of settlement of cash flow hedge accounting | 0.1 | - | - | - | - | **0.1** |
| **Profit / (loss) before tax** | **(0.5)** | **13.3** | **0.1** | **(18.6)** | **(18.9)** | **(24.6)** |
| Revaluation | (45.8) | - | - | - | - | **(45.8)** |
| **Other comprehensive income** | **(45.8)** | **-** | **-** | **-** | **-** | **(45.8)** |

In the period of 3 months ended 31 March 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN 0.1 million.
In the period of 3 months ended 31 March 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 (13.1) million and bank loans in the amount of PLN (32.7) million, recognized as part of the hedge accounting applied by the Group.

(in millions of PLN) (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 3 months ended 31 March 2021 and the period of 3 months ended 31 March 2020, the State Treasury was an upper level parent entity for 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 3 months ended 31 March 2021 and the period of 3 months ended 31 March 2020, there were no individual transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope and amount. In the periods covered by these 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 3 months ended 31 March 2021, the Group's most important suppliers that were other parties related to the State Treasury were PKN 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:

| | 3 months ended 31/03/2021 | | 31/03/2021 | |
|---|---|---|---|---|
| | Sales to related parties | Purchases from related parties | Receivables from related parties | Liabilities to related parties |
| Parent company | 0.2 | 17.7 | 0.3 | 592.6 |
| Subsidiaries/co-subsidiaries – unconsolidated | 1.5 | 5.6 | 1.5 | 2.7 |
| Associates | 0.1 | - | 0.1 | - |
| Other PKP Group related parties | 6.5 | 120.6 | 2.5 | 59.1 |

| | 3 months ended 31/03/2020 | | 31/12/2020 | |
|---|---|---|---|---|
| | Sales to related parties | Purchases from related parties | Receivables from related parties | Liabilities to related parties |
| Parent company | 0.2 | 19.0 | 1.2 | 589.4 |
| Subsidiaries/co-subsidiaries – unconsolidated | 1.2 | 5.2 | 0.1 | 1.7 |
| Associates | - | 0.1 | - | 0.2 |
| Other PKP Group related parties | 4.1 | 124.8 | 2.5 | 61.1 |

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

Sales transactions within the PKP Group included freight transport services, lease of equipment and sub-lease of real estate. Purchase transactions comprised, among others, maintenance and repair of rolling stock, freight forwarding services, transshipment services and intermodal transport.

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

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

(in millions of PLN) (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 | |
|---|---|---|---|---|
| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
| Short-term benefits | 0.7 | 0.7 | 1.4 | 1.5 |
| Termination benefits | - | 0.1 | - | - |
| **Total** | **0.7** | **0.8** | **1.4** | **1.5** |

| Remunerations of Supervisory Board Members | Parent Company | | Subsidiaries | |
|---|---|---|---|---|
| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
| Short-term benefits | 0.3 | 0.3 | - | 0.4 |
| **Total** | **0.3** | **0.3** | **-** | **0.4** |

| Compensation of other members of key management personnel | Parent Company | | Subsidiaries | |
|---|---|---|---|---|
| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
| Short-term benefits | 1.7 | 1.8 | 4.1 | 4.4 |
| Post-employment benefits | - | - | 0.1 | 0.2 |
| **Total** | **1.7** | **1.8** | **4.2** | **4.6** |

In the period of 3 months ended 31 March 2021 and the period of 3 months ended 31 March 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

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment | 787.8 | 856.4 |
| Contractual liabilities on account of non-commenced lease contracts | 0.9 | 5.9 |
| **Total** | **788.7** | **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 31 March 2021 in the amount of approx. PLN 155.6 million.

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

### 7.3 Contingent liabilities

Structure of contingent liabilities

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| Guarantees issued on the Group's order | 101.3 | 93.9 |
| Other contingent liabilities | 112.4 | 114.9 |
| **Total** | **213.7** | **208.8** |

Guarantees issued on the Group's order

As at 31 March 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, customs guarantees and excise tax 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

There have been no significant events affecting the Group's operations after the balance sheet date, except for the events described in **Note 4.1** to these Quarterly Condensed Consolidated Financial Statements.

### 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 20 May 2021.

**Parent Company's Management Board**

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 May 2021

PKPCARGO

# Quarterly Financial Information of **PKP CARGO S.A.** for the period of 3 months ended 31 March 2021

prepared in accordance with IFRS EU (in millions of PLN)

## QUARTERLY SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| Revenues from contracts with customers | 721.7 | 743.6 |
| | | |
| Consumption of traction electricity and traction fuel | (108.1) | (109.7) |
| Services of access to infrastructure | (123.4) | (126.3) |
| Other services | (80.2) | (74.3) |
| Employee benefits | (314.6) | (338.9) |
| Other expenses | (40.8) | (42.4) |
| | | |
| Other operating revenue and (expenses) | 7.1 | 2.7 |
| **Operating profit without depreciation (EBITDA)** | **61.7** | **54.7** |
| Depreciation, amortization and impairment losses | (139.0) | (157.7) |
| **Profit / (loss) on operating activities (EBIT)** | **(77.3)** | **(103.0)** |
| Financial revenue and (expenses) | (12.4) | (21.2) |
| **Profit / (loss) before tax** | **(89.7)** | **(124.2)** |
| Income tax | 15.7 | 21.8 |
| **NET PROFIT / (LOSS)** | **(74.0)** | **(102.4)** |
| | | |
| **OTHER COMPREHENSIVE INCOME** | | |
| Measurement of hedging instruments | (3.8) | (44.2) |
| Income tax | 0.7 | 8.4 |
| **Total other comprehensive income subject to reclassification in the financial result** | **(3.1)** | **(35.8)** |
| **Total other comprehensive income** | **(3.1)** | **(35.8)** |
| **TOTAL COMPREHENSIVE INCOME** | **(77.1)** | **(138.2)** |
| | | |
| **Earnings / (losses) per share (PLN per share)** | | |
| Weighted average number of ordinary shares | 44,786,917 | 44,786,917 |
| Basic and diluted earnings / (losses) per share | **(1.65)** | **(2.29)** |

prepared in accordance with IFRS EU (in millions of PLN)

## QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION

| | 31/03/2021 | 31/12/2020 |
|---|---|---|
| **ASSETS** | | |
| Rolling stock | 3,843.0 | 3,809.2 |
| Other property, plant and equipment | 467.5 | 474.7 |
| Rights-of-use assets | 636.3 | 641.5 |
| Investments in related parties | 840.0 | 840.0 |
| Lease receivables | 24.0 | 24.4 |
| Financial assets | 4.9 | 4.9 |
| Other assets | 30.8 | 22.6 |
| Deferred tax assets | 148.1 | 131,6 |
| **Total non-current assets** | **5,994.6** | **5,948.9** |
| Inventories | 94.3 | 95.0 |
| Trade receivables | 388.3 | 366.5 |
| Lease receivables | 1.7 | 2.8 |
| Income tax receivables | 1.8 | 1.8 |
| Financial assets | - | 2.3 |
| Other assets | 68.0 | 56.5 |
| Cash and cash equivalents | 31.3 | 180.5 |
| **Total current assets** | **585.4** | **705.4** |
| Non-current assets classified as held for sale | 2.2 | 12.7 |
| | | |
| **TOTAL ASSETS** | **6,582.2** | **6,667.0** |
| | | |
| **EQUITY AND LIABILITIES** | | |
| Share capital | 2,239.3 | 2,239.3 |
| Supplementary capital | 744.7 | 744.7 |
| Other items of equity | (142.6) | (139.5) |
| Retained earnings | 40.3 | 114.3 |
| **Total equity** | **2,881.7** | **2,958.8** |
| Debt liabilities | 1,828.3 | 1,897.6 |
| Investment liabilities | 153.3 | 143.0 |
| Provisions for employee benefits | 603.9 | 606.1 |
| **Total long-term liabilities** | **2,585.5** | **2,646.7** |
| Debt liabilities | 370.6 | 353.7 |
| Trade liabilities | 225.3 | 215.6 |
| Investment liabilities | 187.6 | 141.3 |
| Provisions for employee benefits | 102.5 | 93.7 |
| Other provisions | 5.6 | 13.0 |
| Other financial liabilities | 44.3 | 2.7 |
| Other liabilities | 179.1 | 241.5 |
| **Total short-term liabilities** | **1,115.0** | **1,061.5** |
| **Total liabilities** | **3,700.5** | **3,708.2** |
| | | |
| **TOTAL EQUITY AND LIABILITIES** | **6,582.2** | **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 | Total |
|---|---|---|---|---|---|---|---|
| | | | 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 | - | - | - | - | - | (74.0) | **(74.0)** |
| Other comprehensive income for the period (net) | - | - | - | - | (3.1) | - | **(3.1)** |
| **Total comprehensive income** | - | - | - | - | (3.1) | (74.0) | **(77.1)** |
| **31/03/2021** | **2,239.3** | **744.7** | **(12.9)** | **(92.6)** | **(37.1)** | **40.3** | **2,881.7** |
| | | | | | | | |
| **1/01/2020** | **2,239.3** | **744.7** | **(12.2)** | **(55.8)** | **6.2** | **288.2** | **3,210.4** |
| Net result for the period | - | - | - | - | - | (102.4) | **(102.4)** |
| Other comprehensive income for the period (net) | - | - | - | - | (35.8) | - | **(35.8)** |
| **Total comprehensive income** | - | - | - | - | (35.8) | (102.4) | **(138.2)** |
| **31/03/2020** | **2,239.3** | **744.7** | **(12.2)** | **(55.8)** | **(29.6)** | **185.8** | **3,072.2** |

prepared in accordance with IFRS EU (in millions of PLN)

## QUARTERLY SEPARATE STATEMENT OF CASH FLOWS

| | 3 months ended 31/03/2021 | 3 months ended 31/03/2020 |
|---|---|---|
| **Cash flow from operating activities** | | |
| **Profit / (loss) before tax** | **(89.7)** | **(124.2)** |
| **Adjustments** | | |
| Depreciation, amortization and impairment losses | 139.0 | 157.7 |
| (Profits) / losses on interest, dividends | 9.5 | 14.0 |
| Received / (paid) interest | 0.1 | 0.3 |
| Received / (paid) income tax | - | (3.8) |
| Movement in working capital | (36.0) | 110.2 |
| Other adjustments | 0.1 | (5.7) |
| **Net cash from operating activities** | **23.0** | **148.5** |
| **Cash flow from investing activities** | | |
| Expenditures on the acquisition of non-financial non-current assets | (131.8) | (234.5) |
| Proceeds from the sale of non-financial non-current assets | 10.0 | 4.0 |
| Expenditures on the acquisition of shares in related entities | (33.0) | - |
| Other inflows from investing activities | 1.6 | 1.4 |
| **Net cash from investing activities** | **(153.2)** | **(229.1)** |
| **Cash flow from financing activities** | | |
| Payments on lease liabilities | (18.6) | (19.1) |
| Proceeds from bank loans and borrowings | 16.6 | 18.2 |
| Repayment of bank loans and borrowings | (67.3) | (72.5) |
| Interest paid on lease liabilities and bank loans and borrowings | (9.5) | (12.1) |
| Grants received | 16.4 | 11.3 |
| Inflows / (outflows) as part of cash pool | 44.5 | (25.3) |
| Other outflows from financing activities | (1.1) | (0.8) |
| **Net cash from financing activities** | **(19.0)** | **(100.3)** |
| Net increase / (decrease) in cash and cash equivalents | (149.2) | (180.9) |
| 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:** | **31.3** | **199.1** |
| *Restricted cash* | 19.8 | *31.1* |

Other information
to **PKP CARGO GROUP'S**
consolidated quarterly report
for Q1 2021

## ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q1 2021

## LIST OF TABLES

## LIST OF FIGURES

## 1. Introduction

Dear Stakeholders,


The first quarter of 2021 was a period of stabilization of our operating activities. Across all levels of the Group's business, our performance was better than in the corresponding period of the previous year. Specifically, we generated an EBITDA of PLN 104.4 million, which was 16% greater than that achieved in Q1 2020, and our operating loss (EBIT) of PLN 71 million was nearly 33% lower than that reported in the corresponding period of the previous year. We managed to achieve this result largely due to improvements in operational and process efficiency. We also attained a noticeable increase in freight volume and revenue from the provision of services on foreign markets outside the Group's domestic markets (Poland and Czech Republic): in year-over-year terms, the value of these services improved by approx. 16%. This provides a clear indication that the comprehensive range of services offered by the Group fits well with the needs of the market, including its foreign branches, and is appropriately aligned with our business strategy.

| REVENUES FROM CONTRACTS | EBITDA | NET RESULT |
|---|---|---|
| 996.0 PLN | 104.4 PLN | -71.3 PLN |

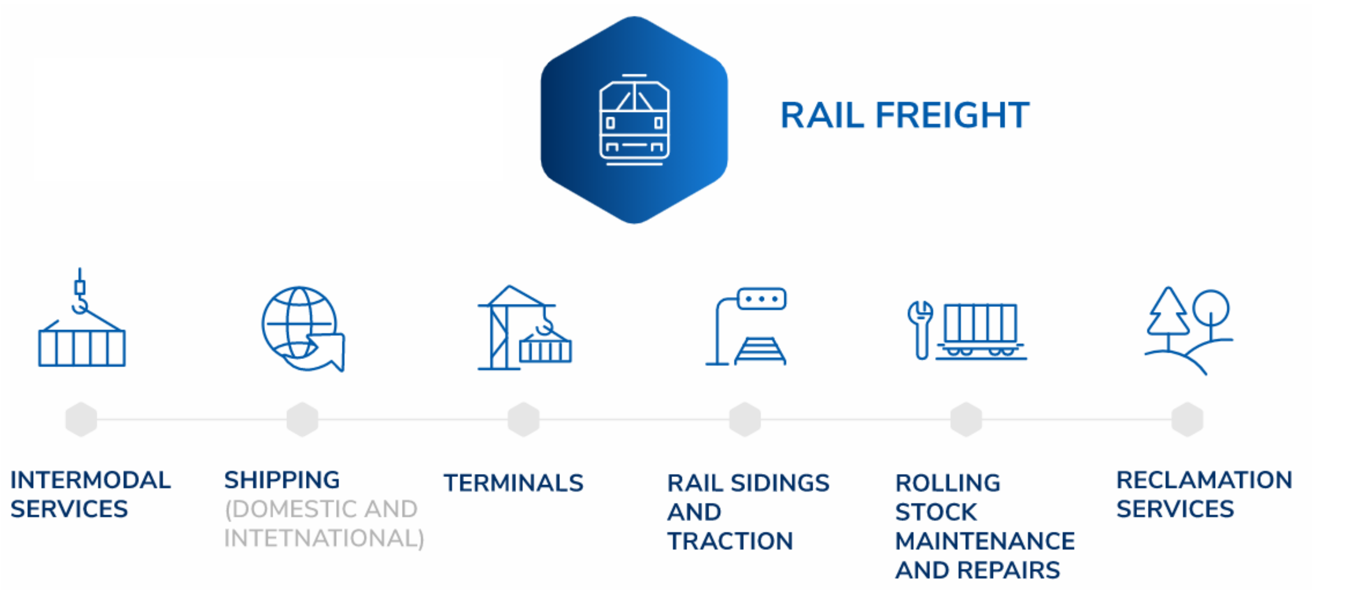
# 2. Organization of the PKP CARGO Group

## 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:



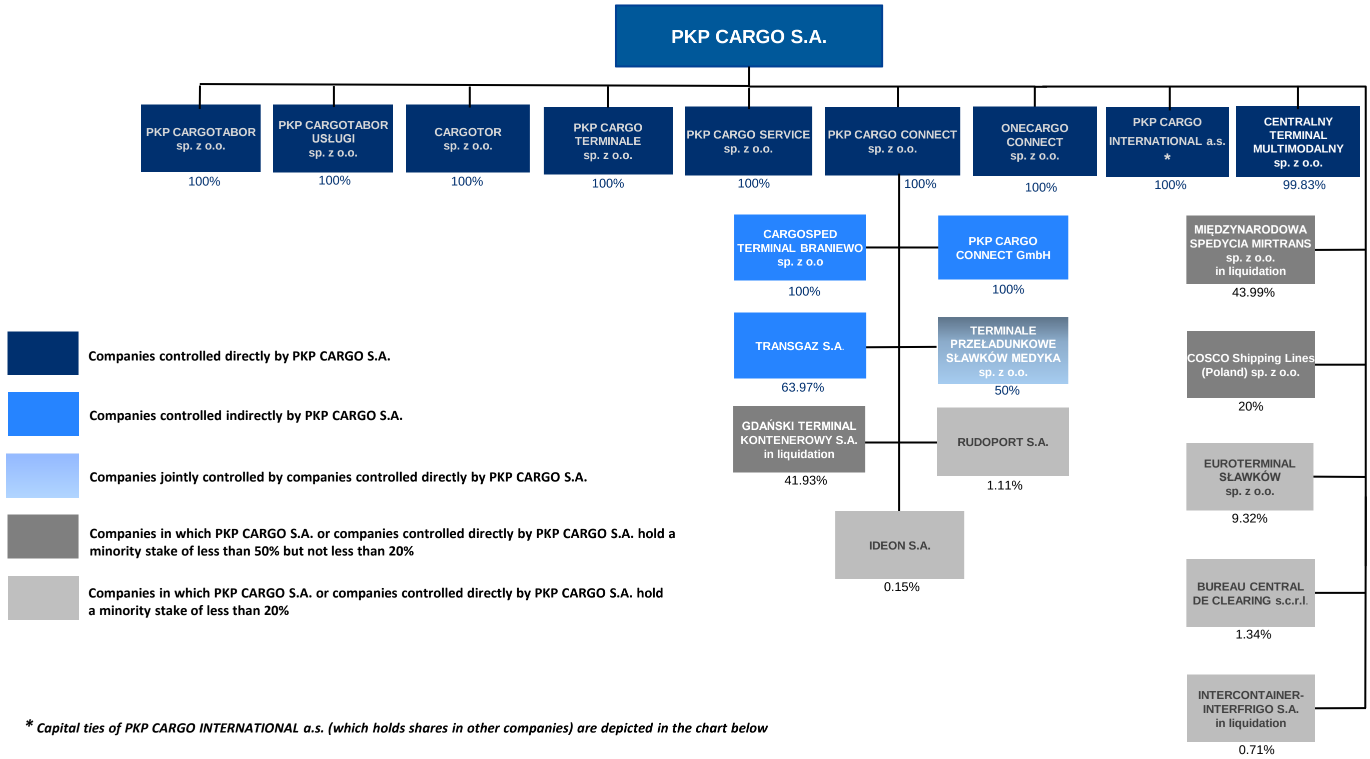

[1] Whenever the Report mentions:
- the Company or the Parent Company, it should be construed to mean PKP CARGO S.A.,
- the PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

[2] Office of Rail Transport

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

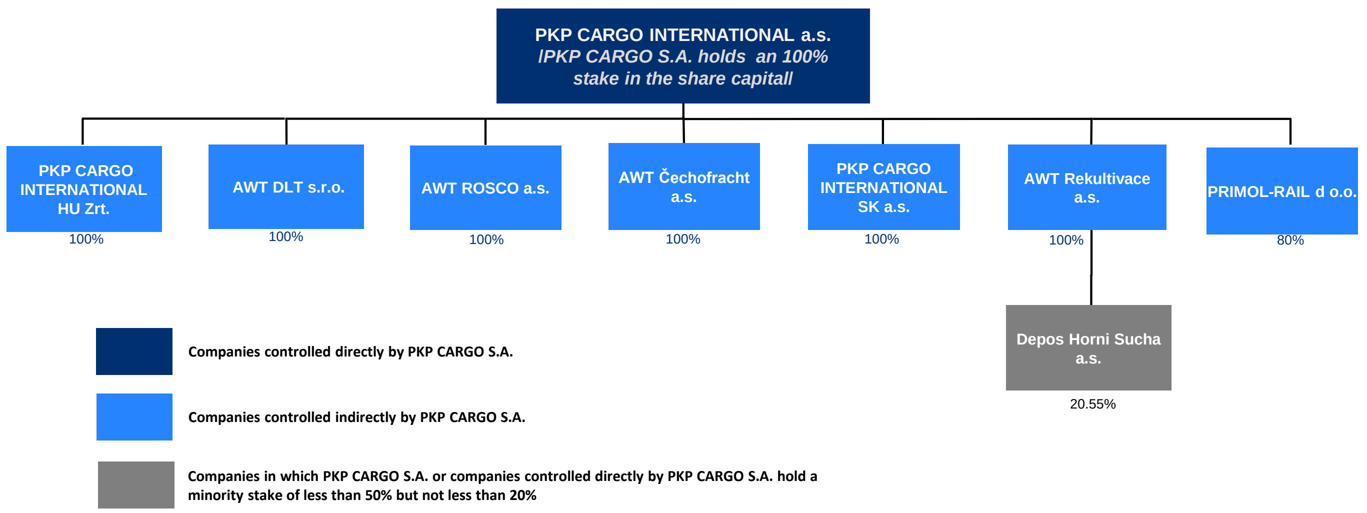
The chart below presents the structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 31 March 2021:

Figure 1 Structure of capital links with the companies in which PKP CARGO S.A. or its subsidiaries hold shares – as at 31 March 2021




*Source: Proprietary material*

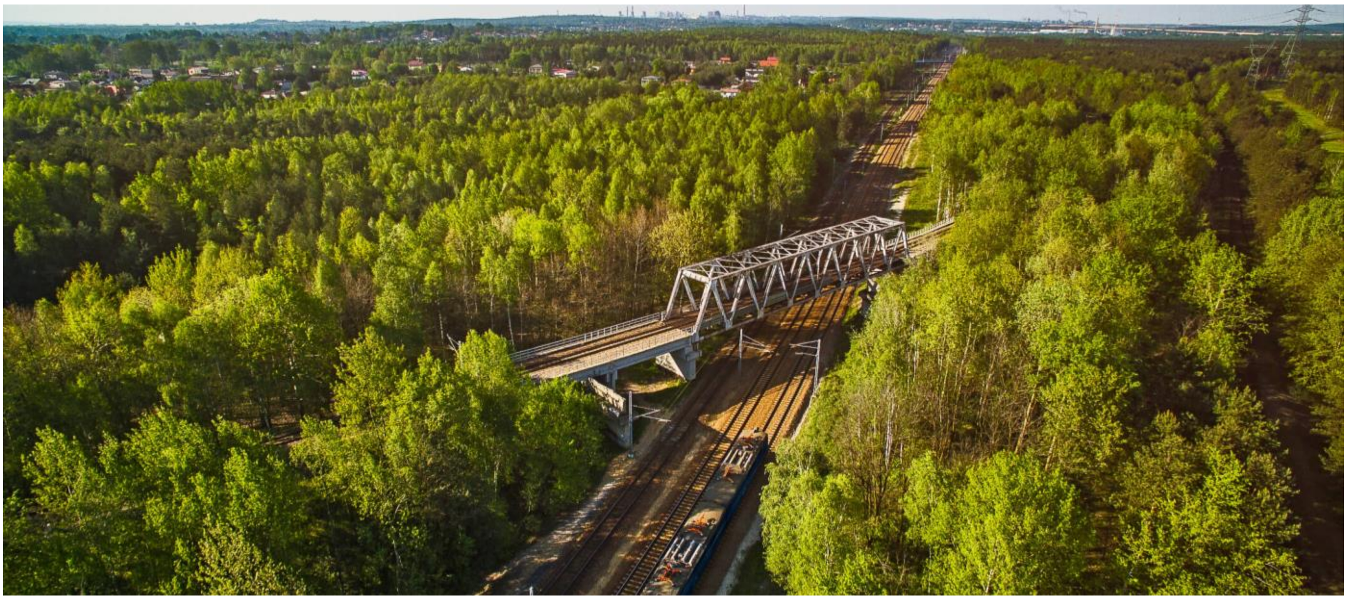
Figure 2 Structure of the PKP CARGO INTERNATIONAL Group as at 31 March 2021




*Source: Proprietary material*

In Q1 2021, the following changes were made to the structure of capital ties:

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



## 2.2 Consolidated entities

The Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group as at 31 March 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 the report, the company does not conduct any operating activity. |
| **PKP CARGO TERMINALE Sp. z o.o. ("PKP CARGO TERMINALE")** | Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company also has the ability to offer rail gauge switching services and as the only company on the country's eastern border has a 6-chamber thaw room. |
| **CARGOSPED TERMINAL BRANIEWO Sp. z o.o. ("CARGOSPED TERMINAL BRANIEWO")** | Transshipment of goods and buying and selling of coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area. |
| **CARGOTOR Sp. z o.o. ("CARGOTOR")** | Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms. |
| **PKP CARGO CONNECT Sp. z o.o. ("PKP CARGO CONNECT")** | Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the Group. |
| **PKP CARGO INTERNATIONAL a.s. ("PKP CARGO INTERNATIONAL")** | Comprehensive handling of rail freight transport (the Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile"). Rolling stock management in the PKP CARGO INTERNATIONAL Group. |
| **AWT Rosco a.s. ("AWT Rosco")** | Cleaning of rail and automobile cisterns. |
| **AWT Čechofracht a.s. ("AWT Čechofracht")** | International freight forwarding services. |
| **AWT Rekultivace a.s. ("AWT Rekultivace")** | Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc. |
| **PKP CARGO INTERNATIONAL HU Zrt. ("PKP CARGO INTERNATIONAL HU")** | Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license. |

Additionally, the list of companies accounted for under the equity method is presented in **Note[2] 5.3** to the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group prepared as at 31 March 2021.

[2] Any reference herein to a Note should be construed as a Note to the Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the period of 3 months ended 31 March 2021 prepared according to EU IFRS, unless indicated otherwise.

# 3. Information about the Parent Company

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

### MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates on the basis of regulations of law, and 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);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018 and approved by Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018;
5. other internal and external regulations.

#### Management Board's powers

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

#### Operation of the Management Board

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

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

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

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

*Source: Proprietary material*

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

- business strategy,
- business security and internal audit.

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

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

- finance management,
- purchase and sale of assets.

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

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

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

- commercial policy,
- sales of transportation services.

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

- execution of transports,
- maintenance of rolling stock.

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

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

## SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Vice-Chairperson) appointed for a joint term of office. The number of Supervisory Board members in a specific term of office is set by PKP S.A. (in the 7th term: 11 members). The term of office of the Supervisory Board is 3 years. The Supervisory Board members are 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 Vice-Chairperson. Resolutions of the Supervisory Board are adopted by a simple majority of votes. If an equal number of votes is cast "for" and "against", the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. The Supervisory Board may adopt resolutions without holding a meeting, by following a written procedure or using means of direct remote communication. The decisions with this respect are made by the Supervisory Board Chairperson at his/her own initiative or upon a written motion of the Company's Management Board 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.

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

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

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

*Source: Proprietary material*

## SUPERVISORY BOARD'S AUDIT COMMITTEE

The Supervisory Board's Audit Committee is appointed by the Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Audit Committee members, including its Chairperson, meet the independence criteria specified in § 20 and § 21 of the Company's Articles of Association and in the *Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight* (Journal of Laws of 2017, Item 1089, as amended). At least one Member of the Audit Committee has qualifications in the area of accounting or audit of financial statements and at least one Member of the Audit Committee has knowledge and skills in the specific industry in which the Company operates. The 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 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 the report

| Name | Position | Period in office | |
|---|---|---|---|
| | | from | to |
| **Dariusz Górski** | Committee Member<br>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 the report

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

*Source: Proprietary material*

## STRATEGY COMMITTEE

The Strategy Committee is appointed by the Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. The Strategy Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategy Committee supports the Supervisory Board in 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<br>Committee Chairman | 1 July 2019<br>23 September 2020 | to date<br>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 31 March 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 shares in the Company or rights to such shares by members of the Company's Management Board from 31 March 2021, i.e. from the delivery date of the 2020 annual report to the date of submission 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** | |
| Czesław Warsewicz | 3,700 |
| Leszek Borowiec | 0 |
| Piotr Wasaty | 500 |
| Witold Bawor | 46 |
| Zenon Kozendra | 46 |
| **as at 31 March 2021** | |
| Czesław Warsewicz | 2,500 |
| Leszek Borowiec | 0 |
| Piotr Wasaty | 1,849 |
| Witold Bawor | 46 |
| Zenon Kozendra | 46 |

*Source: Proprietary material*

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board from 31 March 2021, i.e. the delivery date of the 2020 annual report to the date of submission 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 31 March 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

In recent quarters, the COVID-19 pandemic (and its evolution over time) has been the main factor affecting the volume of and the rate of growth in GDP both in Poland and in the country's macroeconomic environment. The impact of the pandemic on economic processes is reflected not only in the absolute number of infections and hospitalizations, but also in the consequences effect of economic and social restrictions imposed to counteract it. According to the most recent data published by Statistics Poland, in 2020, Poland's GDP shrank by -2.7% yoy, preceded by a +4.7% yoy growth in 2019, making it the first year with a negative rate of economic growth in Poland since the beginning of the 1990s. In Q4 2020 alone, Polish GDP decreased by -2.7% yoy as compared to a decrease by -1.7% yoy in Q3 2020, and the main reason for the deterioration in the economic situation at the end of 2020 was the strongly resurging COVID-19 pandemic and the reinstatement of a significant portion of the previously relaxed restrictions.[3]

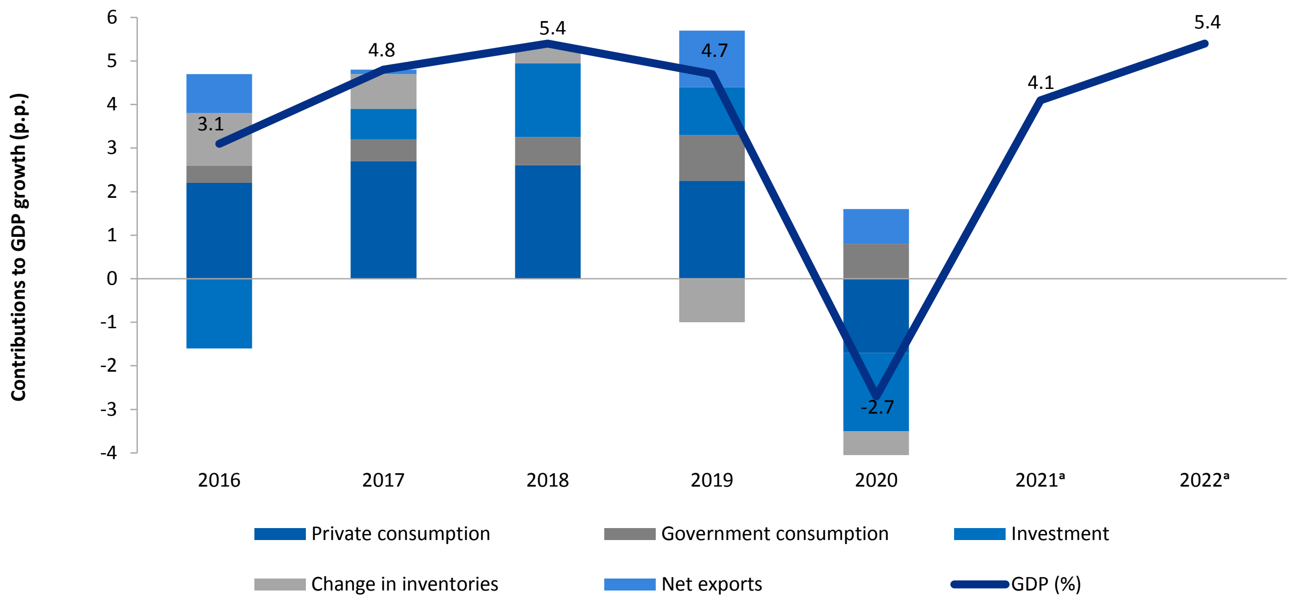
The main determinant of the decline in GDP in Q4 2020 was weak domestic demand, in particular capital expenditures (-15.4% yoy, contribution to growth: -3.9 p.p. yoy) and household consumption (-3.2% yoy and -1.7 p.p. yoy, respectively). In turn, a dampening effect on the decline in GDP was exerted by public consumption (+7.7% yoy and +1.5 p.p. yoy), the balance of inventories (+1.3 p.p. yoy) and the balance of foreign trade (+0.1 p.p. yoy), chiefly due to the upsurge in exports (+7.6% yoy).[4]

Yet another recurrence of the pandemic in February and March 2021 and the related extension of the anti-pandemic restrictions in a large swath of the economy (including trade, hotels and restaurants, culture and entertainment), coupled with the lower than previously projected vaccination rate (resulting, among other factors, from supply problems), meant that the GDP growth rate in Poland most likely remained negative in Q1 2021.[5] At the same time, it follows from incoming data that at least a partial adaptation to the pandemic reality has occurred among those economic operators that have not been affected by direct restrictions. Such conclusions may be drawn, for instance, from the very good performance of the industrial sector (including its export branches, additionally supported by the depreciation of the Polish zloty observed in recent quarters).[6] As a result, the adverse impact of the restrictions on the overall economic performance was significantly lower than in the spring of 2020. Overall, the data on economic activity for March 2021 (industrial output, construction, real retail sales) were significantly better than expected, which, along with a revision of the quarterly rate of GDP growth in 2020, suggests a relatively minor (compared to the foregoing periods) rate of decline in economic growth in Poland – according to analysts, in Q1 2021, GDP growth stood at approx. -1.0% yoy.[7]

At the same time, in the upcoming quarters of 2021, a noticeable acceleration in Poland's GDP growth rate may be expected as a result of the accelerated vaccination process (acquisition of immunity by an increasing number of people and, as a consequence, an expected loosening of restrictions), the effect of a very low statistical reference base for 2020 and the expected improvement in the global economic situation.[8] According to the latest forecasts published by the International Monetary Fund, in 2021, global GDP will increase by +6.0% yoy, preceded by a decline by -3.3% yoy in 2020, and a lion's share of leading economies will see a rapid economic rebound. This notwithstanding, the further evolution of the pandemic in Poland and its economic environment will remain the main factor affecting the rate of economic growth in the coming quarters, with key risks to GDP forecasts including a possible emergence of new variants of the virus (with an increased rate of transmission and/or greater resistance to the currently developed vaccines) or a slower than assumed global vaccination rate (resulting, among other factors, from supply limitations, especially in developing economies).[9]

[3] Statistics Poland
[4] Statistics Poland
[5] bankier.pl
[6] wnp.pl website
[7] "Gazeta Giełdy Parkiet"
[8] "Gazeta Giełdy Parkiet"
[9] International Monetary Fund

Figure 3 Real GDP growth rate in Poland in 2014-2020, its decomposition and forecasts for 2021-2022 – data not adjusted for seasonality




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

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

The better than expected data from the Polish economy at the turn of 2021 coupled with the faster than previously assumed improvement in economic conditions internationally resulted in an improvement in the medium-term outlook for the Polish economy and, as a consequence, in a revision of the NBP's macroeconomic forecasts presented in March 2021, as compared to the previous projection presented in November 2020. According to the NBP's economists, in the coming quarters the Polish economy will return to the path of positive economic growth, and the GDP growth rate will reach +4.1% yoy (+3.1% yoy in the November 2020 projections) in 2021 and +5.4% yoy (+5.7% yoy in the November 2020 forecast) in 2022.[10]

In the opinion of NBP analysts, a key determinant of GDP growth in the coming quarters will be consumer demand, both that generated by households (gradual defrosting of activity in service sectors, forecasted decline in the savings rate) and by the public sector (increased spending on health care due to the pandemic, vaccine procurement costs, redemption of tourist vouchers and aid shields). Capital expenditures will also make a positive contribution to GDP growth, but the rate of their growth will remain moderate and will be hampered, among other factors, by the persistent high degree of uncertainty and the related reluctance among enterprises to incur long-term commitments or, which will be especially true in respect of public expenditures, the unfavorable impact of the transition period between the old and new EU budget – expenditure perspectives for 2014-2020 and 2021-2027. In the longer term, investment demand should be boosted by funds spent under the so-called National Reconstruction Plan. At the same time, according to NBP economists, in the coming quarters, the balance of trade will bring a negative contribution to the country's GDP, due to its anti-cyclical nature and the rate of growth in imports larger than that in exports.[11]

NBP economists also expect a gradual decline in the average annual consumer price inflation (CPI) in Poland from +3.4% yoy in 2020 to +3.1% in 2021 and +2.8% in 2022. At the same time, in the opinion of NBP analysts, the future path of CPI inflation will be higher than that assumed in the November 2020 projection (+2.6% yoy in 2021 and +2.7% yoy in 2022), partly due to the rapid increase in the prices of commodities (especially crude oil) on global markets, higher energy prices (partly due to the introduction of a capacity fee and more expensive $CO_2$ emission allowances) and an increase in regulated prices (including waste disposal fees). At the same time, in the opinion of NBP analysts, the lower CPI inflation rate in relation to 2020 will be driven down largely by lower demand and wage pressures in the economy (gradual decline in core inflation) and cheaper food (due to good agricultural yields in 2020).[12]

[10] National Bank of Poland
[11] National Bank of Poland
[12] National Bank of Poland

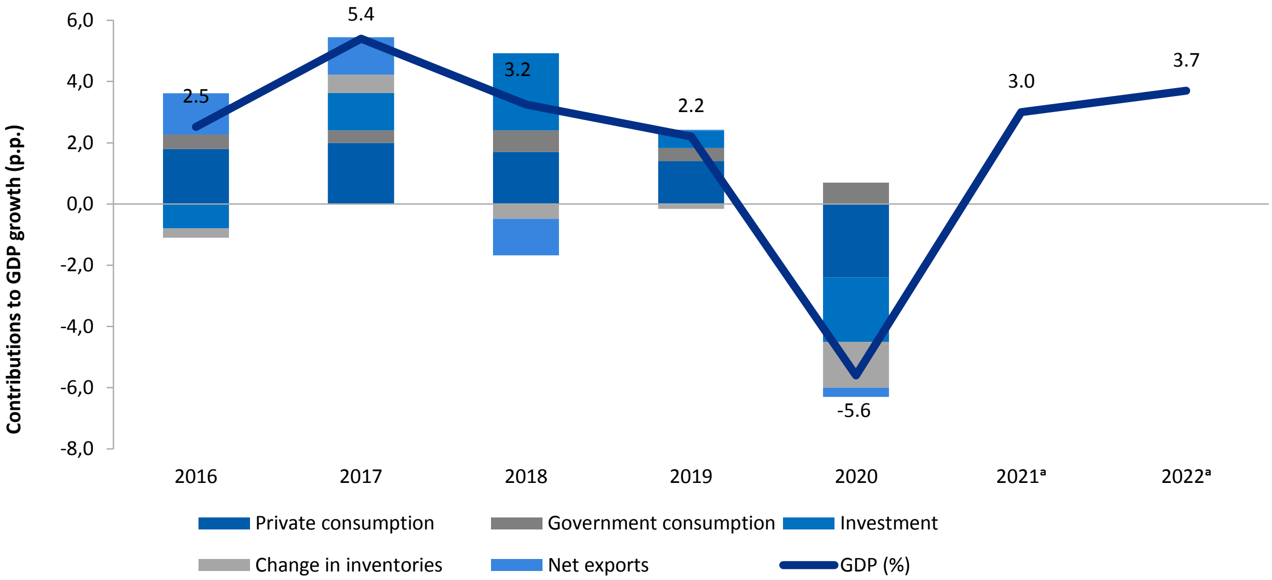
## Czech economy

In 2020, the Czech economy experienced a severe economic recession as a result of the COVID-19 pandemic and the related restrictions on business and social activities. According to figures published by the Czech Statistical Office (CZSO), the GDP growth rate in this period stood at -5.6% yoy (compared to an increase by +2.2% yoy in 2019).[13] As a result, the Czech GDP suffered the largest annual decline in the whole history of CZSO data.[14]

At the same time, due to the significantly longer duration of the anti-pandemic restrictions compared to the original assumptions (due to another major upsurge in the pandemic at the beginning of 2021), also in Q1 2021 the GDP growth rate in the Czech Republic remained negative and, according to the CZSO's preliminary estimates, stood at -0.3% qoq (compared to +0.6% qoq in Q4 2020) and -2.1% yoy (compared to -4.8% yoy in Q4 2020). [15] The performance of the Czech economy in this period turned out to be slightly stronger than the forecasts published by economists of the Czech Ministry of Finance (-0.9% qoq and -2.7% yoy), which resulted, among other factors, from the relative resistance of the Czech industrial sector to the impact of the reinstatement of anti-pandemic restrictions both domestically and internationally (as was reflected, for instance, in monthly data on economic activity and the positive contribution of net exports to GDP). [16]

According to a CZSO press release, the key factor behind the decline in the country's GDP in Q1 2021 was domestic demand, especially household consumption (chiefly due to the obligatory limitation of business for retailers and in a large chunk of service sectors). Conversely, public consumption and the balance of trade had a dampening effect on the decline in GDP, although at the same time their positive contribution to GDP growth rate was lower than in Q4 2020.[17]

Figure 4 Real GDP growth rate in the Czech Republic in 2014-2020, together with its decomposition, and 2021-2022 forecasts – data not adjusted for seasonality




a *Macroeconomic forecasts of the Ministry of Finance of the Czech Republic – April 2021*

*Source: Proprietary material based on data from the Czech Statistical Office and the Czech Ministry of Finance*

[13] Czech Statistical Office, seasonally adjusted data
[14] Czech Statistical Office
[15] Czech Statistical Office
[16] Czech Republic's Ministry of Finance
[17] Czech Statistical Office

According to the macroeconomic projections published by the Czech Ministry of Finance in April 2021, the Ministry's economists expect the Czech economy to return to the path of economic growth in the coming quarters, which, in addition to the low statistical base effect in 2020, will be supported by the gradual easing, in Q2 2021, of the previously imposed anti-pandemic restrictions (due to the acceleration of the vaccination process and the gradual acquisition of herd immunity), coupled with a continued rebound in economic activity abroad, supported by additional fiscal stimuli in a number of countries (in particular, in the United States). At the same time, the key risk factors from the perspective of GDP projections are the future rate and effectiveness of the vaccination process in the Czech Republic and the country's macroeconomic environment as well as the effectiveness of the currently developed preparations against the emerging new variants of the SARS-CoV-2 virus.[18]

Under the baseline scenario, analysts of the Czech Ministry of Finance expect that in 2021 the real rate of growth in the Czech GDP will rebound to 3.0% yoy, followed by an acceleration to 3.7% yoy in 2022. At the same time, the real volume of Czech GDP in 2021 will continue to be decidedly below the level attained prior to the outbreak of the COVID-19 pandemic. According to economists representing the Czech Ministry of Finance, a key determinant of the country's GDP growth in the coming quarters will be domestic demand, especially capital expenditures (largely due to an increase in foreign demand, demand for replacement investments, the availability of cheap funding and the commencement of public investment projects co-financed with structural funds and funds from the EU reconstruction program). In 2021, a positive contribution to GDP will also be provided by public consumption (an increase in expenditures directly related to the COVID-19 pandemic, including the purchases of medical supplies and financial aid to sectors of the economy most severely affected by the restrictions), and – to a much lesser extent – household consumption (due to a slight increase in real disposable incomes, partly as a result of a favorable effect of fiscal changes, with a simultaneous adverse impact on consumption of the increase in the unemployment rate, the persisting uncertainty and the increase in the savings rate for precautionary reasons). According to the Ministry of Finance economists, in 2021 the balance of trade will also provide a positive contribution to the country's GDP, due to the growth rate in exports (especially of goods) outweighing that in imports.[19]

In 2020, the average annual CPI inflation rate in the Czech Republic moved up to 3.2% from 2.8% in 2019. Considering the sizeable increase in the prices of food and commodities (especially crude oil) at the beginning of 2021, economists of the Ministry of Finance expect a slower than previously projected decline in the inflation rate towards the inflation target (2.0%), standing on average at 2.5% yoy in 2021 and 2.3% yoy in 2022. In the opinion of analysts of the Ministry of Finance, in the coming quarters the key factors exerting a negative impact on prices will be the relatively low demand and wage pressures coupled with the expected appreciation of the Czech koruna against major currencies (EUR, USD), causing a deflationary effect on the prices of imported goods, etc.[20]

## Industry in Poland

According to data published by Statistics Poland, in Q1 2021 the country's total industrial output sold was +7.9% greater yoy (compared to an increase by +0.9% yoy in Q1 2020).[21] It should be pointed out that the yoy increase in output in March 2021 was much greater than in the previous months of the year and stood at +18.9% (compared to +2.5% in February of this year). In this period, the very high rate of growth in industrial output resulted chiefly from the low statistical base effect of March 2020 (the period when the first anti-pandemic restrictions were imposed and had a major impact on the industrial sector), which, combined with the current good economic situation, resulted in a major hike in output growth.

In Q1 2021, sold industrial output increased in year-over-year terms in most industrial branches, including in water supply, sewage and waste management and land reclamation by +9.9% yoy, in manufacturing by +8.2% yoy (this sector accounts for approx. 90% of total industrial output) and in the production and supply of electricity, gas, steam and hot water by +7.6% yoy. In turn, a decline was recorded in mining and quarrying by -2.8% (as compared to a decrease by -7.7% the year before).[22]

In Q1 2021, sold industrial output also improved across all major industrial groupings. The largest increase in sold output was recorded in durable consumer goods: +21.4% (vis-à-vis a decrease by -3.3% the year before). Increases were also recorded in the output of intermediate goods by +10.9% yoy and investment goods by +6.6% yoy. In parallel, sales increased the least in the production of non-durable consumer goods by +0.5% yoy and energy-related goods by +0.2% yoy.[23]

In Q1 2021, an increase in sold industrial output was recorded in 23 branches (accounting for approx. 88% of total industrial output sold), with a decrease in output in 11 industrial branches. As regards key industrial sectors from the perspective of the

[18] Czech Republic's Ministry of Finance
[19] Czech Republic's Ministry of Finance
[20] Czech Republic's Ministry of Finance
[21] Statistics Poland,
[22] Statistics Poland
[23] Statistics Poland

PKP CARGO Group's transportation business, an increase in industrial output yoy in Q1 2021 was recorded, among others, in: rubber and plastic products (+15.5%), wooden products (+12.3%), vehicles and auto parts (+11.2%), furniture (+10.9%), metal products (+9.7%), chemicals and chemical products (+7.9%), machinery and equipment (+5.8%), mining of hard coal and lignite (+4.4%), paper and products made of paper (+3.9%), metals (+2.5%) and products made of other non-metallic commodities (+1.8%). In turn, the output of coke and refined petroleum products was lower than in Q1 2020 (by -15.7% yoy).[24]

In recent months, clear symptoms of a rebound in industrial activity in Poland have been observed. Although the very good level of industrial output was partly due to the statistical effect of the low reference base for 2020 (data for March), the economic situation in the domestic industry at the end of Q1 2021 deserves significant credit, especially in the context of the ongoing economic crisis caused by the pandemic. All in all, despite the still present COVID-19 pandemic in Poland and its macroeconomic environment, the imposition of harsher restrictions in the country and the risk of weakened demand generated by companies and consumers in Q1 2021, the country's industrial sector remains relatively resistant to the economic impact of the COVID-19 pandemic and plays a stabilizing role in the Polish economy (against the backdrop of poorer performance in trade, other service sectors, etc.). At the moment, no signs of cooling down in the existing good economic situation are observed in the industry.

The latest values of the Purchasing Managers' Index (PMI) for industrial processing indicate an improvement in the economic situation in the industrial sector in Poland in Q1 2021. In the corresponding period a year earlier, the PMI decreased to an average level of 46.0 points (values below 50.0 points signify an anticipated economic downturn and recession, while values above this mark are indicators of an anticipated recovery in the industrial processing sector), but currently stands at an average of 53.2 points.[25] In March 2021, the PMI for the industrial processing sector in Poland increased on a month-over-month basis for the fourth consecutive month and stood at 54.3 points, suggesting a further improvement in the economic situation in the domestic industry, having reached the highest value since January 2018. The increase in the PMI in March 2021 was driven by all its key components: new orders (especially export orders, the volume of which grew at the highest rate since October 2013, boosted by demand from other EU countries, especially Germany), current output levels and employment. Along with the strong demand, March 2021 also saw an exacerbation of supply-side problems (including labor shortages and poorer availability of consumables used in manufacturing processes). This translated into an increase the production backlog to its highest level since January 2007 and an extension in delivery times to their highest level in the history of PMI surveys. The companies participating in the survey remained optimistic about the level of production in the coming 12 months, owing chiefly to the expected post-pandemic economic recovery.[26]

In Q1 2021, the business tendency indicator for industrial processing published by Statistics Poland (GUS) stood at -8.3 points on average compared to +1.2 points in Q1 2020 (a value below the 0.0 point threshold means that more companies expect a downturn than improvement in the sector).[27] In Q1 2020, the business tendency indicator for industry published by GUS was still positive, but in Q2 it spiraled down to -33.0 points (in April alone, it plummeted to -44.2 points, which was its lowest value ever). Negative sentiments dominate the current economic climate in industrial processing, yet they are much less pessimistic than in the previous quarter (in Q4 2020, the business tendency indicator published by Statistics Poland for the industrial processing sector in Poland continued and even deepened its downward trend and fell to an average of -15.0 points in this period).[28]

In Q1 2021, the situation of the domestic industry remained affected by the consequences of the COVID-19 pandemic and the related economic and social restrictions imposed in order to curb the further spread of the epidemic, although the adverse impact of restrictions on the rate of industrial growth was already much weaker than in the spring of 2020. However, the market continued to experience a general decline in demand, additionally exacerbated by the uncertainty of the future situation and the absence of market predictability. The imposition of subsequent lockdowns translated directly into a reduction in household consumption and corporate investment. These factors certainly continued to exert an adverse impact on the rate of industrial growth and suppressed the rebound in production. Due to the reinstatement of restrictions in a number of sectors of the country's economy (including trade, accommodation and food and catering), a new economic downturn was expected in this period.

The future evolution of the COVID-19 pandemic in Poland and the global economy will remain a major determinant of the rate of growth of the Polish industry, and the degree of recovery of the industrial output level and its rate of growth will depend on how the epidemic situation develops both domestically and across the world. However, considering the current relative resilience of the industrial sector in Poland to the subsequent recurrences of the COVID-19 pandemic (manifesting itself in the adaptation of enterprises to new business circumstances), the expected economic recovery in the country and its

[24] Statistics Poland
[25] Markit IHS
[26] Markit IHS
[27] Statistics Poland
[28] Statistics Poland

macroeconomic environment, the advancement of the vaccination process and the deepening of the low reference base effect, the subsequent quarters of 2021 may bring the continuation of the high rates of growth in the country's industrial output, along with a further sharp increase in the growth rate close to 30-40% yoy (at least until the middle of the year, when a gradual slowdown may be expected).

In Q1 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:

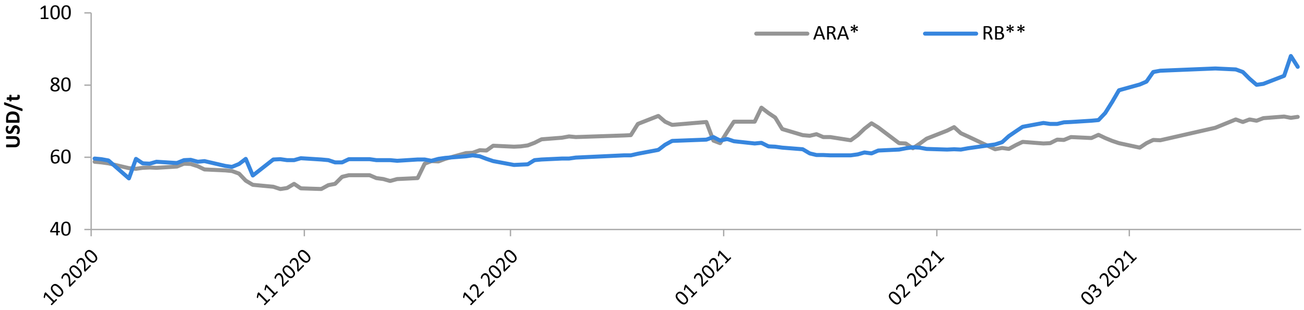
### Mining industry

- In Q1 2021, the market saw a decrease in hard coal output compared to the results generated in the corresponding period of the previous year. In this period, hard coal output declined by 1.0 million tons to 14.3 million tons (-6.3% yoy). The months of January and February turned out to be much weaker than the year before, with production figures dwindling at -15.1% yoy in January (output at 4.4 million tons) and -7.3% yoy in February (output at 4.6 million tons). Conversely, in March 2021, mines produced 5.2 million tons, or by nearly 200 thousand tons more than in March 2020 (+3.7% yoy), or +14.1% more compared to February 2021.[29]
- at the same time, in the period under analysis, hard coal sales improved by 1.7 million tons yoy (+13.0% yoy) to 14.4 million tons. Total hard coal sales in Q1 of this year also turned out to be higher than output by approx. 130 thousand tons, which in turn translated into a reduction in inventories. From January to March 2021, sales of hard coal continued an upward trend compared to the corresponding months of 2020. The growth rate in sales in January 2021 stood at +6.4% yoy, in February at +12.3% yoy, and in March the volume of domestic hard coal sales turned out to be the highest this year, having reached +19.6% yoy (up by approx. 900 thousand tons yoy to 5.4 million tons), with a simultaneous increase by +14.8% month-over-month. The March increase in sales was partly a result of the cold winter;[30]
- 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 Q1 2021, the inventory level is noticeably lower at 5.8 million tons (a decrease by 1.8 million tons, or -23.3% yoy).[31] The volume of coal in storage yards kept decreasing month by month in 2021 owing to the industry's gradually improving results. Coal sales were higher than output in February and March 2021, which in effect enabled a reduction in the volume of coal inventories kept in storage yards;[32]
- increase in hard coal imports in January 2021 to 1.2 million tons (+13.3% yoy, with a simultaneous decrease in volume compared to December 2020 by -1.7% month-over-month). During this period, the commodity was imported predominantly from Russia (up +11.8% yoy to 0.8 million tons, accounting for 64.9% of total imports to Poland);[33]
- upward trend in hard coal prices on the international market. In Q1 2021, the average coal price in the European ARA ports (Amsterdam, Rotterdam, Antwerp) was USD 66.6 per ton (compared to USD 56.2 per ton in Q1 2020), up 18.6% yoy. The significant increase in coal prices in Europe at the end of the first quarter was driven largely by increased consumption of coal in Germany and mounting freight rates. An additional factor playing a role in this trend was the cold weather, which generated an increase in demand for energy from solid fuels (coupled with a weaker output of wind energy);[34]
- in Q1 2021, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 253.91 per ton (-1.6% yoy compared to Q1 2020 and -3.8% qoq compared to Q4 2020). PSCMI 2 for the heating industry in Q1 2021 reached PLN 308.03 per ton (+2.5% yoy compared to the corresponding period of last year and -1.8% qoq).[35]
- increase in electricity consumption in Poland in Q1 2021 by 4.0% yoy to 45.3 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 (+2.2% yoy in January, +2.3% yoy in February and +7.5% yoy in March);[36]
- major increase in total electricity output in Q1 2021 by 5.8% yoy to 43.1 TWh, including in hard coal-fired commercial power plants by 26.6% yoy and in lignite-fired power plants by 12.6% yoy, with a concurrent decrease in electricity generated in gas-fired power plants by -4.2% yoy and wind farms by -29.1% yoy;[37]
- changes in the national energy mix favorable for hard coal – increase in the share of hard coal in total energy output in Q1 2021 to 56.5% (+9.3 p.p. yoy); In 2020, the share of hard coal in total energy output stood at 47.0% (-2.3 p.p. yoy);[38]

[29] Industrial Development Agency (ARP)
[30] Industrial Development Agency (ARP)
[31] Industrial Development Agency (ARP)
[32] Wysokie Napięcie [High Voltage]
[33] Eurostat
[34] Industrial Development Agency (ARP)
[35] Industrial Development Agency (ARP)
[36] Polskie Sieci Elektroenergetyczne
[37] Polskie Sieci Elektroenergetyczne
[38] Polskie Sieci Elektroenergetyczne

- following the rapid increase in electricity imports, compensating for lower domestic generation in 2020 (+24.5% yoy, with net electricity imports to Poland the highest ever and accounting for as much as 8.0% of the country's total energy consumption), in Q1 2021 a significant decline in electricity imports was recorded. The balance of foreign exchange was 2.1 TWh, or -23.4% yoy;[39]
- according to the forecast published by the International Energy Agency (IEA), demand for electricity in Europe will increase in 2021 by 2.3% (accordingly, it will not exceed the 2019 level), yet the increase in output will not translate into an increase in hard coal consumption due to the continued gradual increase in the share of electricity generation from renewable fuels and nuclear energy in this market.[40] However, in its Report on the Electricity Market, the IEA forecasts that in 2021 a moderate rebound is expected in the market and that the recovery of the global economy will push global demand for electricity up by approx. 3%.[41]
- the Polish energy sector is certainly under pressure from record prices of $CO_2$ emission allowances, which have already exceeded the EUR 50 per ton mark (for the first time ever). It should be noted that since the beginning of 2021, $CO_2$ prices have already increased by approx. 50%. Market analysts predict that the prices of market allowances will continue to mount and may even reach EUR 75 per ton by the end of the year.

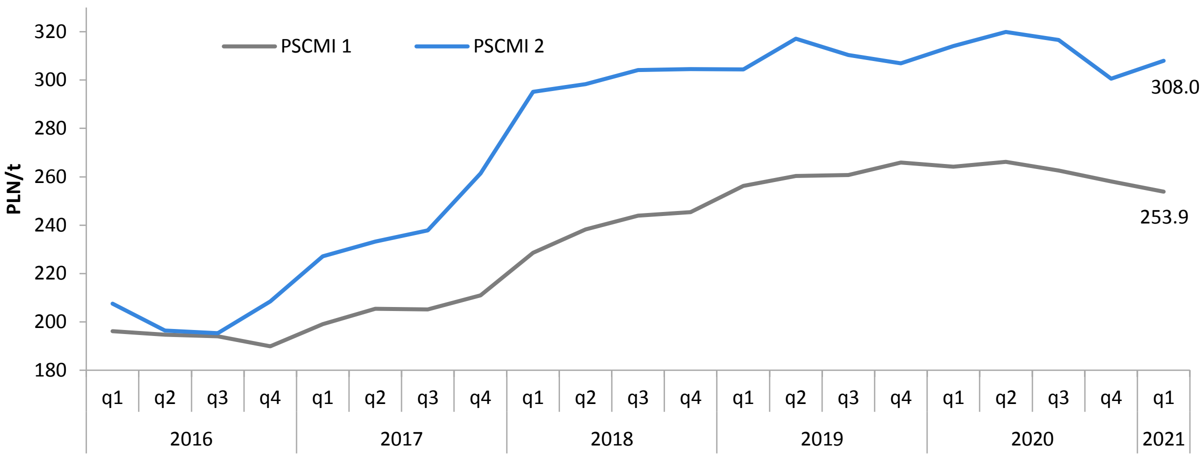
Figure 5 Current and historical values of coal price indices on the European ARA* vs. RB** markets




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

*Source: Proprietary material based on Virtual New Industry data*

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*

[39] Polskie Sieci Elektroenergetyczne
[40] Industrial Development Agency (ARP)
[41] International Energy Agency (IEA)

## Construction industry

- in Q1 2021, the country's construction and assembly output declined by 13.2% yoy (preceded by an increase by 5.8% in the corresponding period of the previous year).[42] In this period, a decline was recorded in the value of construction and assembly output across all sectors of the construction industry, including enterprises performing specialized construction works (by -8.4% yoy), erecting civil engineering structures (by -11.2% yoy) and involved in the construction of buildings (by -18.9% yoy).[43] Within the sector of works associated with the construction of civil engineering structures, a decline in construction and assembly output was recorded across all groups, namely in entities specializing in the construction of other civil engineering structures (decline in sales by -24.1% yoy), entities involved predominantly in the construction of pipelines, telecommunications and power lines (down by -12.8% yoy), and enterprises specializing in the construction of roads and railways (down by -8.2% yoy). [44]
- In Q1 2021, sales of investment works dropped to a greater extent (by -17.9% yoy) than sales of renovation works (by -4.6% yoy) – compared to the previous year increases by 4.2% and 8.9%, respectively;[45]
- in Q1 2021, a relative weakness in sectors directly associated with large infrastructural investments was noticed – production of motorways and expressways dwindled by 14.4% yoy, although increased in railways by 2.1% yoy.[46] 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" (NRCP) and the "National Railway Program". It may be expected that these production sectors should exert a favorable impact on the performance of the whole construction sector in the coming months (due to their benefitting from the expected increase in public spending).
- in Q1 2021, cement production in Poland was 3.0 million tons, having declined by -19.4% compared to Q1 2020. In parallel, the production of cement clinker decreased by 12.7% yoy (to 2.4 million tons).[47] The performance of the cement industry was affected by the weakening economic situation in construction investments and the prevailing high prices of electricity and $CO_2$ emission rights, but also largely by the weather conditions during the first 2 months of the year (the March results were already comparable in year-over-year terms). The growing imports from outside the European Union and the halting of investments by local governments (burdened with the costs of counteracting the pandemic) exert an unfavorable impact on this market. 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).[48] In 2021, a large number of investment projects pursued in the east of Poland (e.g. Via Carpatia, Via Baltica or Rail Baltica) may encourage producers from across Poland's eastern border to increase their exports to the country. 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).[49] This notwithstanding, long-term forecasts for the cement segment are favorable – the Cement Producers Association predicts stable and robust demand for cement, in excess of even 20 million tons per year by 2025, owing to the spending of funds from the new EU budget and the Reconstruction Fund, coupled with activities related to the European Green Deal.[50]
- Currently, an intense development of the national road network is underway. The General Directorate for National Roads and Motorways announced that 108 tasks are in progress (under the NRCP) with a total length of 1,409.3 km valued at PLN 51.8 billion, along with 5 ring roads (under the PB100) with a total length of 28.8 km valued at PLN 527 million. Another 18 tasks are at the tender stage (under the NRCP) with a total length of 245.1 km, along with 8 ring roads (under the PB100) with a total length of 78.1 km, while 105 tasks (under the NRCP) with a total length of 2,093.6 km and 87 ring roads (under the PB100) with a total length of approx. 750 km are still under preparation. At the same time, intense work is underway on motorways (254.6 km are under construction, 32.3 km are under preparation). In 2020, the General Directorate for National Roads and Motorways opened 137.7 km of new roads, 35 contracts were signed for a total length of 450 km and a total value of over PLN 18 billion, and tenders were announced for 48 sections (under the NRCP and PB100) with a total length of 600.2 km and an estimated value of over PLN 21 billion. The plan for 2021 calls for opening at least 385.5 km of new roads (including 39.6 km of motorways, 308.2 km of expressways and 37.7 km of ring roads). The plans for this year

[42] Statistics Poland (preliminary estimate for the whole population)
[43] Statistics Poland, enterprises employing more than 9 persons
[44] Statistics Poland, enterprises employing more than 9 persons
[45] Statistics Poland, enterprises employing more than 9 persons
[46] Statistics Poland
[47] Statistics Poland
[48] Wirtualny Nowy Przemysł [Virtual New Industry]
[49] Institute for Economic Forecasts and Analyses
[50] Cement Producers Association

include the announcement of tenders for approx. 350 km of expressways and ring roads, estimated at PLN 17.6 billion, and for tasks on the existing network with a total length of approx. 335 km and an estimated value of PLN 2.5 billion.[51]

- 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;[52]
- The governmental National Road Construction Program until 2030 (to be adopted in Q4 2021) assumes total spending of PLN 258 billion. Under this program, new sections of motorways and expressways with a length of approx. 2,000 km will be built, and the construction of 28 ring roads will be completed using funds from the EU framework for 2014-2020. Expenditures on new tasks amount to approx. PLN 153 billion (the rest is the transfer of funds from investments executed under the current NRCP). Construction work on major tasks under the new EU budget is planned for 2023.[53]

## Steel industry

- After the significantly reduced demand for steel and metallurgical products in Poland and in its macroeconomic environment, intensified by the consequences of the global pandemic, which in 2020 translated into a decline in the overall production volume, favorable market trends, observable already in Q4 2020, when the end of the year saw a recovery in the steel industry and sector, persisted on the market. In line with the improving market demand, steel companies are gradually putting their plants into operation, because inventory levels throughout the supply chain are relatively low. The prices of steel products currently remain at high levels, and companies in this industry are responding to last year's crisis situation while experiencing a significant increase in demand (especially in the case of manufacturers of flat products, who suffered a significant adverse impact of the pandemic, largely due to the stagnation in the automotive industry). This will cause an increase in the quantum of products transported for the metallurgical sector and commodities consumed in the steel production process (iron ores, coke).
- global production of crude steel in Q1 2021 totaled 486.9 million tons (+10.0% yoy).[54] Steel production in the European Union increased to 37.8 million tons (+3.1% yoy), while steel production in Asia totaled 356.9 billion tons (+13.2% yoy). In Q1 2021, steel exporting countries generated much better results than the EU producers (steel output in China went up +15.6% yoy). However, the competitiveness of the European steel industry is weakened by imports of steel products, coupled with high energy prices and additional fees imposed on the steel sector;[55]
- decline in crude steel output in Poland in Q1 2021 by -5.0% yoy to 2.1 million tons and, among others, in the volume of manufactured hot-rolled products by -6.2% yoy to 2.2 million tons, cold-rolled sheets by -0.6% yoy to 0.6 million tons and rods and flat bars by -7.6% yoy to 0.8 million tons, with an increase in the production of thin sheets by +0.9% yoy to 0.3 million tons and hot-rolled bars and rods by +16.0% yoy to 0.4 million tons.[56] The decline in steel production was caused by a further reduction in demand for steel and steel products as a result of the weaker economic activity resulting from the COVID-19 pandemic. However, this situation is also related to factors of a structural nature, such as strong import competition (greater price competitiveness of imported production, excess production capacity in the global market, including the EU), and increasing production costs, including due to environmental and ecological charges (the European Union's energy and climate policy resulting in increasing costs of $CO_2$ emissions, electricity and coke) – all these factors translated into continued scaling down of operations by some generating entities active in this sector;
- increase in coke output in Poland in Q1 2021 by 7.0% yoy to 2.3 million tons. In this area, a clear recovery has prevailed since November 2020;[57]
- permanent shutdown of the raw material part of the Krakow steelworks (blast furnace and steel plant) by the country's largest supplier of steel products. The reason for the decommissioning of the blast furnace, in addition to the impact of the pandemic, the unfavorable economic situation on the steel market and very limited demand, was also the troubled

[51] General Directorate for National Roads and Motorways
[52] Wirtualny Nowy Przemysł [Virtual New Industry]
[53] Wirtualny Nowy Przemysł [Virtual New Industry]
[54] World Steel Association
[55] World Steel Association
[56] Statistics Poland
[57] Statistics Poland

macroeconomic situation coupled with the high costs of $CO_2$ emissions, rising electricity prices and the imposition of additional fees in the capacity market starting in 2021.[58]

- ArcelorMittal's performance in Q1 2021 and the 6.5% qoq increase in steel shipments also reflect a noticeable recovery in market demand. According to ArcelorMittal data, steel shipments increased in Q1 2021 from 15.5 to 16.5 million tons, with the first three months of the year described as "the best quarter in a decade" for the conglomerate.[59]
- The good situation on the metallurgical market, supported by the persistently high prices of steel products, will certainly translate into the financial performance of Jastrzębska Spółka Węglowa (provider of coking coal used in steel production and entered in the list of EU strategic raw materials). As a result of the recovery on the steel production market and in the automotive industry, JSW is currently focusing on the deployment of investments, striving to become a producer of almost exclusively coking coal within a decade.
- another major factor currently affecting the output of the steel sector in Poland and the European Union is an insufficient degree of protection measures taken against imports from third countries (including the Commonwealth of Independent States) that are not subject to EU climate requirements. Of key significance for the future of the steel industry in the European Union will be the adoption of a carbon levy, which will mark a turning point for the whole European steel industry. As the costs of carbon dioxide emissions in the EU are rising at a fast pace, the announced levy will involve the inclusion of carbon footprint in the prices of imported products, which will create a certain barrier for cheap products from outside the EU (for instance, from China) and will certainly form a significant advantage for Polish steel companies.
- the good industrial performance at the end of 2020 and in Q1 2021, the already noticeable rebound in demand and the increases in the prices of metallurgical products are harbingers of hope for a tangible recovery in the steel market and for a major improvement in the industry's results in 2021. In Europe, certain steel-producing furnaces have been closed (e.g. the one in Kraków). For this reason, as demand starts to rebound, the market is likely to experience shortages in output. The steel sector's anticipated good performance in 2021 will certainly be driven partly by state aid programs aimed at rebuilding the economy after the pandemic, which will stimulate growth in demand for steel. The situation and potential of the automotive market, which normally is a significant consumer of steel but has suffered a major blow due to the pandemic (in 2020, new car registrations plummeted by 20% in Europe), will likely provide a good stimulus for a noticeable growth in the steel industry;
- the World Steel Association's forecast for 2021 and 2022 assumes that demand for steel in 2021 will total 1,874.0 million tons (up by 5.8% yoy), following a decrease by 0.2% yoy in 2020. In 2022, demand for steel will reach 1,924.6 million tons (up by 2.7% yoy). This forecast is based on the assumption that the epidemiological situation will stabilize in Q2 2021 due to ongoing progress in the rollout of vaccinations;[60]
- according to the Economic Committee of the World Steel Association, demand for steel should improve significantly in the coming years, in developed and developing economies alike, supported by robust market demand and governmental recovery programs. However, it is estimated that it will take several years before demand for steel returns to its pre-pandemic levels. There is still a great deal of uncertainty about the situation in 2021 due to the evolution of the epidemiological situation.[61] The situation on the steel market is closely correlated with the overall economic situation, especially in the construction sector. It may be assumed that steel consumption in Poland in the following quarters of 2021 will intensify as a consequence of growing demand reported by the construction industry (including in infrastructural investments) and relatively strong demand generated by other branches of the industry (such as the automotive sector). However, the increasing costs of electricity, combined with the swelling costs of $CO_2$ emission rights and increasing coke prices, will certainly result in a hike in production costs in 2021 for producers of both steel and steel products.

[58] Wirtualny Nowy Przemysł [Virtual New Industry]
[59] Wirtualny Nowy Przemysł [Virtual New Industry]
[60] World Steel Association
[61] World Steel Association

## Industry in the Czech Republic

In Q1 2021, the volume of industrial output in the Czech Republic increased by 3.5% yoy (compared to an increase by 1.7% yoy in Q4 2020 and a decrease by 7.2% yoy in the whole 2020). At the same time, in this period, the rate of growth in the industrial sector was under the strong influence of the low statistical base effect of March 2020. Following the year-over-year decline in industrial output in January and February 2021 (caused by such factors as the strong relapse of the COVID-19 pandemic in the Czech Republic and its macroeconomic environment, coupled with supply-side problems related to the extended delivery times and availability of materials and components), in March 2021 its volume increased by as much as 18.2% yoy. Such a rapid growth in output was mostly due to the low reference base of March 2020 (when production withered by 9.6% yoy).[62] At the same time, considering the relative resilience of the industrial sector to the subsequent recurrences of the COVID-19 pandemic (manifesting itself in the adaptation of enterprises to new business circumstances) and the expected economic recovery in the Czech Republic and its macroeconomic environment (along with the advancement of the vaccination process and the acquisition of herd immunity), in the coming quarters the high rate of growth in industrial output in the Czech Republic is expected to persist. An additional factor supporting the expectation of the year-over-year increase in output will be, especially in Q2 2021, the very low statistical base of 2020.

The gradual recovery in the Czech industrial sector is also reflected in the greater inflow of new purchase orders. In Q1 2021, the total volume of new purchase orders increased by 7.2% yoy. Broken down into the sources of this demand, export orders increased by 13.1% yoy (having grown at the largest rate since 2016), while domestic orders decreased by 4, 6% yoy. Although also in the case of new purchase orders, the effects of the statistical base of Q1 2021 had a significant impact on the year-over-year growth rate, an analysis of monthly data reveals an increased year-over-year inflow of purchase orders starting in the autumn of 2020 (for which the reference period was a time interval preceding the COVID-19 pandemic).[63]

The main driver of growth in industrial output in Q1 2021 was the processing segment (+3.5% yoy), supported by the sector related to electricity generation and water and gas supply (+4.1% yoy). Conversely, the volume of output in the mining and quarrying of raw materials was lower than in the corresponding period of 2020 (-3.1% yoy).[64]

In most of the key industrial sectors (from the perspective of the potential for the provision of transport services by PKP CARGO Group companies), an increase was reported in year-over-year output in Q1 2021. In this period, the volumes of production increased in such sectors as motor vehicles (+8.8% yoy), wood and wood products (+6.7% yoy), chemicals and chemical products (+6.6% yoy), metals (+5.2 % yoy) and metal products (+4.7% yoy). Compared to Q1 2020, decreased volumes were reported in hard coal and lignite mining (-3.5% yoy) and products made of other non-metallic raw materials (-1.5% yoy).[65]

The recent PMI values are also consistent with the gradual improvement observed in the Czech Republic's industrial sector. In Q1 2021, the PMI stood at an average level of 57.2 points, compared to 54.3 points in Q4 2020 and 46.9 points in the whole of 2020 (values above the 50.0-point threshold signify a recovery in the industrial sector). At the same time, in March 2021 the PMI for the Czech Republic stood at 58.0 points, which was its highest value in more than three years. In this period, all key components of the index contributed to the rapid increase in the PMI: current production levels, new purchase orders (including, in particular, export orders, the sub-index of which increased to the highest level since April 2018) and employment.[66] In parallel to the stronger demand, March 2021 also saw an exacerbation of supply-side problems (disturbances in supply chains), caused partly by the availability of materials used in production processes and delays in supplies. In general, the enterprises participating in the survey expect the Czech industrial sector to stick to the upward trend in the coming quarters – in March 2021, the sub-index of the projected output level during the next 12 months was at its second highest level since July 2018, reflecting market expectations related to a post-pandemic recovery and a gradual loosening of restrictions both domestically and internationally.[67]

Transport activities of the PKP CARGO Group companies on the Czech market are focused primarily on the transport of solid fuels (hard coal and coke), crude oil and its products, chemicals and other chemical products, and intermodal freight (with a significant share of output generated by the automotive sector). The overall situation of the country's economy and, in particular, of related industries (mining of raw materials, power generation, metallurgy and manufacture of motor vehicles and machinery) translates directly into demand for transport services, and thus exerts an impact on the operating and financial performance of members of the PKP CARGO Group rendering services in the Czech Republic.

[62] Czech Statistical Office
[63] Czech Statistical Office
[64] Czech Statistical Office
[65] Czech Statistical Office
[66] Markit PMI
[67] Markit PMI

In Q1 2021, key factors affecting the economic situation in these industrial sectors included:

- the economic recession in the Czech Republic and its macroeconomic environment triggered by the COVID-19 pandemic, translating significantly into the production volumes in most industries. Key branches of the Czech industrial sector include automotive and machinery production, that is industries which have been relatively hardest hit by the economic consequences of the COVID-19 pandemic, both in terms of demand (lower demand for their products) and supply (problems with the availability of parts and components and their increasing prices, coupled with an increased level of employee absenteeism);
- increase in hard coal output (predominantly coking coal), despite the phasing out of operations, as was previously announced, in February 2021 by OKD's ÇSA and Darkov mines.[68] According to data released by the Czech Ministry of Industry and Trade, in Q1 2021 the volume of hard coal mined in the Czech Republic was 0.9 million tons (+37.6% yoy), including 0.5 million tons of coking coal (+65.9 % yoy) and 0.4 million tons of thermal coal (+14.9% yoy).[69] Imports of this commodity in January-February 2021 increased to 0.6 million tons (+18.1% yoy), while exports increased to 0.2 million tons (+29.1% yoy);[70]
- robust improvement in the economic situation in the steel sector. According to operating data of Liberty Ostrava (the Czech Republic's largest steel producer), in Q1 2021 the volume of steel output increased by more than 20% yoy compared to the corresponding period of 2020 and by over 70% compared to Q2 2020 (which was a business shutdown period resulting from the COVID-19 pandemic).[71] During this time interval, monthly volumes of steel production were at their highest level since 2016. The anticipated economic recovery in the Czech Republic and its macroeconomic environment, boosted by a further increase in demand for steel products, should translate into persisting high levels of production also in the coming months;
- slight yoy increase in the volume of output of the automotive sector: in Q1 2021, Czech manufacturers made a total of 0.3 million motor vehicles of all types (passenger, trucks, buses and motorcycles), 2.9% more than in the corresponding period of 2020. However, the quarterly increase in year-over-year output was largely a result of the low statistical base effect of March 2020 – in this period, key manufacturers (Skoda, Toyota, Hyundai) experienced production downtimes caused by, among other factors, supply chain disruptions as a consequence of the COVID-19 pandemic. In January and February 2021, the volume of output generated by the Czech automotive sector was still several percent below the level attained in the period immediately preceding the outbreak of the pandemic. According to AutoSAP representatives, despite certain symptoms of a recovery in demand, the prospects for the automotive sector in the Czech Republic are still largely uncertain, exacerbated by an additional factor adversely affecting the sector's condition: problems with the availability of parts and components, and their increasing prices.[72]

[68] OKD a.s.
[69] Ministry of Industry and Trade of the Czech Republic
[70] Ministry of Industry and Trade of the Czech Republic; data for March 2021 were not yet available at the time of preparation of this report
[71] Liberty Ostrava
[72] AutoSap

## 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

In Q1 2021, a total of as many as 88 operators were active on the Polish rail freight market under a license issued by the President of the Office of Rail Transport and providing freight transport services.[73] This means that, in Q1 2021, 4 new operators appeared on the market (after as many as, for instance, 10 new operators appeared in Q2 2020 alone). Currently, 3 members of the PKP CARGO Group are active on this market: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s.[74]

In Q1 2021, rail freight operators transported a total of 56.7 million tons of cargo (+4.4% yoy) and achieved a freight turnover of 12.8 billion tkm (+2.9% yoy). The less rapid improvement in terms of freight turnover was caused by a decrease in the average haul, which in Q1 2021 stood at 226 km, compared to 229 km in Q1 2020 (-1.4% yoy).[75]

In Q1 2021, the rail freight market in Poland grew in year-over-year terms mainly owing to the performance generated in March, which turned out to be by far the best month for rail freight transport in 2021. In this month alone, freight volume surpassed 21.3 million tons, having increased by as much as +10.5% compared to March 2020. At the same time, freight turnover also increased to 4.8 billion tkm (+8.3% yoy, with a decrease in the average haul by 4 km). March was the strongest month in terms of the quantum of cargo transported by rail in 2021, with a significant increase in freight volume compared to both the previous months and some months of the pre-pandemic period. Compared to the February 2021 performance, freight volume increased in March by as much as +19.4% mom, while freight turnover increased even more (+21.5% mom). This is a significant symptom of the recovery in the rail freight market, heralding the market's increasingly improved standing and potential. It is also worth pointing out that, in Q1 2021, the rail freight market saw some new entrants.

At the end of Q1 2021, the economic situation in the rail freight market and in the domestic industry was relatively good, especially in the context of the ongoing economic crisis in the pandemic reality. In recent months, clear symptoms of recovery in Poland's industrial sector have been observed, with the sector remaining relatively resistant to the economic impact of the COVID-19 pandemic and playing a stabilizing role in the Polish economy (against the backdrop of poorer performance in trade, other service sectors, etc.). Ultimately, despite the impact of the COVID-19 pandemic in Poland and the macroeconomic environment, the imposition of stricter restrictions across the country and the risk of weakened demand generated by companies and consumers, industrial output in Q1 2021 was +7.9% higher yoy,[76] which translated noticeably into an improvement in the situation of the rail transport sector and an optimistic outlook for the following months of 2021.

During the first 2 months of 2021, the following changes in rail transport year-over-year performance were recorded in the cargo categories defined by Statistics Poland:[77]

- hard coal (freight volume up by 3.6% yoy to 13.8 million tons). The year-over-year increase in the freight volume of hard coal largely resulted from the greater electricity consumption in Poland and, as a consequence, stronger demand for this commodity generated by power plants, an increase in electricity generation and changes in the national energy mix favorable to hard coal (major increase in the share of hard coal in total energy output), an increase in hard coal sales on the market, lower inventories and a higher volume of imports;
- aggregates, stone, sand and gravel (freight volume down by 15.7% yoy to 5.1 million tons). The persisting uncertain economic situation in the construction industry and the plunge in demand generated by buyers executing large infrastructural investments under the National Road Construction Program and the National Railway Program (partly as a result of excessive inventories, delays caused by attempts to renegotiate the value of their previously signed contracts and difficulties in conducting and completing new tenders) translated into a yoy decrease in the volume of transported aggregates;
- iron ore (up 21.9% yoy to 1.2 million tons), metals and metal products (down -1.5% yoy to 1.6 million tons) and coke (up 4.7% yoy to 1.8 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

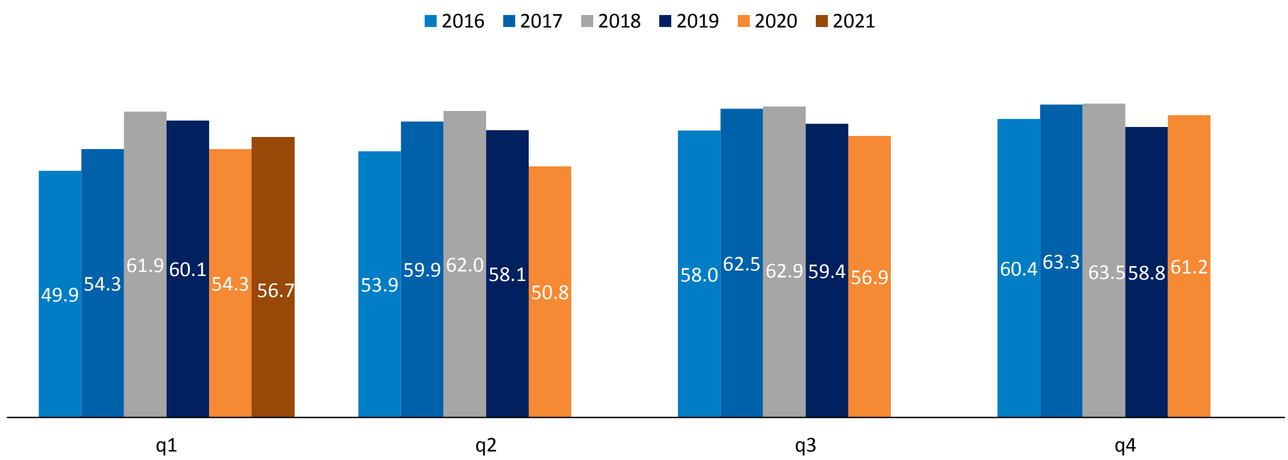
[73] Office of Rail Transport, the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating in the market under an international license, including a PKP CARGO Group member, PKP CARGO International a.s.
[74] Office of Rail Transport
[75] Office of Rail Transport
[76] Statistics Poland,
[77] Statistics Poland – data for the first 2 months of 2021. Data for March and the whole Q1 2021 will be available at the end of May 2021.

2020 and the beginning of 2021 brought a recovery and a rebound to this market. Steel-intensive industries (including automotive and machinery production) were among the sectors of the country's economy most severely affected by the first wave of the COVID-19 pandemic, yet currently they are recording the highest rates of growth;

- refined petroleum products (up 1.9% yoy to 2.7 million tons). The slight revival in liquid fuel transport services resulted chiefly from the increase in demand, following significant drops related to the COVID-19 epidemic.

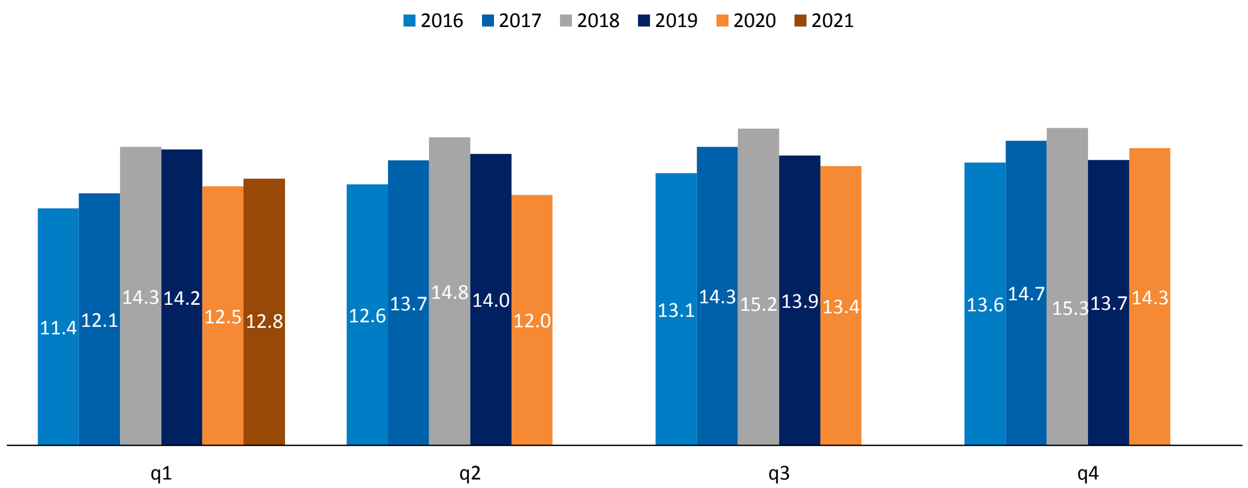
In aggregate, during the first 2 months of 2021, these cargo categories accounted for 76% of the market's total freight volume.

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




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

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

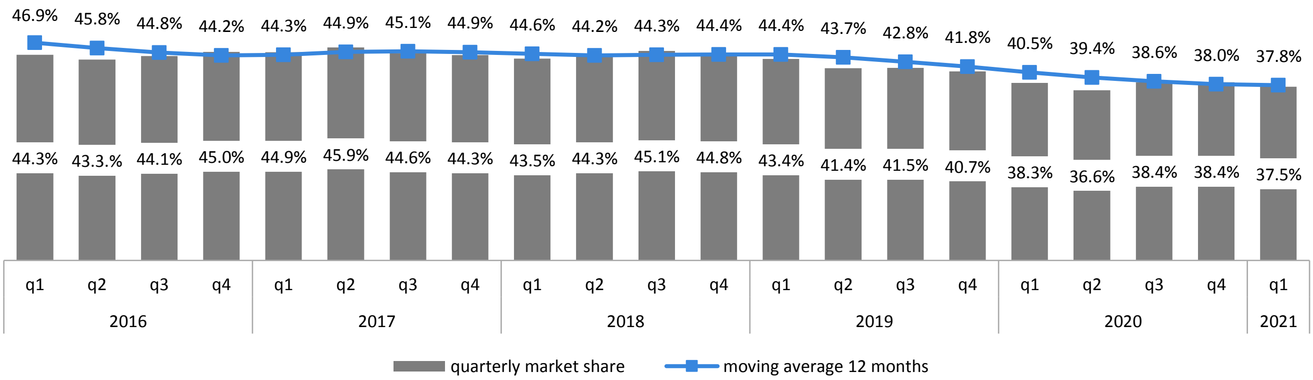



*Source: Proprietary material based on the Office of Rail Transport's data*

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

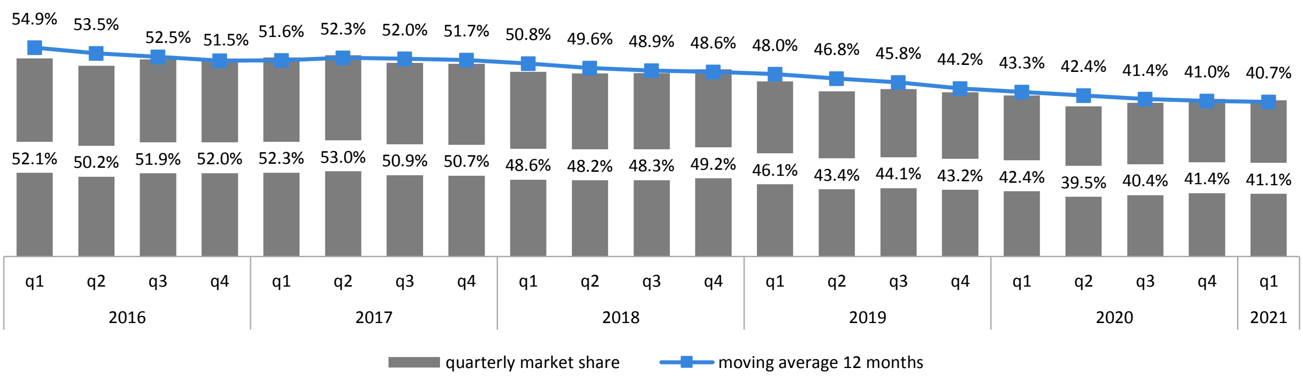
Despite the decline in yoy market shares, in Q1 2021, the PKP CARGO Group[78] retained its strong leading position on the rail freight transport market in Poland with a 37.5% market share (-0.8 p.p. yoy) in terms of freight volume and a 41.1% market share in terms of freight turnover (-1.3 p.p. yoy). The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 36.2% (-0.9 p.p. yoy) and 40.8% (-1.3 p.p. yoy), respectively, in Q1 2021.[79]

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




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

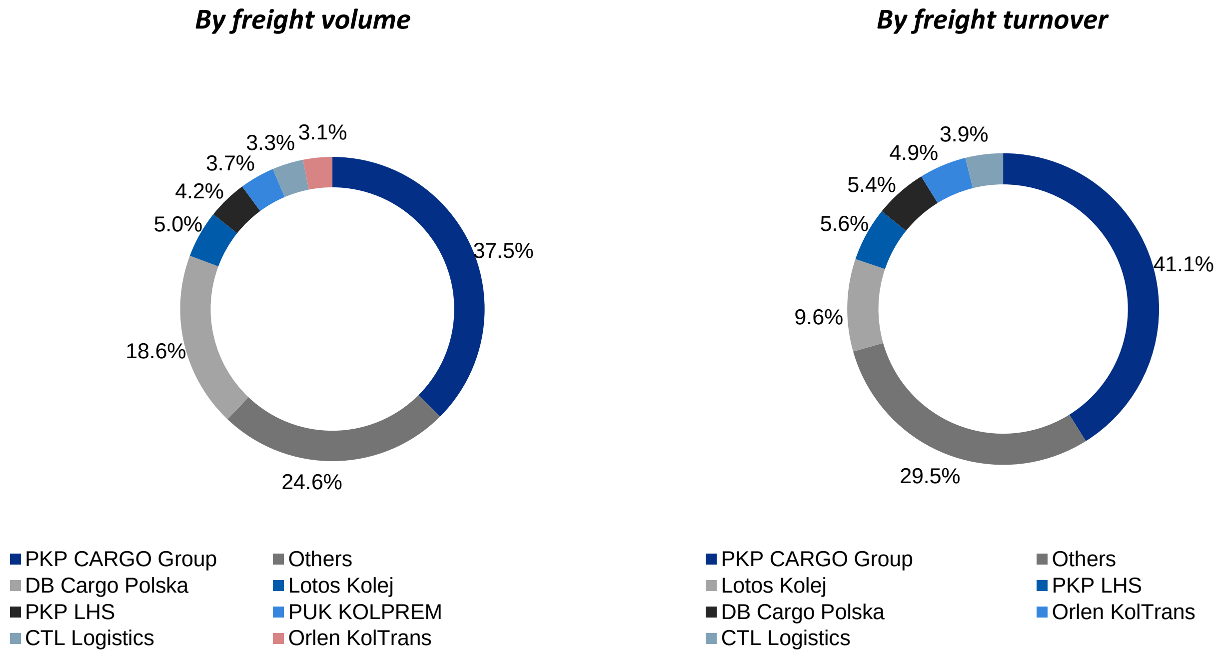
Figure 10 Share of the PKP CARGO Group in total freight turnover in Poland in 2016-2021




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

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

Figure 11 Market shares of the largest rail operators in Poland in Q1 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 Q1 2021, the PKP CARGO Group's competitors transported a total of 35.4 million tons of freight (+5.8% yoy). In this period, the largest freight volume was transported by DB Cargo Polska companies (10.5 million tons, up 6.6% yoy), Lotos Kolej (2.8 million tons, down 4.4% yoy) and PKP LHS (2.4 million tons, up 5.6% yoy).[80]

At the same time, in Q1 2021, freight turnover generated by operators competing with the PKP CARGO Group increased by 5.2% yoy, to 7.5 billion tkm. In this period, the largest freight turnover was achieved by the following competitors: Lotos Kolej (1.2 billion tkm, down 1.5% yoy), PKP LHS (0.7 billion tkm, down 2.4% yoy) and DB Cargo Polska (0.7 billion tkm, up 9.2% yoy).[81]

In Q1 2021, the average haul of competitive rail operators was shortened to 213 km (-0.5% yoy).[82]

In terms of freight volume, the following competitors of the PKP CARGO Group recorded the largest yoy decreases in market share in Q1 2021: CTL Logistics (-0.5 p.p. yoy, freight volume down by 9.1% yoy), Freightliner PL (-0.5 p.p. yoy, freight volume down by 17.6% yoy) and Lotos Kolej (-0.5 p.p. yoy, freight volume down by 4.4% yoy). The market shares of small rail operators (with a unit share of less than 0.5%) also decreased significantly on a year-over-year basis (-0.5 p.p. yoy, freight volume down by 2.6% yoy). In terms of freight turnover, the market shares of the following companies decreased the most in year-on-year terms: Freightliner PL (-0.7 p.p. yoy, freight turnover down by 20.7%), CTL Logistics (-0.5 p.p. yoy, freight turnover down by 9.1% yoy), Captrain Polska (-0.5 p.p. yoy, freight turnover down by 20.2% yoy), Lotos Kolej (-0.4 p.p. yoy, freight turnover down by 1.5% yoy) and PKP LHS (-0.3 p.p. yoy, freight turnover down by 2.4% yoy). In this context, the market shares of small rail operators (with a unit share of less than 0.5%) also decreased significantly on a year-over-year basis (-0.9 p.p. yoy, freight turnover down by 12.2% yoy).[83]

In Q1 2021, companies pursuing and expanding the scale of business in the intermodal segment – especially Ecco Rail and PCC Intermodal – performed very well on the rail freight market.[84] In this period, Ecco Rail's market share increased by +0.5 p.p. yoy

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

in terms of freight volume, and by +0.9 p.p. yoy in terms of freight turnover. PCC Intermodal recorded increases of +0.3 p.p. yoy in freight volume and +0.6 p.p. yoy in freight turnover.[85]

Moreover, the role of recent very active entrants into the rail transport market also seems to be growing. An example is the rail operator Karpiel, whose services in Q1 2020 were still at a minimum level, but currently recorded an increase in the market share at the level of +0.5 p.p. yoy in terms of freight volume and as much as +0.8 p.p. in terms of freight turnover.

It should be noted that the major increase in year-over-year transport services and market shares was recorded in Q1 2021 by the specialized operator Orlen KolTrans (a subsidiary of a large group focused on transport services ordered by its parent company), which attained an increase in the market share by +0.3 p.p. yoy in terms of freight volume and +0.8 p.p. yoy in terms of freight turnover – while other specialized operators, specifically Lotos Kolej, Ciech Cargo, PUK Kolprem, Rail Polonia, JSW Logistics and Pol-Miedź Trans, recorded a decrease in their market shares in terms of freight volume.[86]

The largest increase in freight volume in terms of value in Q1 2021 in relation to the performance generated in the corresponding period of 2020 was reported by DB Cargo Polska, which allowed this carrier to increase its market share in terms of freight volume by +0.4 p.p. yoy and at the same time by +0.3 p.p. yoy in terms of freight turnover.[87]

### 4.2.3 Rail freight transport market in the Czech Republic

In 2020, a total of 561.6 million tons of cargo was transported in the Czech Republic (-9.2% yoy) and freight turnover stood at 73.4 billion tkm (+27.1% yoy). In this period, a yoy decrease in freight volume was recorded in all transport segments, whereas freight turnover increased on a yoy basis only in the road transport segment. The increase in freight turnover for the whole transport sector, coupled with a simultaneous sharp decline in freight volume, resulted from a significant extension of the average haul for all transportation segments. In 2020, the average haul in the Czech Republic increased by as much as 40.0% yoy and reached 130.7 km, as part of which the road transport segment recorded an extension of the average haul by as much as 57.5% yoy to 122.0 km (compared to 77.5 km in 2019). Despite its strong yoy growth, the average haul in the case of road transport services remains below that for other modes of transport, including rail.[88]

Table 11 Freight transport market in the Czech Republic in 2020

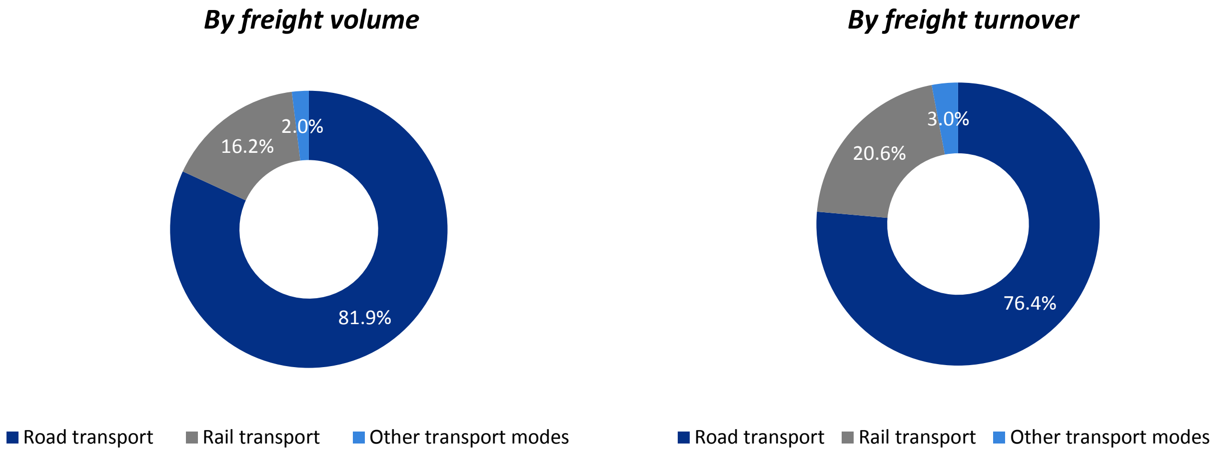
| Item | FREIGHT VOLUME | | | FREIGHT TURNOVER | | | AVERAGE HAUL | | |
|---|---|---|---|---|---|---|---|---|---|
| | Volume (million tons) | Change yoy | Change % yoy | Volume (billion tkm) | Change yoy | Change % yoy | Distance (km) | Change yoy | Change % yoy |
| Total market | 561.6 | -57.0 | -9.2% | 73.4 | 15.6 | 27.1% | 130.7 | 37.3 | 40.0% |
| Road transport | 459.7 | -44.4 | -8.8% | 56.1 | 17.0 | 43.6% | 122.0 | 44.5 | 57.5% |
| Rail transport | 90.9 | -7.7 | -7.8% | 15.1 | -0.9 | -5.8% | 166.6 | 3.5 | 2.1% |
| Other transport branches | 11.0 | -4.9 | -30.8% | 2.2 | -0.5 | -17.2% | 199.2 | 32.7 | 19.7% |

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

In 2020, rail transport in the Czech Republic recorded a yoy drop in freight volume to 90.9 million tons (-7.8% yoy) and freight turnover to 15.1 billion tkm (-5.8% yoy). These results translated into an increase in the share of rail transport in total freight volume (+0.3 p.p. yoy) with a concurrent decrease in the share in total freight turnover (-7.2 p.p. yoy).[89]

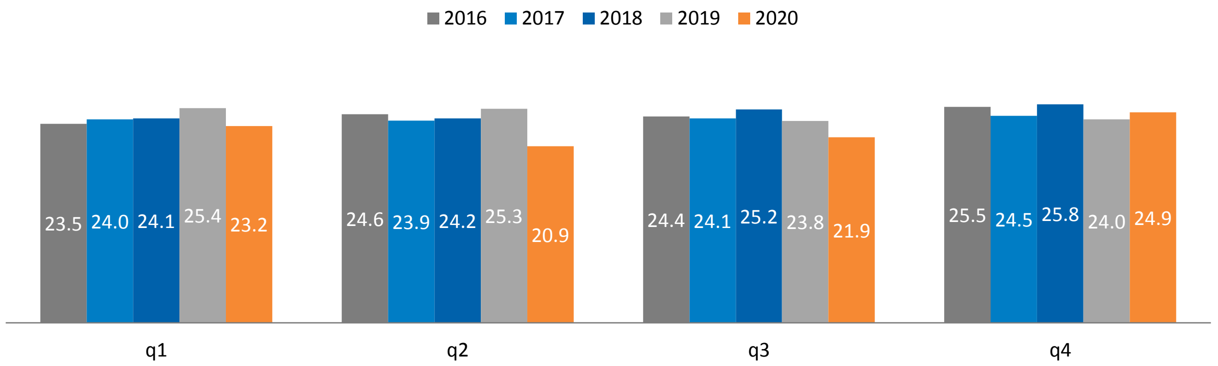
[85] Proprietary material based on Office of Rail Transport data
[86] Proprietary material based on Office of Rail Transport data
[87] Proprietary material based on Office of Rail Transport data
[88] Ministry of Transport of the Czech Republic
[89] Ministry of Transport of the Czech Republic

Figure 12 Shares of transport sector branches in the freight transport market in the Czech Republic in 2020



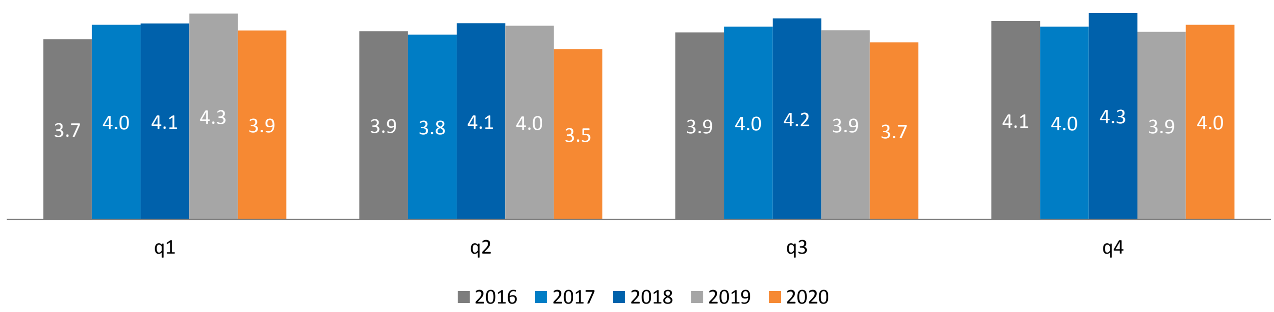

*Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic*

Figure 13 Quarterly rail freight transport in the Czech Republic by freight volume in 2016-2020 (million tons)




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

Figure 14 Rail freight transport in the Czech Republic by freight turnover broken down by quarter in 2016-2020 (billion tkm)




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

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

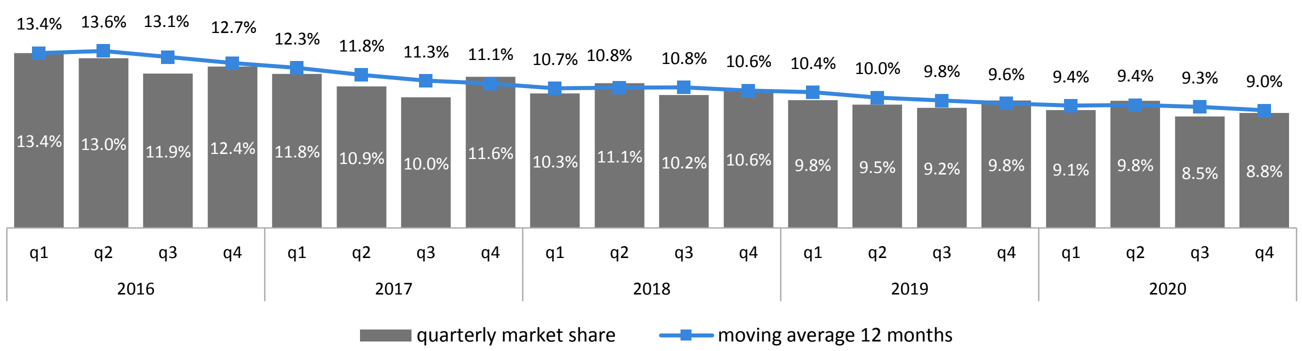
According to data published by the Czech rail infrastructure manager (SŽDC), 123 operators were licensed in 2020 to provide rail freight services in this country, including 2 members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s.[90]

In Q1 2021, PKP CARGO International a.s. transported 2.1 million tons of freight (-1.2% yoy) and achieved freight turnover of 0.3 billion tkm (-3.7% yoy).[91] In the same period, the average haul of PKP CARGO International decreased to 133.8 km (-2.5% yoy).[92] The decrease in the average haul in this period was caused by a change in the structure of transport according to cargo categories, including for the transport of metals and metal products, oil and petroleum products (shorter hauls than in Q1 2020 with a simultaneous increase in the share of these categories in the total quantum of transport services), intermodal transport and other cargo (decrease in the share of these categories – characterized by a larger average haul – in the total volume of cargo transported by PKP CARGO International).[93]

According to SŽDC data, in connection with the year-over-year decrease in freight turnover in Q1 2021, PKP CARGO International's competitive position on the Czech market deteriorated slightly: its share decreased by -0.9 p.p. yoy to 6.9%. However, the company continues to hold a stable position as the third largest carrier on the Czech market.[94]

In Q1 2021, the consequences of the COVID-19 pandemic and the related economic recession in the Czech Republic and its macroeconomic environment continued to exert an adverse impact on the transport performance of PKP CARGO International, although a significant recovery in industry, especially in the coking coal market, in metallurgy and in the automotive market, is already noticeable. In Q1 2021, transport services provided by PKP CARGO International grew in year-over-year terms in such branches as coke and lignite (+5.1% yoy, to 0.5 million tons), liquid fuels (+18.5%, to 0.3 million tons), chemical products (+2.6% yoy, to 0.1 million tons) and metals and metal products (+168.1% yoy to 0.1 million tons).[95] However, in this period, the company reported a yoy decrease in its quantum of transport services, including for such cargo categories as hard coal (-6.9% yoy to 0.6 million tons) and intermodal transport (-6.3% yoy to 0.4 million tons).[96] Besides the economic factors reflecting the impact of the pandemic, the reduction in freight performance for certain cargo categories was also caused by initiatives taken by the company to change the qualitative mix of its transport services (and, as a result, to increase their profitability and efficiency).

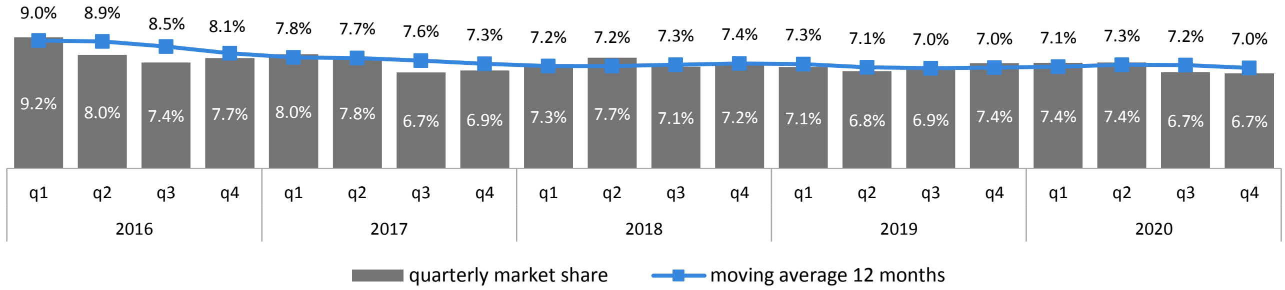
Figure 15 PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2016-2020*




** data for Q1 2020 will be available at the turn of Q3 2021*
*Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International*

[90] SŽDC
[91] PKP CARGO International's own statistics
[92] PKP CARGO International's own statistics
[93] PKP CARGO International's own statistics
[94] SŽDC
[95] PKP CARGO International's own statistics
[96] PKP CARGO International's own statistics

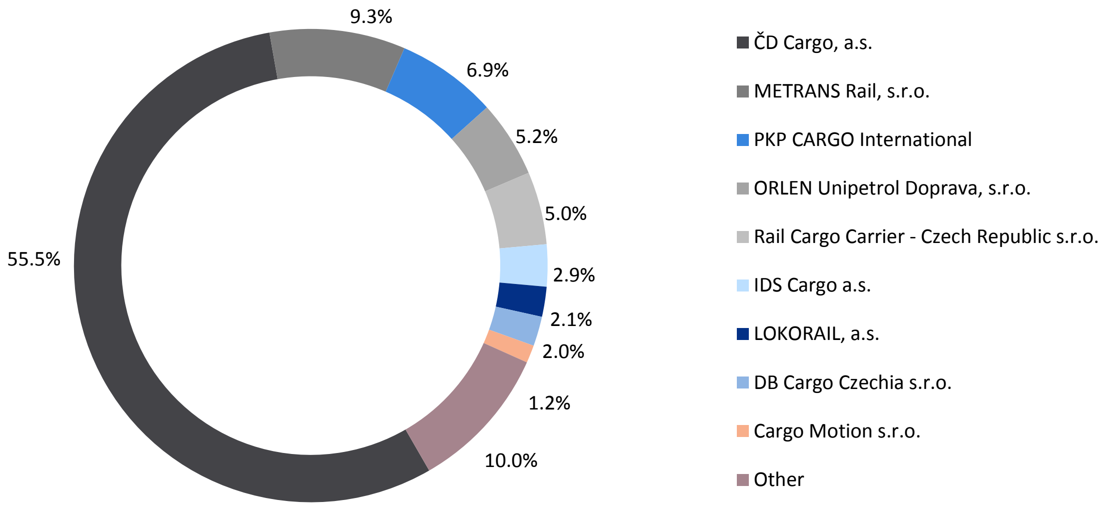
Figure 16 PKP CARGO International's quarterly market shares in terms of freight turnover in the Czech Republic in 2016-2020*




** data for Q1 2020 will be available at the turn of Q3 2021*

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

Figure 17 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in Q1 2021 (btkm)




*Source: SŽDC (Czech rail infrastructure manager)*

In Q1 2021, ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market, although in the same period its market share was in a downward yoy trend, having fallen to 55.5% (-2.7 p.p. yoy). Also smaller than in Q1 2020 were the market shares of PKP CARGO International (-0.9 p.p. yoy, to 6.9%) and IDS Cargo (-0.9 p.p. yoy, to 2.9%). In Q1 2021, the largest increases in year-over-year market shares were recorded by ORLEN Unipetrol Doprava (+0.7 p.p. yoy, to 5.2%; the operator focuses on the fuel transport segment), Rail Cargo Carrier – Czech Republic (+1.0 p.p. yoy, to 5.0%) and Metrans Rail (+0.3 p.p. yoy, to 9.3%) – 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 Q1 2020, namely LOKORAIL a.s. (with a share of 2.1%), Cargo Motion (1.2%) and DB Cargo Czechia s.r.o. (2.0%). 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 10.0%).[97]

The list of the largest rail operators on the Czech market in Q1 2021 published by SŽDC does not include PKP CARGO S.A. In Q1 2021, the volume of coke transport services provided by PKP CARGO S.A. decreased in year-over-year terms (due to the cessation of exports of this commodity from the Czech Republic through the Gdańsk seaport and the absence of transit from

[97] SŽDC

Poland to Bosnia and Herzegovina), as did the transport of ores (as a result of the cessation of imports to the Czech Republic via the Świnoujście port – due to a decrease in demand generated by the steel sector and the loss of a portion of shipments to competition), metals (in transit from Hungary and Slovakia to Poland and imported to the Czech Republic via Gdynia) and hard coal (due to the cessation of imports to the Czech Republic via the Gdańsk seaport and the lower transit volume from Poland to Slovakia).

At the same time, in year-over-year terms, calcium flux imports from Poland to the Czech Republic increased, as did the transport of timber (owing to the transport from Poland to Austria and Hungary, and from Belarus to Slovakia as well as larger volumes transported from Poland to Slovakia), transit transport of paper from Slovakia to Poland and from Poland to Serbia and Hungary and transit transport of containers between Poland, Italy and Romania.[98]

### 4.2.5 PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group in Q1 2020 and Q1 2021 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and PKP CARGO International. Transport services are rendered by 6 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., PKP CARGO International a.s., PKP CARGO International HU Zrt., PKP CARGO International SK a.s. and Primol Rail d.o.o.

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

Table 12 Freight turnover of the PKP CARGO Group in Q1 2021 and 2020

| Item | Q1 2021 | Q1 2020 | Change Q1 2021 / Q1 2020 | | Q1 2021 | Q1 2020 |
|---|---|---|---|---|---|---|
| | *(million tkm)*[99] | | | *%* | *percentage of total (%)* | |
| Solid fuels[1] | 2,395 | 2,430 | -35 | -1.4% | 41% | 42% |
| *of which hard coal* | 1,924 | 1,962 | -39 | -2.0% | 33% | 34% |
| Aggregates and construction materials[2] | 847 | 885 | -38 | -4.2% | 14% | 15% |
| Metals and ores[3] | 546 | 461 | 85 | 18.3% | 9% | 8% |
| Chemicals[4] | 542 | 470 | 72 | 15.4% | 9% | 8% |
| Liquid fuels[5] | 160 | 256 | -97 | -37.7% | 3% | 4% |
| Timber and agricultural produce[6] | 229 | 266 | -37 | -13.9% | 4% | 5% |
| Intermodal transport | 1,066 | 880 | 186 | 21.1% | 18% | 15% |
| Other[7] | 116 | 156 | -40 | -25.7% | 2% | 3% |
| **Total** | **5,901** | **5,805** | **96** | **1.7%** | **100%** | **100%** |

*Source: Proprietary material*

Table 13 Freight volume of the PKP CARGO Group in Q1 2021 and 2020

| Item | Q1 2021 | Q1 2020 | Change Q1 2021 / Q1 2020 | | Q1 2021 | Q1 2020 |
|---|---|---|---|---|---|---|
| | *(million tons)* | | | *%* | *percentage of total (%)* | |
| Solid fuels[1] | 12.7 | 12.2 | 0.5 | 4.3% | 55% | 53% |
| *of which hard coal* | 11.1 | 10.7 | 0.4 | 3.6% | 48% | 47% |
| Aggregates and construction materials[2] | 3.3 | 3.5 | -0.2 | -5.3% | 14% | 15% |
| Metals and ores[3] | 1.7 | 1.7 | 0.1 | 4.4% | 7% | 7% |
| Chemicals[4] | 1.6 | 1.5 | 0.1 | 8.7% | 7% | 6% |
| Liquid fuels[5] | 0.5 | 0.8 | -0.3 | -38.0% | 2% | 3% |
| Timber and agricultural produce[6] | 0.6 | 0.8 | -0.1 | -17.4% | 3% | 3% |
| Intermodal transport | 2.3 | 2.1 | 0.3 | 12.1% | 10% | 9% |
| Other[7] | 0.5 | 0.5 | 0.0 | -9.0% | 2% | 2% |
| **Total** | **23.3** | **23.0** | **0.3** | **1.4%** | **100%** | **100%** |

*Source: Proprietary material*

[98] PKP CARGO S.A.'s own statistics
[99] To facilitate the reading of this document, some figures have been rounded off, which may cause negligible deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

In Q1 2021, the average haul of freight transported by rail by the PKP CARGO Group was 253 km (+0.3% yoy).

Table 14 Average haul of the PKP CARGO Group in Q1 2021 and 2020

| Item | Q1 2021 | Q1 2020 | Change Q1 2021 / Q1 2020 | |
|---|---|---|---|---|
| | | (km) | | % |
| Solid fuels[1] | 188 | 199 | -11 | -5.5% |
| *of which hard coal* | 173 | 183 | -10 | -5.4% |
| Aggregates and construction materials[2] | 254 | 251 | 3 | 1.1% |
| Metals and ores[3] | 316 | 279 | 37 | 13.3% |
| Chemicals[4] | 337 | 317 | 19 | 6.1% |
| Liquid fuels[5] | 336 | 335 | 1 | 0.4% |
| Timber and agricultural produce[6] | 352 | 338 | 14 | 4.3% |
| Intermodal transport | 458 | 424 | 34 | 8.0% |
| Other[7] | 257 | 314 | -58 | -18.3% |
| **Total** | **253** | **253** | **1** | **0.3%** |

*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 Q1 2021:

solid fuels

- greater yoy sales of hard coal (despite a decrease in output);
- increase in domestic demand for coal caused by, among other factors:
  - increase in electricity generation due to an increase in demand,
  - changes in the energy mix, specifically an increase in the significance of electricity generation in hard coal-fired commercial power plants and a decrease in the significance of wind and gas-fired energy,
- declining share of electricity imports;
- increase in coke shipments within Poland;
- lower volume of transport services for coal recipients in the Czech Republic, both from Czech mines and from Poland;
- lower volume of coke transport services in the Czech Republic;
- decrease in the average haul of coal and coke transported in Poland (change in the structure and directions of deliveries, lower share of transit services) and a decline in the average haul of PKP CARGO International (no shipments to Austria).

aggregates and construction materials

- lower demand generated by customers for construction stones due to a slowdown in the construction market caused by:
  - winter suspension of certain investments due to the adverse weather conditions,
  - smaller scale of investments currently in progress,
  - slowdown in the performance of ongoing contracts due to an increase in the prices of construction materials and labor;
- deterioration of liquidity among construction companies and lower profitability of investments;
- decrease in PKP CARGO International's freight volume transported for the construction of rail tracks;
- downward trend in transport volumes on the New Silk Road (no trains due to the pandemic).

intermodal

- increased volumes of transport on the New Silk Road – acquisition of new clients and intensification of transport within the framework of cooperation with existing clients;
- provision of regular operator services to/from ports;
- transport of semi-trailers as part of operator connections to Duisburg;
- decrease in the volume of transported woodchips (loss of a significant part of the contract);

- limitation of bulk freight in containers (lower volumes of steel);
- decrease in car transport services from the Czech Republic to Russia and Slovenia (decrease in demand).

metals and ores

- increase in transport services of ores and metals resulting from stronger demand for steel products after the slowdown in construction and assembly output in 2020;
- acquisition of contracts for the transport of metals from seaports to the Czech Republic;
- increase in the average haul related to changes in the directions of ore deliveries and exports and transit of metals to seaports.

chemicals

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

liquid fuels

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

timber and agricultural produce

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

others

- increased shipments of arsenic sulfide from Belarus;
- decrease in ash shipments;
- lower volume of military transport services (restrictions imposed on the transport of freight to military training grounds due to COVID-19);
- cessation of car transport services from the Czech Republic to Germany;
- decreased average haul in transport of other cargo in Poland due to a change in the structure of freight routes;

## 4.3 Other services

The Group does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Group. The Group conducts its business within one main segment – domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the 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 3M 2021 and in the corresponding period of 2020 is provided below.

Figure 18 Headcount in the Company and the PKP CARGO Group in 3M 2021 and 2020

| HEADCOUNT IN **GROUP** (IN PERSONS) AS AT: | HEADCOUNT IN **COMPANY** (IN PERSONS) AS AT: | AVERAGE HEADCOUNT IN **GROUP** (FTEs) | AVERAGE HEADCOUNT IN **COMPANY** (FTEs) |
|---|---|---|---|
| 31/03/2021 **21,510** | 31/03/2021 **15,559** | 3 MONTHS 2021 **21,568** | 3 MONTHS 2021 **15,654** |
| 31/12/2020 21,766 | 31/12/2020 15,771 | 3 MONTHS 2020 23,367 | 3 MONTHS 2020 17,032 |

| BLUE-COLLAR POSITIONS IN **GROUP** (IN PERSONS) AS AT: | BLUE-COLLAR POSITIONS IN **COMPANY** (IN PERSONS) AS AT: | WHITE-COLLAR POSITIONS IN **GROUP** (IN PERSONS) AS AT: | WHITE-COLLAR POSITIONS IN **COMPANY** (IN PERSONS) AS AT: |
|---|---|---|---|
| 31/03/2021 **16,475** | 31/03/2021 **11,954** | 31/03/2021 **5,035** | 31/03/2021 **3,605** |
| 31/12/2020 16,687 | 31/12/2020 12,127 | 31/12/2020 5,079 | 31/12/2020 3,644 |

Since the beginning of 2021, the PKP CARGO Group recorded a decrease in headcount by 256 persons, of which PKP CARGO S.A. by 212 persons.

## 4.5 PKP CARGO Group's investments

In the first 3 months of 2021, the PKP CARGO Group incurred capital expenditures of PLN 211.0 million, down 2.5% compared to the corresponding period of 2020. These expenditures were spent on the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and periodic checkups of P3 rolling stock). Moreover, right-of-use assets (mainly related to real estate leases) were recognized due to the entry into force of IFRS 16.

The majority of capital expenditures in 3M 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 171.2 million (i.e. 81.1% 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 5.5 million, investment construction activity in the amount of PLN 5.3 million, purchases of other machinery and other workshop equipment for PLN 0.9 million as well as right-of-use assets for PLN 28.1 million, including PLN 21.5 million in real estate leases and PLN 6.6 million in other rights, mainly for leases of equipment for container terminals and workshop facilities as well as containers for the transportation of sugar.

A detailed summary of the PKP CARGO Group's capital expenditures in Q1 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 3M 2021 as compared to 3M 2020 (millions of PLN)

| Item | 3 months of 2021 | 3 months of 2020 | Change yoy | Change yoy in % |
|---|---|---|---|---|
| Investment construction activity | 5.3 | 9.3 | -4.0 | -43.0% |
| Purchases of locomotives | 0.0 | 33.0 | -33.0 | -100.0% |
| Modernization of locomotives | 73.0 | 26.5 | 46.5 | 175.5% |
| Purchases of wagons | 20.1 | 0.0 | 20.1 | - |
| Wagon upgrades | 0.0 | 1.4 | -1.4 | -100.0% |
| Workshop machinery and equipment | 0.9 | 2.7 | -1.8 | -66.7% |
| ICT development | 5.5 | 3.9 | 1.6 | 41.0% |
| Other | 0.0 | 2.1 | -2.1 | -100.0% |
| Components in overhaul, including: | 78.1 | 102.3 | -24.2 | -23.7% |
| *Repairs and periodic inspections of locomotives* | *23.4* | *30.5* | *-7.1* | *-23.3%* |
| *Repairs and periodic inspections of wagons* | *54.7* | *71.8* | *-17.1* | *-23.8%* |
| Right-of-use assets* | *28.1* | *35.3* | -7.2 | -20.4% |
| **Total** | **211.0** | **216.5** | **-5.5** | **-2.5%** |

** Expenditures for right-of-use assets for 3M 2021 do not include increases of PLN 5.0 million resulting from leaseback of transshipment equipment.*

*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. chose Mr. Marcin Kowalczyk to the position of the 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 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.

*MAY*

- On 17 May 2021, PKP CARGO S.A. signed an annex to the overdraft agreement extending the availability period until 24 May 2022.

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

## 5.1 Key economic and financial figures of 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[100] | | EUR million | |
|---|---|---|---|---|
| | 3 months of 2021 | 3 months of 2020 | 3 months of 2021 | 3 months of 2020 |
| **Exchange rates (PLN/EUR)** | | | **4.5721** | **4.3963** |
| Operating revenue | 1,010.9 | 1,049.7 | 221.1 | 238.8 |
| Operating profit / loss | -71.0 | -105.6 | -15.5 | -24.0 |
| Profit / loss before tax | -85.2 | -138.9 | -18.6 | -31.6 |
| Net profit / loss | -71.3 | -114.4 | -15.6 | -26.0 |
| Total comprehensive income attributable to the owners of the parent company | -62.6 | -158.5 | -13.7 | -36.1 |
| 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) | -1.59 | -2.56 | -0.35 | -0.58 |
| Diluted earnings / losses per share (PLN) | -1.59 | -2.56 | -0.35 | -0.58 |
| Net cash flow from operating activities | 57.8 | 102.8 | 12.6 | 23.4 |
| Net cash flow from investing activities | -161.8 | -242.7 | -35.4 | -55.3 |
| Net cash flow from financing activities | -78.5 | -98.2 | -17.2 | -22.3 |
| Movement in cash and cash equivalents | -182.5 | -238.1 | -39.9 | -54.2 |
| | **31 Mar 2021** | **31 Dec 2020** | **31 Mar 2021** | **31 Dec 2020** |
| **Exchange rates (PLN/EUR)** | | | **4.6603** | **4.6148** |
| Non-current assets | 6,429.3 | 6,397.4 | 1,379.6 | 1,386.3 |
| Current assets | 1,016.3 | 1,149.3 | 218.1 | 249.1 |
| Non-current assets classified as held for sale | 2.2 | 12.7 | 0.5 | 2.7 |
| Share capital | 2,239.3 | 2,239.3 | 480.5 | 485.2 |
| Equity attributable to the owners of the parent company | 3,081.2 | 3,143.8 | 661.2 | 681.2 |
| Non-current liabilities | 2,982.3 | 3,029.5 | 640.0 | 656.5 |
| Current liabilities | 1,384.3 | 1,386.1 | 297.0 | 300.4 |

*Source: Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2021 prepared according to EU IFRS.*

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

## Table 17 Financial highlights of PKP CARGO S.A.

| PKP CARGO S.A. | PLN million[101] | | EUR million | |
|---|---|---|---|---|
| | 3 months of 2021 | 3 months of 2020 | 3 months of 2021 | 3 months of 2020 |
| **Exchange rates (PLN/EUR)** | | | **4.5721** | **4.3963** |
| Operating revenue | 731.9 | 751.3 | 160.1 | 170.9 |
| Operating profit / loss | -77.3 | -103.0 | -16.9 | -23.4 |
| Profit / loss before tax | -89.7 | -124.2 | -19.6 | -28.3 |
| Net profit / loss | -74.0 | -102.4 | -16.2 | -23.3 |
| Total comprehensive income attributable to the owners of the parent company | -77.1 | -138.2 | -16.9 | -31.4 |
| 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) | -1.65 | -2.29 | -0.36 | -0.52 |
| Diluted earnings / losses per share (PLN) | -1.65 | -2.29 | -0.36 | -0.52 |
| Net cash flow from operating activities | 23.0 | 148.5 | 5.0 | 33.8 |
| Net cash flow from investing activities | -153.2 | -229.1 | -33.5 | -52.1 |
| Net cash flow from financing activities | -19.0 | -100.3 | -4.2 | -22.8 |
| Movement in cash and cash equivalents | -149.2 | -180.9 | -32.6 | -41.1 |
| | **31 Mar 2021** | **31 Dec 2020** | **31 Mar 2021** | **31 Dec 2020** |
| **Exchange rates (PLN/EUR)** | | | **4.6603** | **4.6148** |
| Non-current assets | 5,994.6 | 5,948.9 | 1,286.3 | 1,289.1 |
| Current assets | 585.4 | 705.4 | 125.6 | 152.9 |
| Non-current assets classified as held for sale | 2.2 | 12.7 | 0.5 | 2.7 |
| Share capital | 2,239.3 | 2,239.3 | 480.5 | 485.2 |
| Equity attributable to the owners of the parent company | 2,881.7 | 2,958.8 | 618.3 | 641.2 |
| Non-current liabilities | 2,585.5 | 2,646.7 | 554.8 | 573.5 |
| Current liabilities | 1,115.0 | 1,061.5 | 239.3 | 230.0 |

*Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 3 months ended 31 March 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 3 months ended 31 March 2021:

- exchange rate in force on the last day of the reporting period: 31 March 2021: EUR 1 = PLN 4.6603; 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 – 31 March 2021: EUR 1 = PLN 4.5721, 1 January – 31 March 2020: EUR 1 = PLN 4.3963.

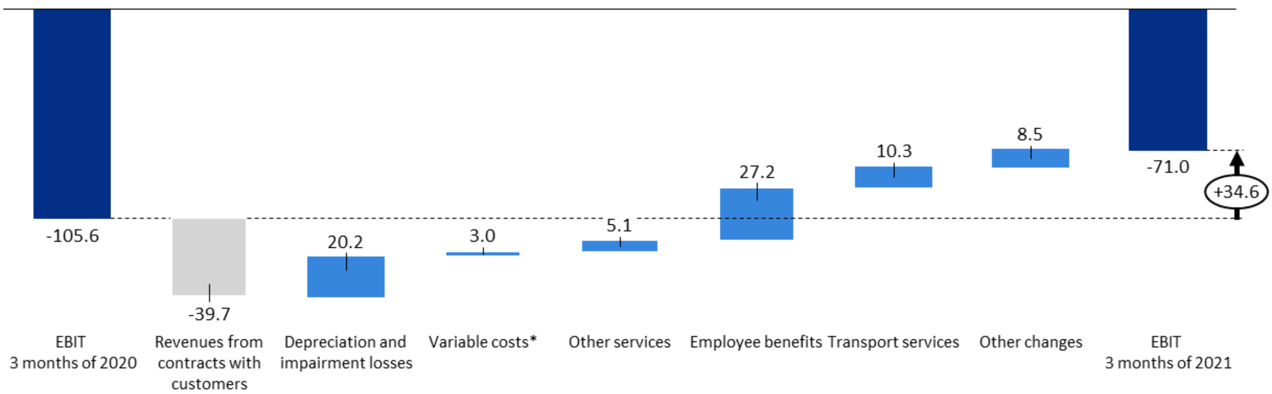
[101] To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

### 5.1.2. Analysis of selected financial highlights of the PKP CARGO Group

#### Statement of profit or loss of the PKP CARGO Group

During the first 3 months of 2021, EBIT reached PLN -71.0 million, having gone up by PLN 34.6 million compared to the corresponding period of 2020.

Figure 19 EBIT in 3M 2021 as compared to the corresponding period in 2020 (PLN million)




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

*Source: Proprietary material*

The following is the explanation of the most significant deviations of the factors affecting EBIT in the first 3 months of 2021 as compared to the first 3 months of 2020:

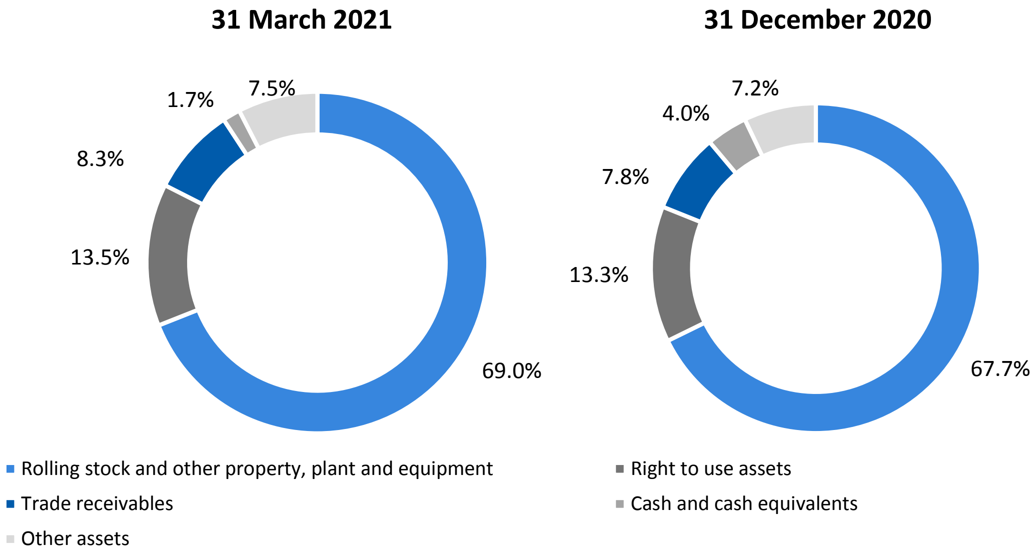
- decrease in revenues from contracts with customers (including, in particular, revenues from transport services), caused largely by lower transport fees (intensified competition in the transport market as a result of the economic recession triggered by the COVID-19 pandemic), with a simultaneous slight year-over-year increase in freight volume and freight turnover. 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 costs and impairment losses in connection with lower capital expenditures (including capital expenditures on rolling stock) in 2020, and an update of the residual value of rolling stock as at 31 December 2020 (partly due to higher scrap metal prices);
- decrease in costs of other services, chiefly caused by a decrease in expenditures on land reclamation services by PLN 5.4 million as compared to the corresponding period of 2020;
- decrease in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 1.2%, chiefly due to lower costs of traction fuel (caused by such factors as a decrease in the share of diesel traction in the total quantum of transport services and a lower unit price compared to the corresponding period of 2020);
- decrease in the costs of employee benefits due to a decrease in average headcount by 1,799 FTEs yoy. Detailed information on the change in headcount is presented in section **4.4 "Headcount"**;
- decrease in the costs of transport services by 10.9% related to, among other factors, the cessation, in Q1 2021, of transport services on foreign sections carried out in 2020 (accompanied by a similar decrease in costs) and lower costs of freight forwarding by road for one of the subsidiaries;
- the line item "other changes" had a favorable impact on EBIT, largely due to a decrease in the consumption of materials (PLN -5.1 million, caused to a certain degree by a lower volume of repairs), lower expenditures on penalties and compensations (PLN -2.5 million) and a reduction in impairment losses on trade receivables (PLN +3.2 million).

#### Statement of financial position of the PKP CARGO Group

ASSETS

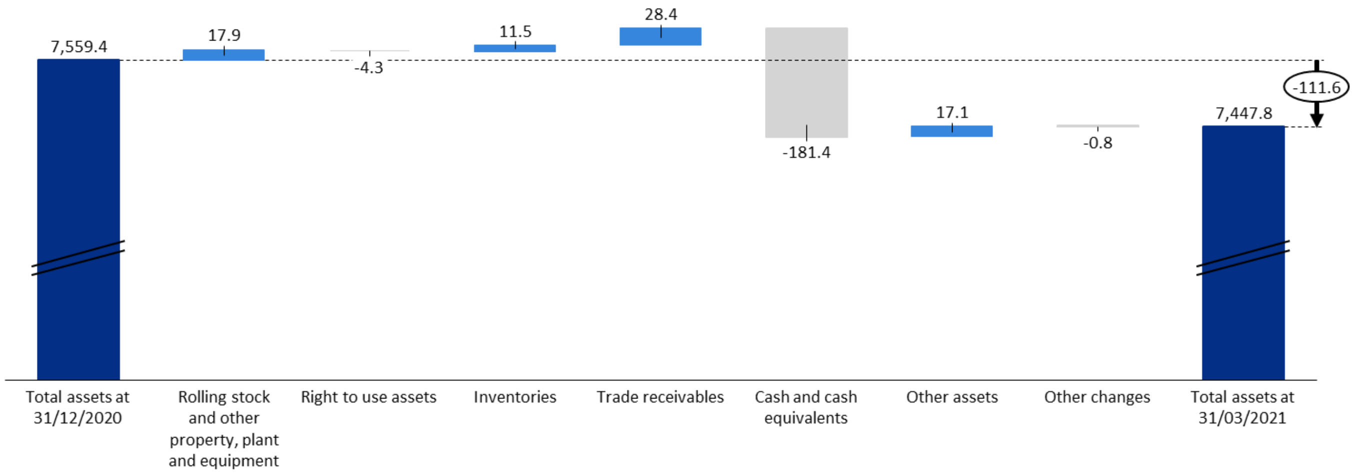
As at 31 March 2021, rolling stock and other property, plant and equipment had the largest share in the structure of assets, accounting for 69.0% of total assets, compared to 67.7% as at 31 December 2020. The largest share in the structure of current assets as at 31 March 2021 in relation to total assets was attributable to trade receivables, which represented 8.3% of total assets.

## Figure 20 Structure of assets – as at 31 March 2021 and 31 December 2020




*Source: Proprietary material*

## Figure 21 Movement in the Group's assets in the first 3 months of 2021 (PLN million)




*Source: Proprietary material*

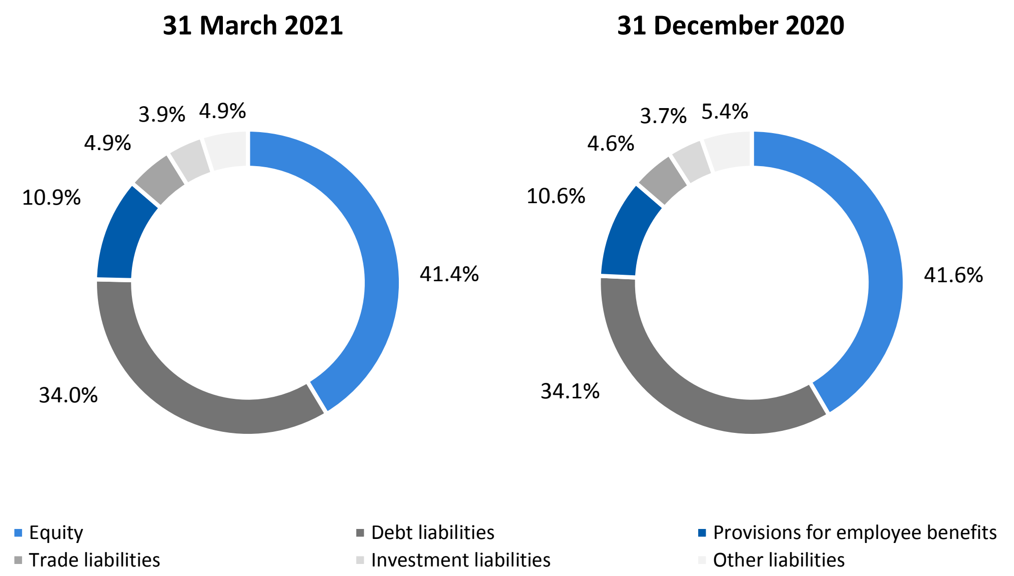
The most significant changes affecting the value of assets as at 31 March 2021 as compared to 31 December 2020 are discussed below:

- increase in the value of rolling stock and other property, plant and equipment associated with the execution of investments in property, plant and equipment (chiefly rolling stock), which exceeded the value of depreciation in the reporting period;
- trade receivables increased by PLN 28.4 million, following an increase in revenues in the last month of the analyzed period compared to December 2020;
- decrease in cash by PLN 181.4 million, largely mainly due to capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 179.4 million;
- increase in the value of other assets, mainly due to an increase in non-financial assets caused by the purchase of transportation benefits by PLN 9.1 million and receivables from the sale of shares in Rentrans Cargo Sp. z o.o. in the amount of PLN 6.3 million.

## EQUITY AND LIABILITIES

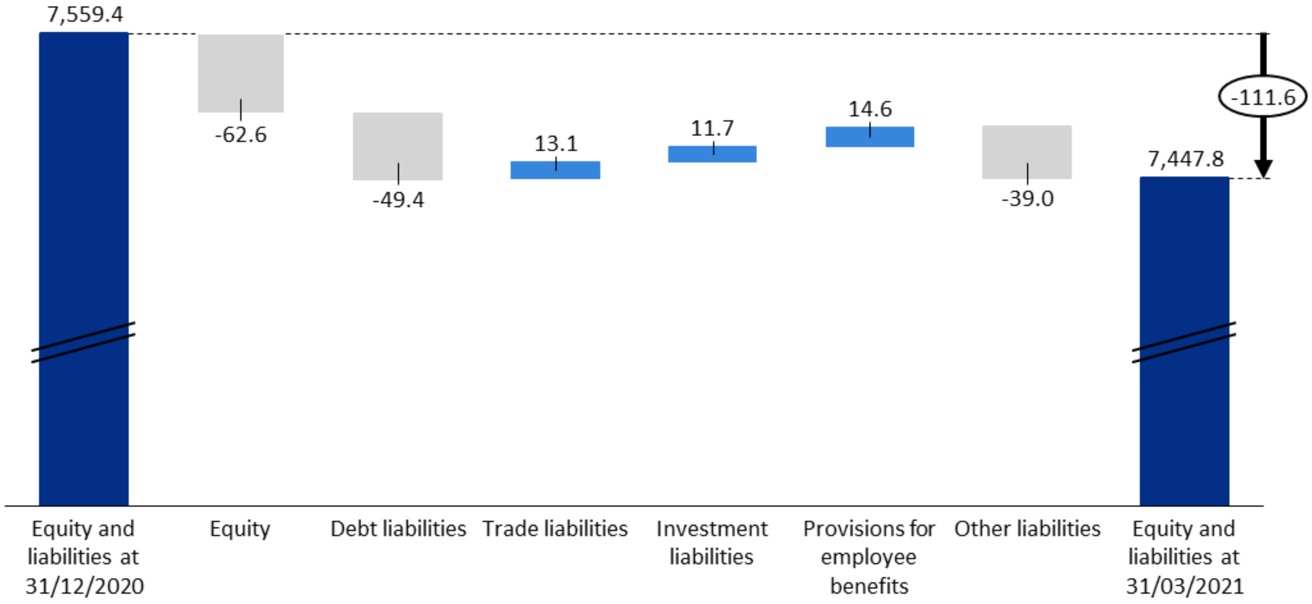
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 31 March 2021 was attributable to equity, which accounted for 41.4% of the sum of equity and liabilities, compared to 41.6% as at 31 December 2020. Debt liabilities accounted for 34.0% of total equity and liabilities, compared to 34.1% as at 31 December 2020.

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




*Source: Proprietary material*

Figure 23 Movement in the Group's equity and liabilities in the first 3 months of 2021 (PLN million)




*Source: Proprietary material*

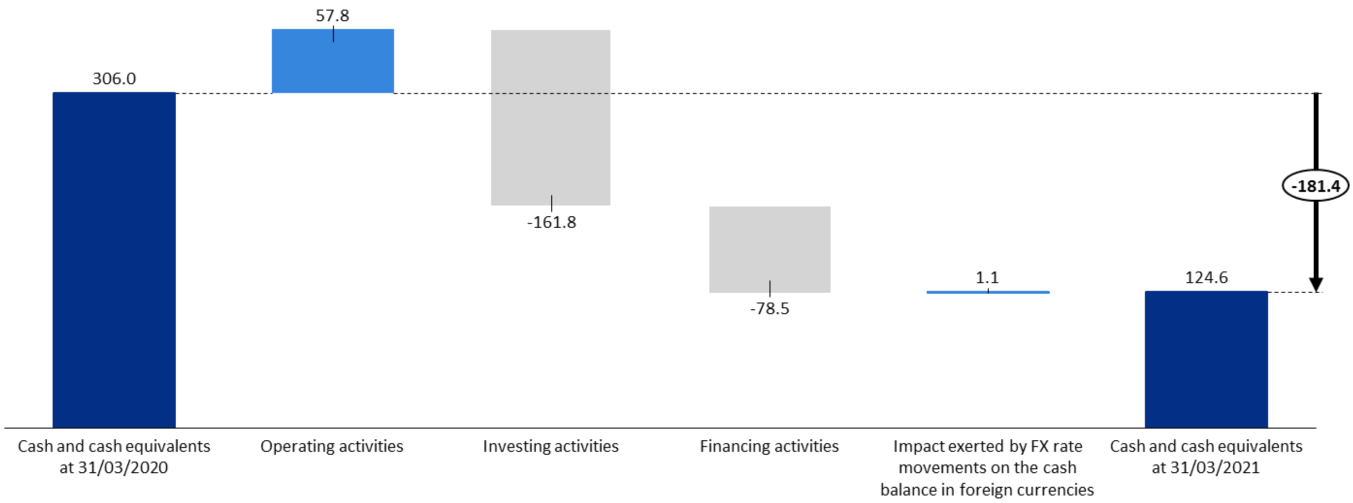
The most significant changes affecting the value of equity and liabilities as at 31 March 2021, as compared to 31 December 2020, are discussed below:

- decrease in the value of equity, chiefly as a consequence of a negative financial result generated by the PKP CARGO Group and the related decrease in retained earnings (PLN -71.3 million), with a simultaneous positive impact of foreign exchange differences due to the translation of financial statements of foreign entities (PLN +11.4 million);
- decrease in the value of debt liabilities due to the repayment of loans and leases with interest in the amount of PLN 119.7 million, with a concurrent addition of new liabilities in the amount of PLN 31.9 million, modification of existing contracts resulting in an increase in debt by PLN 20.5 million and an increase in leaseback liabilities by PLN 5.2 million. Detailed information on debt liabilities is presented in **Note 4.1. to the Consolidated Financial Statements**;
- increase in trade liabilities resulting from the active management of working capital;
- increase in investment liabilities caused mainly by an increase in investment liabilities related to rolling stock in the amount of PLN 22.5 million, with a concurrent decrease in investment liabilities related to real properties in the amount of PLN 8.7 million;
- increase in provisions for employee benefits, largely due to an increase in the value of provisions for unused vacation time and bonuses in the amount of PLN 17.3 million;
- decrease in the value of other liabilities, chiefly due to the decrease in public law liabilities by PLN 17.0 million and liabilities on account of security interests (security deposits, bid deposits, guarantees) by PLN 12.8 million.

## Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 March 2021 decreased by PLN 181.4 million compared to 31 December 2020.

Figure 24 Cash flows of the PKP CARGO Group in the first 3 months of 2021 (PLN million)




*Source: Proprietary material*

- Cash flows from operating activities generated on the loss before tax of PLN 85.2 million and depreciation and impairment losses of 175.4 million PLN. Moreover, negative cash flows were recorded related to changes in working capital (predominantly due to an increase in the balance of trade receivables with a concurrent decrease in other liabilities) of PLN 43.9 million;
- cash flows on investing activities resulted predominantly from capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 179.4 million, with simultaneous inflows from the sale of non-financial non-current assets of PLN 17.2 million as a result of a decision to sell assets unnecessary for the efficient conduct of operating activities;
- cash flows on financial activities resulted largely from the repayment of loans and borrowings, lease expenditures and interest on leases, loans and borrowings in the amount of PLN 119.7 million, with concurrent inflows from loans and borrowings of PLN 24.3 million and obtained subsidies in the amount of PLN 17.9 million.

### 5.1.3 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 3 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 3M 2021 as compared to the corresponding period of 2020

| Item | 3 months of 2021 | 3 months of 2020 | Change | Rate of change |
|---|---|---|---|---|
| | | | 2021 - 2020 | 2021/2020 |
| EBITDA margin[1] | 10.3% | 8.6% | 1.7 | 19.8% |
| Net profit margin[2] | -7.1% | -10.9% | 3.8 | - |
| ROA[3] | -2.4% | -1.7% | -0.7 | - |
| ROE[4] | -5.9% | -4.0% | -1.9 | - |
| Average distance covered per locomotive (km per day)[5] | 211.0 | 220.6 | -9.6 | -4.4% |
| Average gross train tonnage per operating locomotive (tons)[6] | 1,448.0 | 1,447.0 | 1.0 | 0.1% |
| 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] | 273.6 | 248.4 | 25.2 | 10.1% |

*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 given period).
6. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
7. Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of the Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
8. Calculated as the ratio of freight turnover to the average headcount (in FTEs) in the Group in the given period.

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

- In the first 3 months of 2021, the EBITDA margin and the net profit margin improved compared to the corresponding period of 2020 due to the higher EBITDA and the lower net loss resulting from the factors described in section **5.1. Key economic and financial figures of the PKP CARGO Group****;**
- deterioration in the ROA and ROE ratios, largely due to the lower annualized net result in 3M 2021;
- deterioration in the average daily haul of locomotives, caused by the high level of closures and operational difficulties on the PKP PLK network and the related year-over-year decrease in the commercial speed, with a concurrent increase in the number of active locomotives available for operations in a situation of varying volumes of transport services;
- decrease in the average daily operating time of locomotives, caused by the factors described above;
- increase in the freight turnover per employee ratio, caused predominantly by an increase in freight turnover by 1.7% yoy coupled with a decrease in FTEs by 7.7% yoy.

## 5.2 Factors that will affect financial performance in the next quarter

### Situation related to COVID-19

- Lockdown-related restrictions and prevailing fluctuations in market demand that exacerbate the current unpredictability of the market.
- Increase in additional costs caused by the implementation of solutions that affect changes in the organization and efficiency of work.
- Amendments to the generally applicable laws and internal regulations adopted by PKP CARGO S.A. due to the spread of the SARS-CoV-2 virus.

### Market for commodities and aggregates

- The gradual increase in electricity consumption in the Polish economy will translate into greater demand for coal transport services. Due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy.
- As part of the funds from the new EU budget for 2021-2027, 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.
- The good industrial performance at the end of 2020 and in Q1 2021, 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 industry’s results in 2021.

### 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

- Correlation of works on the PKP PLK network with seaport investments.
- Ensuring the possibility of traffic with a speed of 100 km/h, also on routes that have already been modernized in recent years.

### 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 (PKP PLK originally submitted for approval by the President of the Office of Rail Transport a draft of a new pricelist for the use of railway infrastructure, in which the rates increased by an average of 2.4%).

### Social dialog

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

## 5.3 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

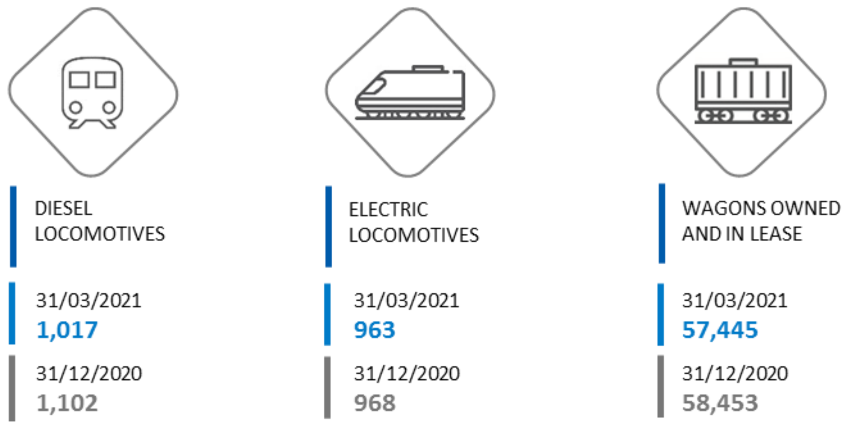
### 5.4.1 Rolling stock

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[102] and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and sub-assemblies for other owners.

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

In the first 3 months of 2021, 6 overhauls were performed with modernization of series SM48 locomotives (with the series designation changed to ST48) and 6 overhauls were performed with modernization of series ST44 locomotives.

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




[102] 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 3 months of 2021.

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

| Item | 31 Mar 2021 | 31 Dec 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] | 692,459 | 693,213 | -754 |

*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 factor was the discontinuation by PKP CARGO International a.s. of a lease of a building in Orchard.

# 6. Other material information and events

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

In Q1 2021, the situation of the domestic industry remained affected by the consequences of the COVID-19 pandemic and the related economic and social restrictions. This translated directly into reduced consumption and investments by enterprises, and thus adversely affected a number of sectors of the economy, including the transport sector. However, the adverse impact of these restrictions on the rate of industrial growth was significantly weaker than in the spring of 2020.

In Q1 2021, an increase in electricity consumption was observed in Poland, which translated into a slight increase in the freight volume of transported coal. After the significantly reduced demand for steel and metallurgical products, the end of 2020 and Q1 2021 saw a recovery in the steel industry and sector. The noticeable recovery in demand translated into an increase in freight turnover in this cargo category. This trend brings hope for a recovery in the steel market and an improvement in the industry in the coming months. At the same time, since the beginning of the year, a decrease in demand for aggregates has been observed, associated with a slowdown in the construction market, itself caused, among other factors, by an increase in the prices of construction materials and labor and a smaller scale of construction projects currently in progress.

All these factors affected the situation of the PKP CARGO Group – in Q1 2021, its financial performance was weaker than expected.

At the same time, it may be expected that in the following quarters of 2021 this negative trend will be reversed. The rate of extinguishing the coronavirus pandemic, reviving the economy and making up for the losses triggered by it will be of utmost significance.

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

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

## 6.3 Information on transactions with related parties

No entity from the PKP CARGO Group entered in Q1 2021 in 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**

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Leszek Borowiec
Management Board Member

Witold Bawor
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Warsaw, 20 May 2021

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