

QUARTERLY REPORT FOR Q1 2022



PKP CARGO GROUP'S
Consolidated Quarterly Report
for Q1 2022



Quarterly Condensed Consolidated Financial Statements of the **PKP CARGO GROUP** for the period of 3 months ended 31 March 2022

prepared in accordance with EU IFRS



Table of contents

QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	2
QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION	3
QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	4
QUARTERLY CONSOLIDATED CASH FLOW STATEMENT	5
1. General information	6
1.1 Key information about the Group's business	6
1.2 Basis for preparation of the Quarterly Condensed Consolidated Financial Statements	8
1.3 Applied International Financial Reporting Standards platform	9
1.4 Impact of the COVID-19 pandemic and the war in Ukraine on the Group's business	9
1.5 Significant values based on professional judgment and estimates	10
2. Notes to the statement of profit or loss and other comprehensive income	10
2.1 Revenues from contracts with customers	10
2.2 Operating expenses	12
2.3 Other operating revenue and (expenses)	13
2.4 Financial revenue and (expenses)	13
3. Notes on taxation	14
3.1 Income tax	14
4. Notes on debt	16
4.1 Reconciliation of debt liabilities	16
4.2 Equity	18
4.3 Cash and cash equivalents	18
5. Notes to the statement of financial position	19
5.1 Rolling stock and other property, plant and equipment	19
5.2 Rights-of-use assets	21
5.3 Investments in entities accounted for under the equity method	22
5.4 Inventories	22
5.5 Trade receivables	22
5.6 Other assets	23
5.7 Investment liabilities	23
5.8 Provisions for employee benefits	23
5.9 Other provisions	24
5.10 Other liabilities	24
6. Financial instruments	24
6.1 Financial instruments	24
7. Other notes	27
7.1 Related party transactions	27
7.2 Liabilities to incur expenditures for non-financial non-current assets	28
7.3 Contingent liabilities	29
7.4 Subsequent events	29
7.5 Approval of the financial statements	29

QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	3 months ended 31/03/2022	3 months ended 31/03/2021	
Revenues from contracts with customers	1,166.3	996.0	<i>Note 2.1</i>
Consumption of traction electricity and traction fuel	(183.5)	(120.2)	<i>Note 2.2</i>
Services of access to infrastructure	(134.5)	(127.5)	
Transport services	(85.4)	(84.3)	
Other services	(108.1)	(85.9)	<i>Note 2.2</i>
Employee benefits	(416.1)	(414.4)	<i>Note 2.2</i>
Other expenses	(88.1)	(69.7)	<i>Note 2.2</i>
Other operating revenue and (expenses)	1.8	10.4	<i>Note 2.3</i>
Operating profit without depreciation (EBITDA)	152.4	104.4	
Depreciation, amortization and impairment losses	(183.9)	(175.4)	<i>Note 2.2</i>
Profit / (loss) on operating activities (EBIT)	(31.5)	(71.0)	
Financial revenue and (expenses)	(25.1)	(15.6)	<i>Note 2.4</i>
Share in the profit / (loss) of entities accounted for under the equity method	1.1	1.4	<i>Note 5.3</i>
Profit / (loss) before tax	(55.5)	(85.2)	
Income tax	7.9	13.9	<i>Note 3.1</i>
NET PROFIT / (LOSS)	(47.6)	(71.3)	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	(5.6)	(3.3)	<i>Note 6.1</i>
Income tax	1.1	0.6	<i>Note 3.1</i>
FX differences resulting from translation of financial statements	20.6	11.4	
Total other comprehensive income subject to reclassification in the financial result	16.1	8.7	
Total other comprehensive income	16.1	8.7	
TOTAL COMPREHENSIVE INCOME	(31.5)	(62.6)	
Net profit / (loss) attributable:			
Net profit/(loss) attributable to shareholders of the Parent Company	(47.6)	(71.3)	
Total other comprehensive income attributable:			
Total other comprehensive income attributable to shareholders of the Parent Company	(31.5)	(62.6)	
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	(1.06)	(1.59)	

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

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/03/2022	31/12/2021	
ASSETS			
Rolling stock	4,307.3	4,241.6	<i>Note 5.1</i>
Other property, plant and equipment	884.1	893.4	<i>Note 5.1</i>
Rights-of-use assets	999.2	1,030.7	<i>Note 5.2</i>
Investments in entities accounted for under the equity method	35.6	36.7	<i>Note 5.3</i>
Trade receivables	5.0	4.2	<i>Note 5.5</i>
Lease receivables	8.4	8.5	
Other assets	39.0	40.5	<i>Note 5.6</i>
Deferred tax assets	213.6	203.1	<i>Note 3.1</i>
Total non-current assets	6,492.2	6,458.7	
Inventories	148.8	164.6	<i>Note 5.4</i>
Trade receivables	682.1	611.7	<i>Note 5.5</i>
Lease receivables	0.6	0.6	
Income tax receivables	4.8	4.5	
Other assets	113.5	103.1	<i>Note 5.6</i>
Cash and cash equivalents	111.3	254.5	<i>Note 4.3</i>
Total current assets	1,061.1	1,139.0	
Non-current assets classified as held for sale	5.2	15.7	
TOTAL ASSETS	7,558.5	7,613.4	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	<i>Note 4.2</i>
Supplementary capital	771.7	771.7	
Other items of equity	(80.3)	(75.8)	
FX differences resulting from translation of financial statements	163.1	142.5	
Retained earnings / (Accumulated losses)	(84.7)	(37.1)	
Total equity	3,009.1	3,040.6	
Debt liabilities	1,997.6	2,090.3	<i>Note 4.1</i>
Trade liabilities	4.2	2.3	
Investment liabilities	95.5	111.8	<i>Note 5.7</i>
Provisions for employee benefits	527.3	529.1	<i>Note 5.8</i>
Other provisions	7.4	7.0	<i>Note 5.9</i>
Deferred tax liability	93.8	93.3	<i>Note 3.1</i>
Total long-term liabilities	2,725.8	2,833.8	
Debt liabilities	629.7	473.9	<i>Note 4.1</i>
Trade liabilities	588.2	639.0	
Investment liabilities	179.5	221.4	<i>Note 5.7</i>
Provisions for employee benefits	142.3	127.3	<i>Note 5.8</i>
Other provisions	24.8	23.3	<i>Note 5.9</i>
Other liabilities	259.1	254.1	<i>Note 5.10</i>
Total short-term liabilities	1,823.6	1,739.0	
Total liabilities	4,549.4	4,572.8	
TOTAL EQUITY AND LIABILITIES	7,558.5	7,613.4	

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 / (Accumulated losses)	Total equity
			Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits/ (losses) on post-employment benefits	Measurement of hedging instruments			
1/01/2022	2,239.3	771.7	(12.9)	(42.0)	(20.9)	142.5	(37.1)	3,040.6
Net result for the period	-	-	-	-	-	-	(47.6)	(47.6)
Other comprehensive income for the period (net)	-	-	-	-	(4.5)	20.6	-	16.1
Total comprehensive income	-	-	-	-	(4.5)	20.6	(47.6)	(31.5)
31/03/2022	2,239.3	771.7	(12.9)	(42.0)	(25.4)	163.1	(84.7)	3,009.1
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

QUARTERLY CONSOLIDATED CASH FLOW STATEMENT

	3 months ended 31/03/2022	3 months ended 31/03/2021	
Cash flows from operating activities			
Profit / (loss) before tax	(55.5)	(85.2)	
Adjustments			
Depreciation, amortization and impairment losses	183.9	175.4	<i>Note 2.2</i>
(Profits) / losses on interest, dividends	19.4	12.7	
Received / (paid) interest	0.4	0.3	
Received / (paid) income tax	(3.4)	(1.4)	
Movement in working capital	(108.7)	(43.9)	
Other adjustments	1.5	(0.1)	
Net cash from operating activities	37.6	57.8	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(258.1)	(179.4)	
Proceeds from the sale of non-financial non-current assets	27.2	17.2	
Other inflows from investing activities	0.2	0.4	
Net cash from investing activities	(230.7)	(161.8)	
Cash flows from financing activities			
Payments on lease liabilities	(42.2)	(34.9)	<i>Note 4.1</i>
Proceeds from bank loans and borrowings	163.5	24.3	<i>Note 4.1</i>
Repayment of bank loans and borrowings	(77.5)	(72.8)	<i>Note 4.1</i>
Interest paid on lease liabilities and bank loans and borrowings	(18.9)	(12.0)	<i>Note 4.1</i>
Grants received	25.1	17.9	
Other outflows from financing activities	(0.9)	(1.0)	
Net cash from financing activities	49.1	(78.5)	
Net increase / (decrease) in cash and cash equivalents	(144.0)	(182.5)	
Cash and cash equivalents at the beginning of the reporting period	254.5	306.0	<i>Note 4.3</i>
Impact exerted by FX rate movements on the cash balance in foreign currencies	0.8	1.1	
Cash and cash equivalents as at the end of the reporting period, including:	111.3	124.6	<i>Note 4.3</i>
<i>Restricted cash</i>	39.4	32.7	<i>Note 4.3</i>



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, 12th Commercial Division of the National Court Register, Poland
REGON statistical number	277586360
NIP tax identification number	954-23-81-960

In Q1 2022, the Parent Company did not change its name or other identification details.

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 2022 are presented in the Additional Information to the Consolidated Quarterly Report for Q1 2022 in [Sections 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:

- intermodal services,
- shipping (domestic and international),
- terminals,
- rail sidings and traction,
- rolling stock maintenance and repairs,
- reclamation services.

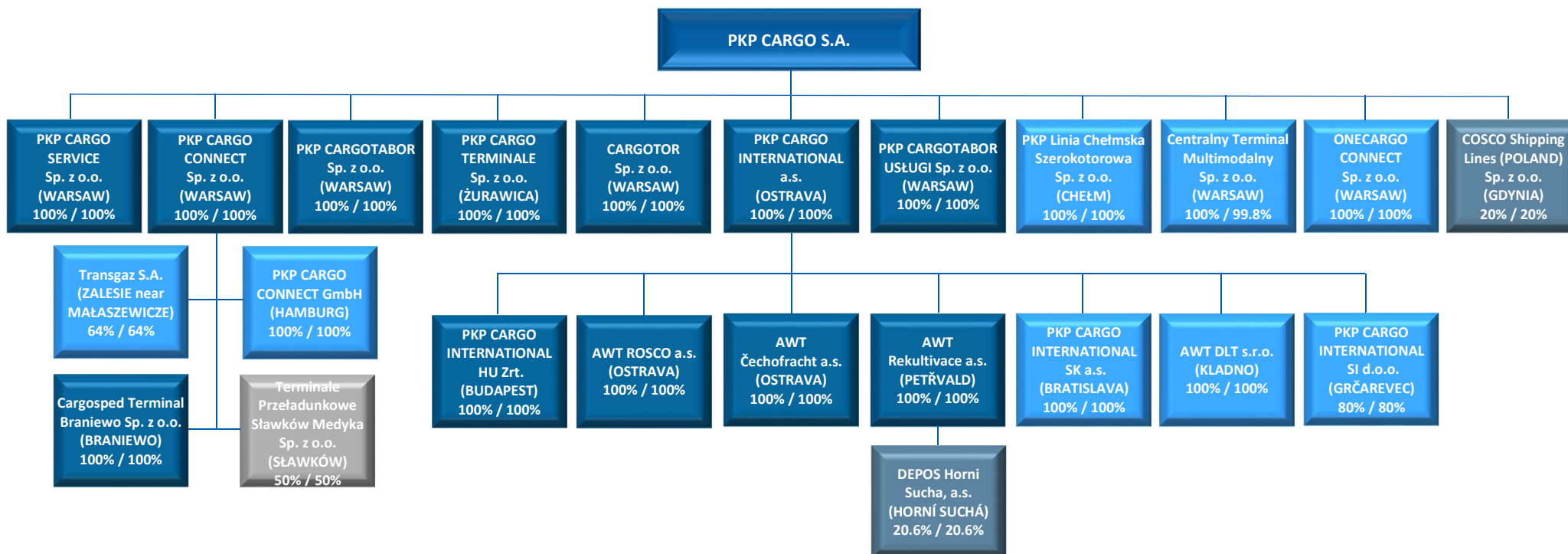
As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 20 subsidiaries. In addition, the Group held shares in 2 associated entities and 1 joint venture.

On 11 March 2022, the Parent Company signed an agreement with PKP S.A. to purchase a 0.17% share in Centralny Terminal Multimodalny Sp. z o.o. As a result of the agreement, the Parent Company became the sole shareholder of Centralny Terminal Multimodalny Sp. z o.o.

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 2022 and 31 December 2021 is as follows:



Subsidiaries – consolidated by the full method
 Associates in the Group

Other subsidiaries in the Group
 Ownership interest 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.

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 2021 prepared according to EU IFRS.

These Quarterly Condensed Consolidated Financial Statements for the period of 3 months ended 31 March 2022 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 financial statements, there are no material circumstances indicating any substantial doubt about the Group's ability to continue its business as a going concern for a period of at least 12 months from the end of the reporting period.

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

Within the year, 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 statement of cash flows 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 carried 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	
	31/03/2022	31/12/2021	3 months ended 31/03/2022	3 months ended 31/03/2021
EUR	4.6525	4.5994	4.6472	4.5721
CZK	0.1903	0.1850	0.1888	0.1751

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 2021 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 2021 prepared according to EU IFRS.

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 26 May 2022.

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 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

The above standards and interpretations had no material influence on the Group's financial statements.

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

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

Standard / Interpretation	Effective date
IFRS 17 "Insurance contracts" and amendments to IFRS 17	1 January 2023
Amendments to IAS 1 "Presentation of financial statements" Practical Guidance IFRS 2 Accounting policy disclosures	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023

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

IFRS as approved 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 have not yet been approved by the EU and have not entered into effect. The Management Board of the Parent Company believes that the approval of the standards mentioned below by the EU will not result in any major changes to the Group's financial statements in the successive reporting periods:

Standard / Interpretation	Effective date
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term	1 January 2023
Amendments to IAS 12 "Income Tax" – Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IFRS 17 "Insurance contracts: First application of IFRS 17 and IFRS 9 – Comparative information	1 January 2023

1.4 Impact of the COVID-19 pandemic and the war in Ukraine on the Group's business

In the first quarter of 2022, the PKP CARGO Group companies observed a decrease in the negative impact of the pandemic on their operations in particular cargo categories. Most business partners have already adjusted their supply chains to the pandemic, which has had an effect on business continuity. In spite of the gradual liberalization and consequent lifting of COVID-19 restrictions, the Group still recognizes the risk associated with the return of pandemic restrictions and the consequent loss of revenues as well as disruption of supply chains.

The war in Ukraine and its social and economic consequences are an important risk factor for PKP CARGO Group's operational and financial results in the coming quarters. Currently, the Group does not identify any significant threats to its operating activity. Given the current structure of cargo transports and the scope of activities of PKP CARGO Group companies, a direct effect of the armed conflict in Ukraine may be the loss of a small portion of revenues from transportation services. Moreover it will be possible to ultimately redirect at least part of the stream of cargo lost to alternative routes (among others by substituting hard coal imported by land from Russia to imports through domestic sea ports from Australia or Colombia). The war in Ukraine and the potential tightening of sanctions may adversely affect the operating revenues of the subsidiaries in PKP CARGO Group, especially those specialized in the operation of terminals on Poland's eastern border and providing forwarding services on routes leading from Eastern Europe. The PKP CARGO Group also became involved in humanitarian aid, participating among others in the transloading of cargo containing humanitarian aid.

An update of the risks accompanying the COVID-19 pandemic and the war in Ukraine may affect the Group's financial position in subsequent reporting periods.

1.5 Significant values based on professional judgment and estimates

In the period of 3 months ended 31 March 2022, changes to material values based on professional judgment and estimation related to provisions for employee benefits, which resulted mainly from an increase in the provision for unused holiday leaves in the amount of PLN 11.1 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 2021.

During the 3 months ended 31 March 2022, 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.

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 Parent Company's Management Board analyzes financial data in the layout in which they are presented in these Quarterly Condensed Consolidated Financial Statements.

3 months ended 31/03/2022	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	65.2	-	270.2	579.3	914.7
Revenue from other transportation activity	0.6	-	0.1	37.8	38.5
Revenue from siding and traction services	-	2.7	40.5	41.5	84.7
Revenue from transshipment services	-	-	0.1	36.2	36.3
Revenue from reclamation services	-	0.5	0.5	18.3	19.3
Revenue from sales of goods and materials	-	-	-	36.5	36.5
Other revenues	0.3	5.3	2.6	28.1	36.3
Total	66.1	8.5	314.0	777.7	1,166.3
Revenue recognition date					
At a point of time	-	-	-	37.1	37.1
Over a period	66.1	8.5	314.0	740.6	1,129.2
Total	66.1	8.5	314.0	777.7	1,166.3



2.1 Revenues from contracts with customers (cont.)

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

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 incorporation are presented below:

	3 months ended 31/03/2022	3 months ended 31/03/2021
Poland	844.9	687.1
Czech Republic	143.4	119.8
Germany	64.3	70.3
Austria	22.0	18.4
Denmark	16.7	16.7
Slovakia	16.6	21.3
Other countries	58.4	62.4
Total	1,166.3	996.0

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

	31/03/2022	31/12/2021
Poland	5,488.0	5,461.9
Czech Republic	764.1	762.0
Other countries	7.3	9.2
Total	6,259.4	6,233.1

Information on key customers

In the period of 3 months ended 31 March 2022 and 31 March 2021, revenue from no single customer of the Group exceeded 10% of the total revenues from contracts with customers.

Assets from contracts with customers

	31/03/2022	31/03/2021
As at the beginning of the reporting period	33.9	24.2
Recognition of revenue before the sales document is issued	43.2	36.0
Reclassification to receivables	(33.2)	(23.6)
FX differences from valuation	0.5	-
As at the end of the reporting period	44.4	36.6

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	3 months ended 31/03/2022	3 months ended 31/03/2021
Consumption of traction fuel	(44.5)	(31.4)
Consumption of traction electricity	(139.0)	(88.8)
Total	(183.5)	(120.2)

Other services

	3 months ended 31/03/2022	3 months ended 31/03/2021
Repair and maintenance services for non-current assets	(21.1)	(20.5)
Rent and fees for the use of property and rolling stock	(27.2)	(18.0)
Telecommunications services	(1.5)	(1.6)
Legal, consulting and similar services	(2.7)	(2.6)
IT services	(11.8)	(10.6)
Transshipment services	(3.5)	(3.1)
Reclamation services	(21.6)	(13.2)
Other services	(18.7)	(16.3)
Total	(108.1)	(85.9)

Employee benefits

	3 months ended 31/03/2022	3 months ended 31/03/2021
Payroll	(307.5)	(306.5)
Social security expenses	(64.8)	(64.4)
Expenses for contributions to the Company Social Benefits Fund	(8.0)	(7.8)
Other employee benefits during employment	(10.4)	(10.5)
Post-employment benefits	(1.9)	(0.8)
Movement in provisions for employee benefits	(23.5)	(24.4)
Total	(416.1)	(414.4)

Other expenses

	3 months ended 31/03/2022	3 months ended 31/03/2021
Consumption of non-traction fuel	(8.8)	(5.7)
Consumption of electricity, gas and water	(19.5)	(14.9)
Consumption of materials	(20.5)	(18.4)
Taxes and charges	(9.4)	(8.8)
Cost of goods and materials sold	(18.3)	(9.8)
Business trips	(6.4)	(6.4)
Other	(5.2)	(5.7)
Total	(88.1)	(69.7)

Depreciation, amortization and impairment losses

	3 months ended 31/03/2022	3 months ended 31/03/2021
Depreciation of rolling stock	(133.9)	(124.0)
Depreciation of other property, plant and equipment	(16.8)	(18.6)
Depreciation of rights-of-use assets	(29.9)	(30.8)
Amortization of intangible assets	(2.0)	(2.0)
(Recognized) / reversed impairment losses:		
Other property, plant and equipment	(1.3)	-
Total	(183.9)	(175.4)

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	3 months ended 31/03/2022	3 months ended 31/03/2021
Profit on sales of non-financial non-current assets	5.1	3.0
Reversed impairment losses on trade receivables	0.6	5.7
Penalties and compensations	3.2	2.4
Reversal of other provisions	0.9	1.3
Interest on trade and other receivables	0.6	0.7
Net result on FX differences on trade receivables and liabilities	0.9	-
Grants	2.0	0.2
Other	1.1	1.6
Total other operating revenue	14.4	14.9
Recognized impairment losses on trade receivables	(0.6)	(0.8)
Penalties and compensations	(2.9)	(1.3)
Costs of liquidation of non-current and current assets	(4.9)	(1.2)
Recognized other provisions	(1.3)	(0.5)
Interest on trade and other liabilities	(1.5)	(0.1)
Other	(1.4)	(0.6)
Total other operating expenses	(12.6)	(4.5)
Other operating revenue and (expenses)	1.8	10.4

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	3 months ended 31/03/2022	3 months ended 31/03/2021
Interest income	0.1	0.2
Other	-	0.4
Total financial revenue	0.1	0.6
Interest expenses	(19.5)	(13.1)
Settlement of the discount on provisions for employee benefits	(4.6)	(2.6)
Net result on FX differences	(0.8)	-
Other	(0.3)	(0.5)
Total financial expenses	(25.2)	(16.2)
Financial revenue and (expenses)	(25.1)	(15.6)



3. Notes on taxation

3.1 Income tax

Income tax recognized in profit or loss

	3 months ended 31/03/2022	3 months ended 31/03/2021
Current income tax		
Current tax charge	(3.4)	(3.0)
Adjustments recognized in the current year relating to tax from previous years	(0.1)	-
Deferred tax		
Deferred income tax of the reporting period	11.4	16.9
Income tax recognized in profit or loss	7.9	13.9

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 31/03/2022	3 months ended 31/03/2021
Deferred tax on the measurement of hedging instruments	1.1	0.6
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income ⁽¹⁾	(2.5)	(1.5)
Deferred income tax recognized in other comprehensive income	(1.4)	(0.9)

⁽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:

	31/03/2022	31/12/2021
Deferred tax assets	213.6	203.1
Deferred tax liabilities	(93.8)	(93.3)
Total	119.8	109.8

Table of movements in deferred tax before the set-off

3 months ended 31/03/2022	1/01/2022	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/03/2022
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	(118.2)	10.7	-	(2.3)	(109.8)
Rights-of-use assets and lease liabilities	(12.7)	(1.0)	-	(0.3)	(14.0)
Other provisions and liabilities	17.7	1.3	-	-	19.0
Inventories	(7.9)	2.5	-	-	(5.4)
Lease receivables	(1.7)	-	-	-	(1.7)
Trade receivables	1.2	(0.5)	-	-	0.7
Provisions for employee benefits	124.7	1.8	-	0.1	126.6
Other	17.0	3.1	1.1	-	21.2
Unused tax losses	89.7	(6.5)	-	-	83.2
Total	109.8	11.4	1.1	(2.5)	119.8

3.1 Income tax (cont.)

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

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 2022

Year	2023	2024	2025	2026	2027	Total
Unused tax losses	56.5	176.2	156.7	47.6	0.7	437.7

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

Year	2023	2024	2025	2026	Total
Unused tax losses	71.1	185.9	163.8	50.8	471.6

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:

	31/03/2022	31/12/2021
PKP CARGO INTERNATIONAL HU Zrt.	10.2	10.3
AWT Čechofracht a.s.	11.7	11.4
PKP CARGO INTERNATIONAL a.s.	2.9	-
PKP CARGOTABOR USŁUGI Sp. z o.o.	0.6	1.2
Total	25.4	22.9

The expiration dates of the tax losses to which deferred tax assets were not applied as at 31 March 2022

Year	2022	2023	2024	2025	2026	2027	Total
Unused tax losses	2.9	3.6	11.8	3.9	0.3	2.9	25.4

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

Year	2022	2023	2024	2025	2026	Total
Unused tax losses	3.2	4.1	11.7	3.7	0.2	22.9

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, EUR, CZK and pertain mainly to property and rolling stock.

Items in foreign currencies

31/03/2022	In functional currency	In foreign currency		Total
	PLN	EUR	CZK	
Bank loans and borrowings	1,013.7	714.3	-	1,728.0
Leases	806.3	54.4	38.6	899.3
Total	1,820.0	768.7	38.6	2,627.3

31/12/2021	In functional currency	In foreign currency		Total
	PLN	EUR	CZK	
Bank loans and borrowings	900.6	732.3	-	1,632.9
Leases	826.1	66.2	39.0	931.3
Total	1,726.7	798.5	39.0	2,564.2

Reconciliation of debt liabilities

3 months ended 31/03/2022	Bank loans and borrowings	Leases	Total
1/01/2022	1,632.9	931.3	2,564.2
New liabilities contracted	163.5	0.4	163.9
Modifications of existing agreements	-	9.3	9.3
Transaction costs	0.2	-	0.2
Accrual of interest	9.9	9.0	18.9
Payments under debt, including:			
Repayments of the principal	(77.5)	(42.2)	(119.7)
Interest paid	(9.2)	(9.7)	(18.9)
Transaction costs	(0.3)	-	(0.3)
Other	-	(1.5)	(1.5)
FX valuation	8.2	0.4	8.6
FX resulting from translation	0.3	2.3	2.6
31/03/2022	1,728.0	899.3	2,627.3
Long-term	1,256.0	741.6	1,997.6
Short-term	472.0	157.7	629.7
Total	1,728.0	899.3	2,627.3



4.1 Reconciliation of debt liabilities (cont.)

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

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	31/03/2022	31/03/2021
Revenues from operating leases	Revenues from contracts with customers	8.1	7.3
Interest income from leases	Financial revenue	0.1	0.1
Costs on account of:			
Short-term leases	Other services	(19.4)	(9.3)
Leases of low-value assets	Other services	(0.9)	(0.9)
Variable lease payments not included in the measurement of lease liabilities	Other services	-	(0.8)

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 2021, contracts signed with banks impose legal and financial obligations on the Group that are standard in such transactions. The key ratios measured in such obligations set forth in loan agreements signed by the Group include: the Net Debt/EBITDA ratio and the total debt ratio.

The above ratios are calculated on the basis of data contained in the Standalone Financial Statements of PKP CARGO S.A. and selected subsidiaries, as well as the Consolidated Financial Statements of the PKP CARGO Group and the PKP CARGO INTERNATIONAL Group.

According to the provisions of the agreements signed by the Group, compliance with the terms and conditions of loan agreements is reviewed on a quarterly basis, on a semi-annual basis and at the end of each financial year.

Given the approvals from the financing banks obtained by the Parent Company as at 31 December 2021 (one-off waivers of contractual conditions or annexes to loan agreements), the next review of the covenants under loan agreements signed by the Parent Company will be as at 30 June 2022.

Liquidity position

As at 31 March 2022, the liquidity position of the PKP CARGO Group was stable and ensured operational and transportation continuity of its business activities.

To secure ongoing liquidity, the Group undertakes measures aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the medium term (current account overdraft and cash pool agreements).

In the course of managing the liquidity position, the levels of trade receivables and payables are monitored on an ongoing basis.

Information on the available financing sources is provided in the table below.

An update of the risks accompanying the COVID-19 pandemic and the war in Ukraine may affect the Group's financial position in subsequent reporting periods.

4.1 Reconciliation of debt liabilities (cont.)

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/03/2022	31/12/2021
Overdraft	Bank Polska Kasa Opieki S.A. ¹⁾	2022/05/24	PLN	33.6	100.0
Overdraft	Bank Gospodarstwa Krajowego	2022/06/18	PLN	100.0	100.0
Overdraft	Bank Polska Kasa Opieki S.A.	2022/07/09	PLN	0.2	0.4
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	2023/03/19	PLN	3.2	100.0
Leasing facility	PKO Leasing S.A.	2022/06/18	PLN	15.2	15.2
Total				152.2	315.6

⁽¹⁾ On 23 May 2022, the Parent Company executed Annex 5 to an overdraft facility agreement extending the availability period of the facility until 24 May 2023.

4.2 Equity

Share capital

	31/03/2022	31/12/2021
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 31 March 2022 and as at 31 December 2021, 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 2022 and 31 March 2021, there were no movements in the share capital of the Parent Company.

Movement in supplementary capital and retained earnings

On 30 March 2022, the Parent Company's Management Board adopted a resolution to cover the loss for 2021 shown in the Standalone Financial Statements:

- with retained earnings from previous years in the amount of PLN 114.3 million;
- with reserve capital in the amount of PLN 109.0 million.

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	31/03/2022	31/12/2021
Cash on hand and on bank accounts	104.9	164.0
Bank deposits up to 3 months	6.4	90.0
Other cash	-	0.5
Total	111.3	254.5
<i>including restricted cash</i>	<i>39.4</i>	<i>60.6</i>

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

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 31/03/2022	Rolling stock	Other property, plant and equipment					Total
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	
Gross value							
1/01/2022	7,155.4	1,014.3	468.3	96.0	45.0	83.7	1,707.3
<i>Increases / (decreases):</i>							
Periodic repairs of rolling stock	-	-	-	-	-	117.7	117.7
Other acquisitions	-	-	-	-	-	93.6	93.6
Purchase of leased items	21.1	-	-	-	-	-	-
Settlement of fixed assets under construction	199.8	23.3	2.6	1.0	0.3	(227.0)	(199.8)
Grant for non-current assets	(23.8)	(7.1)	-	-	-	5.9	(1.2)
Sales	(2.6)	(6.5)	(0.4)	(0.5)	-	-	(7.4)
Liquidation	(55.9)	-	(0.9)	-	-	(0.2)	(1.1)
FX differences	25.4	5.5	1.5	1.2	-	0.5	8.7
Other	0.9	-	-	-	-	-	-
31/03/2022	7,320.3	1,029.5	471.1	97.7	45.3	74.2	1,717.8
Accumulated depreciation							
1/01/2022	(2,726.7)	(327.0)	(354.6)	(84.9)	(39.9)	-	(806.4)
<i>(Increases) / decreases:</i>							
Depreciation	(133.9)	(8.8)	(6.6)	(0.9)	(0.5)	-	(16.8)
Purchase of leased items	(7.8)	-	-	-	-	-	-
Sales	2.2	-	0.4	0.5	-	-	0.9
Liquidation	51.3	-	0.9	-	-	-	0.9
FX differences	(8.9)	(1.5)	(0.8)	(1.1)	-	-	(3.4)
Other	(0.6)	-	(0.2)	-	-	-	(0.2)
31/03/2022	(2,824.4)	(337.3)	(360.9)	(86.4)	(40.4)	-	(825.0)
Accumulated impairment							
1/01/2022	(187.1)	(0.9)	(1.7)	-	-	(4.9)	(7.5)
<i>(Increases) / decreases:</i>							
Recognition	-	-	-	-	-	(1.3)	(1.3)
Utilization	0.1	-	-	-	-	0.2	0.2
FX differences	(1.6)	-	-	-	-	(0.1)	(0.1)
31/03/2022	(188.6)	(0.9)	(1.7)	-	-	(6.1)	(8.7)
Net value							
1/01/2022	4,241.6	686.4	112.0	11.1	5.1	78.8	893.4
31/03/2022	4,307.3	108.5	108.5	11.3	4.9	68.1	884.1

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

3 months ended 31/03/2021	Rolling stock	Other property, plant and equipment					Total
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	
Gross value							
1/01/2021	7,044.0	945.2	479.4	100.7	44.6	78.3	1,648.2
<i>Increases / (decreases):</i>							
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)
<i>(Increases) / decreases:</i>							
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)
<i>(Increases) / decreases:</i>							
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



5.2 Rights-of-use assets

Movement in rights-of-use assets

3 months ended 31/03/2022	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2022	527.5	799.1	53.0	21.5	1.4	1,402.5
<i>Increases / (decreases):</i>						
New leases	-	0.2	-	0.2	-	0.4
Modifications of agreements	-	6.4	-	2.9	-	9.3
Return of leased items	(6.5)	(1.7)	-	(0.2)	-	(8.4)
Purchase of leased items	(21.1)	-	-	-	-	(21.1)
Other	-	(0.1)	-	-	-	(0.1)
FX differences	4.7	7.1	0.5	0.2	-	12.5
31/03/2022	504.6	811.0	53.5	24.6	1.4	1,395.1
Accumulated depreciation						
1/01/2022	(175.2)	(166.5)	(14.9)	(14.3)	(0.9)	(371.8)
<i>(Increases) / decreases:</i>						
Depreciation	(11.7)	(15.1)	(1.9)	(1.1)	(0.1)	(29.9)
Return of leased items	6.5	0.3	-	0.1	-	6.9
Purchase of leased items	7.8	-	-	-	-	7.8
FX differences	(2.3)	(6.3)	(0.2)	(0.1)	-	(8.9)
31/03/2022	(174.9)	(187.6)	(17.0)	(15.4)	(1.0)	(395.9)
Net value						
1/01/2022	352.3	632.6	38.1	7.2	0.5	1,030.7
31/03/2022	329.7	623.4	36.5	9.2	0.4	999.2

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
<i>Increases / (decreases):</i>						
New leases	-	1.0	3.8	0.3	2.5	7.6
Modifications of 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)
<i>(Increases) / decreases:</i>						
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

5.3 Investments in entities accounted for under the equity method

Investments in entities accounted for under the equity method

	Carrying amount	
	31/03/2022	31/12/2021
COSCO Shipping Lines (POLAND) Sp. z o.o.	1.1	0.8
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	21.2	21.2
Transgaz S.A.	6.6	6.4
PKP CARGO CONNECT GmbH	0.8	0.9
PKP CARGO INTERNATIONAL SK a. s.	2.9	2.8
PKP CARGO INTERNATIONAL SI d.o.o.	1.8	3.4
Centralny Terminal Multimodalny Sp. z o.o.	1.2	1.2
Total	35.6	36.7

Investments in entities accounted for under the equity method

	3 months ended 31/03/2022	3 months ended 31/03/2021
As at the beginning of the reporting period	36.7	42.0
Sale of shares	-	(7.0)
Share in the profit / (loss) of entities accounted for under the equity method	1.1	1.4
Movement in equity on account of dividends	(2.5)	-
FX differences from translation of financial statements	0.3	0.1
As at the end of the reporting period	35.6	36.5

5.4 Inventories

Structure of inventories

	31/03/2022	31/12/2021
Strategic inventories	30.0	31.2
Rolling stock during liquidation	20.5	31.0
Other inventories	103.8	109.4
Impairment losses	(5.5)	(7.0)
Net inventories	148.8	164.6

5.5 Trade receivables

Structure of trade receivables

	31/03/2022	31/12/2021
Trade receivables	829.0	756.1
Impairment loss on receivables	(141.9)	(140.2)
Total	687.1	615.9
Non-current assets	5.0	4.2
Current assets	682.1	611.7
Total	687.1	615.9

5.6 Other assets

Structure of other assets

	31/03/2022	31/12/2021
Financial assets		
Shares in unlisted companies	5.6	5.6
Non-financial assets		
Costs settled over time		
Prepayments for purchase of electricity	41.5	32.3
Insurance	5.0	6.8
IT services	8.6	11.6
Purchase of transportation benefits	9.1	-
Other costs settled over time	4.1	4.1
Other	3.8	9.2
Other receivables		
VAT settlements	29.5	30.5
Receivables from the sale of shares	5.1	5.3
Other	14.9	12.0
Intangible assets		
Licenses	17.5	19.3
Other intangible assets	0.3	0.3
Intangible assets under development	7.5	6.6
Total	152.5	143.6
Non-current assets	39.0	40.5
Current assets	113.5	103.1
Total	152.5	143.6

5.7 Investment liabilities

Structure of investment liabilities

	31/03/2022	31/12/2021
Investment liabilities related to rolling stock	266.5	298.8
Investment liabilities related to properties	5.1	19.8
Other	3.4	14.6
Total	275.0	333.2
Long-term liabilities	95.5	111.8
Short-term liabilities	179.5	221.4
Total	275.0	333.2

5.8 Provisions for employee benefits

Structure of provisions for employee benefits

	31/03/2022	31/12/2021
Post-employment defined benefit plans		
Retirement and disability severance benefits	203.2	205.2
Company Social Benefits Fund	126.2	125.5
Transportation benefits	24.2	24.0
Post-mortem benefits	6.6	6.7
Other employee benefits		
Jubilee awards	257.2	259.4
Other employee benefits (unused vacation time/bonuses)	52.2	35.6
Total	669.6	656.4
Long-term provisions	527.3	529.1
Short-term provisions	142.3	127.3
Total	669.6	656.4

5.9 Other provisions

Structure of other provisions

	31/03/2022	31/12/2021
Provision for land reclamation	7.3	6.8
Other provisions	24.9	23.5
Total	32.2	30.3
Long-term provisions	7.4	7.0
Short-term provisions	24.8	23.3
Total	32.2	30.3

5.10 Other liabilities

Structure of other liabilities

	31/03/2022	31/12/2021
Financial liabilities		
Cash pool	1.1	1.1
Other liabilities		
Liabilities arising out of collateral (deposits, bid deposits, guarantees)	36.1	34.2
Public law liabilities	97.0	109.3
Settlements with employees	93.7	96.2
Received grants	0.6	0.6
Other settlements	14.7	6.8
VAT settlements	14.7	5.1
Current income tax liabilities	1.2	0.8
Total	259.1	254.1
Current liabilities	259.1	254.1
Total	259.1	254.1

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	31/03/2022	31/12/2021
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	<i>Note 5.6</i>	5.6	5.6
Financial assets measured at amortized cost			
Trade receivables	<i>Note 5.5</i>	687.1	615.9
Receivables from the sale of shares	<i>Note 5.6</i>	5.1	5.3
Cash and cash equivalents	<i>Note 4.3</i>	111.3	254.5
Financial assets excluded from the scope of IFRS 9		9.0	9.1
Total		818.1	890.4

6.1 Financial instruments (cont.)

Financial liabilities by categories and classes	Note	31/03/2022	31/12/2021
Hedging financial instruments			
Bank loans and borrowings	Note 4.1	673.5	732.2
Financial liabilities excluded from the scope of IFRS 9	Note 4.1	29.4	33.5
Financial liabilities measured at amortized cost			
Bank loans and borrowings	Note 4.1	1,054.5	900.7
Trade liabilities		592.4	641.3
Investment liabilities	Note 5.7	275.0	333.2
Cash pool	Note 5.10	1.1	1.1
Financial liabilities excluded from the scope of IFRS 9	Note 4.1	869.9	897.8
Total		3,495.8	3,539.8

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 2022 to 31 March 2022, 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 2022, 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 2022, the nominal amount of the hedging instrument was EUR 144.8 million, which is an equivalent of PLN 673.5 million.
- leases denominated in EUR. The hedged cash flows will be realized until October 2026. As at 31 March 2022, the nominal amount of the hedging instrument was EUR 6.3 million, which is an equivalent of PLN 29.4 million.

Fair value hierarchy

As at 31 March 2022 and 31 December 2021, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	31/03/2022		31/12/2021	
	Level 2	Level 3	Level 2	Level 3
Assets				
Investments in equity instruments - shares in unlisted companies	-	5.6	-	5.6

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 2022 and 31 December 2021 were not materially different from their values presented in the statement of financial position.

In the period of 3 months ended 31 March 2022 and 31 March 2021, there were no transfers between level 2 and level 3 of the fair value hierarchy.

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 31/03/2022	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)	(0.7)	0.6	0.1	(11.4)	(8.8)	(20.2)
FX differences	-	-	-	0.3	(0.3)	-
Impairment losses / revaluation	-	-	-	-	-	-
Transaction costs related to bank loans	-	-	-	(0.2)	-	(0.2)
Effect of settlement of cash flow hedge accounting	(2.1)	-	-	-	-	(2.1)
Profit / (loss) before tax	(2.8)	0.6	0.1	(11.3)	(9.1)	(22.5)
Revaluation	(5.6)	-	-	-	-	(5.6)
Other comprehensive income	(5.6)	-	-	-	-	(5.6)

In the period of 3 months ended 31 March 2022, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (2.1) million.

In the period of 3 months ended 31 March 2022, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of bank loans in the amount of PLN (5.9) 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 31/03/2021	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.

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 2022 and 31 March 2021, the State Treasury was a upper level parent entity of the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Quarterly Condensed Consolidated Financial Statements, the Parent Company's Management Board has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the period of 3 months ended 31 March 2022 and 31 March 2021, there were no transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope and amount. In the periods covered by these Quarterly Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: PGE, ENEA, JSW and Tauron. In the period of 3 months ended 31 March 2022, the Group's most important suppliers 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 31/03/2022		31/03/2022	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.1	18.4	-	565.3
Subsidiaries/co-subsiidiaries – unconsolidated	1.4	5.6	0.5	2.3
Associates	0.6	0.1	0.1	-
Other PKP Group related parties	6.4	136.0	2.4	157.0

	3 months ended 31/03/2021		31/12/2021	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	17.7	1.3	572.2
Subsidiaries/co-subsiidiaries – unconsolidated	1.5	5.6	-	1.7
Associates	0.1	-	0.6	-
Other PKP Group related parties	6.5	120.6	3.2	169.3

Purchase transactions with the parent company (PKP S.A.) pertained in particular to lease and rental agreements treated as leasing contracts, the supply of utilities, costs of fees for membership in international railway organizations 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 property. Purchase transactions comprised, among others, access to rail infrastructure, lease of property, supply of utilities, maintenance of rail traffic facilities, purchase of network maintenance services, operation of IT systems.

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

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 31/03/2022	3 months ended 31/03/2021	3 months ended 31/03/2022	3 months ended 31/03/2021
Short-term benefits	0.4	0.7	1.4	1.4
Post-employment benefits	0.5	-	0.2	-
Total	0.9	0.7	1.6	1.4

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	3 months ended 31/03/2022	3 months ended 31/03/2021	3 months ended 31/03/2022	3 months ended 31/03/2021
Short-term benefits	0.3	0.3	0.3	-
Total	0.3	0.3	0.3	-

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	3 months ended 31/03/2022	3 months ended 31/03/2021	3 months ended 31/03/2022	3 months ended 31/03/2021
Short-term benefits	1.7	1.7	4.4	4.1
Post-employment benefits	-	-	-	0.1
Termination benefits	0.1	-	-	-
Total	1.8	1.7	4.4	4.2

In the period of 3 months ended 31 March 2022 and 31 March 2021, 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

	31/03/2022	31/12/2021
Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment	628.0	583.0
Contractual liabilities on account of non-commenced lease contracts	0.2	0.2
Total	628.2	583.2

On 9 February 2022 the Parent Company's Supervisory Board gave consent to enter into an agreement with the consortium composed of: Siemens Mobility Sp. z o.o. and Siemens Mobility GmbH for the delivery of 5 brand new electric multi-system locomotives together with the provision of maintenance services. The schedule assumes delivery of 5 locomotives in Q1 2023 and the estimated value of the agreement will not exceed PLN 139.1 million.

7.3 Contingent liabilities

Structure of contingent liabilities

	31/03/2022	31/12/2021
Guarantees issued on the Group's order	104.4	113.0
Other contingent liabilities	129.2	129.1
Total	233.6	242.1

Guarantees issued on the Group's order

As at 31 March 2022, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, excise tax guarantees and customs guarantees.

Other contingent liabilities

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

7.4 Subsequent events

On 12 April 2022 marked the completion of the three-month secondment of Mr. Władysław Szczepkowski, Member of the Parent Company's Supervisory Board, to act temporarily in the capacity of President of the PKP CARGO S.A. Management Board.

On 13 April 2022, following a recruitment procedure, the Supervisory Board of the Parent Company adopted resolutions to appoint the following to the PKP CARGO S.A. Management Board:

- Mr. Dariusz Seliga, who was appointed to the position of President of the Management Board,
- Mr. Zenon Kozendra, who was appointed to the position of a Management Board Member – Representative of PKP CARGO S.A. Employees, for another term of office.

On 22 April 2022, the Parent Company's Supervisory Board by way of a resolution appointed Mr. Maciej Jankiewicz to the position of the Management Board Member in charge of Finance, while Mr. Jacek Rutkowski was appointed to the position of the Management Board Member in charge of Commerce.

At present, the Company's Management Board is now composed of the following persons:

- Mr. Dariusz Seliga – President of the Management Board,
- Mr. Marek Olkiewicz – Management Board Member in charge of Operations,
- Mr. Maciej Jankiewicz - Management Board Member in charge of Finance,
- Mr. Jacek Rutkowski - Management Board Member in charge of Commerce,
- Mr. Zenon Kozendra – Management Board Member, Employee Representative.

During the mediation meeting held on 24 May 2022 as part of the procedure to resolve a collective dispute for the implementation of a systemic salary increase pending between the Parent Company and the Trade Unions that are parties to the Collective Bargaining Agreement for employees of PKP CARGO S.A. Units, a protocol was signed that provides for a salary increase to be granted to Parent Company employees as of 1 June 2022. The cost of salary increases estimated by the Parent Company will be approx. PLN 94 million in 2022.

Other events occurring after the balance sheet date are described in [Notes 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 26 May 2022.

Parent Company's Management Board

Dariusz Seliga
President of the Management Board

Marek Olkiewicz
Management Board Member

Maciej Jankiewicz
Management Board Member

Jacek Rutkowski
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 26 May 2022

Quarterly Financial Information
of **PKP CARGO S.A.**
for the period of 3 months
ended 31 March 2022



QUARTERLY SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	3 months ended 31/03/2022	3 months ended 31/03/2021
Revenues from contracts with customers	870.3	721.7
Consumption of traction electricity and traction fuel	(167.3)	(108.1)
Services of access to infrastructure	(132.3)	(123.4)
Other services	(96.6)	(80.2)
Employee benefits	(305.4)	(314.6)
Other expenses	(57.4)	(40.8)
Other operating revenue and (expenses)	5.5	7.1
Operating profit without depreciation (EBITDA)	116.8	61.7
Depreciation, amortization and impairment losses	(150.0)	(139.0)
Profit / (loss) on operating activities (EBIT)	(33.2)	(77.3)
Financial revenue and (expenses)	(21.8)	(12.4)
Profit / (loss) before tax	(55.0)	(89.7)
Income tax	8.8	15.7
NET PROFIT / (LOSS)	(46.2)	(74.0)
OTHER COMPREHENSIVE INCOME		
Measurement of hedging instruments	(6.5)	(3.8)
Income tax	1.3	0.7
Total other comprehensive income subject to reclassification in the financial result	(5.2)	(3.1)
Total other comprehensive income	(5.2)	(3.1)
TOTAL COMPREHENSIVE INCOME	(51.4)	(77.1)
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	(1.03)	(1.65)

QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION

	31/03/2022	31/12/2021
ASSETS		
Rolling stock	3,873.2	3,827.5
Other property, plant and equipment	472.3	481.7
Rights-of-use assets	653.0	666.9
Investments in related parties	840.0	840.0
Lease receivables	23.0	23.4
Financial assets	4.9	4.9
Other assets	26.8	28.1
Deferred tax assets	169.0	158.7
Total non-current assets	6,062.2	6,031.2
Inventories	72.4	87.3
Trade receivables	450.3	380.5
Lease receivables	1.8	1.5
Income tax receivables	1.6	1.7
Other assets	77.0	69.3
Cash and cash equivalents	35.2	141.0
Total current assets	638.3	681.3
Non-current assets classified as held for sale	5.0	14.9
TOTAL ASSETS	6,705.5	6,727.4
EQUITY AND LIABILITIES		
Share capital	2,239.3	2,239.3
Supplementary capital	744.7	744.7
Other items of equity	(67.5)	(62.3)
Retained earnings / (Accumulated losses)	(155.2)	(109.0)
Total equity	2,761.3	2,812.7
Debt liabilities	1,787.2	1,872.2
Investment liabilities	94.2	110.1
Provisions for employee benefits	457.4	459.9
Other provisions	0.7	0.7
Total long-term liabilities	2,339.5	2,442.9
Debt liabilities	558.5	393.9
Trade liabilities	432.8	446.1
Investment liabilities	258.0	297.7
Provisions for employee benefits	108.0	99.9
Other provisions	18.9	17.7
Other financial liabilities	52.9	42.6
Other liabilities	175.6	173.9
Total short-term liabilities	1,604.7	1,471.8
Total liabilities	3,944.2	3,914.7
TOTAL EQUITY AND LIABILITIES	6,705.5	6,727.4

QUARTERLY SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity			Retained Earnings/ (Accumulated losses)	Total
			Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefit	Measurement of hedging instruments		
1/01/2022	2,239.3	744.7	(12.9)	(22.7)	(26.7)	(109.0)	2,812.7
Net result for the period	-	-	-	-	-	(46.2)	(46.2)
Other comprehensive income for the period (net)	-	-	-	-	(5.2)	-	(5.2)
Total comprehensive income	-	-	-	-	(5.2)	(46.2)	(51.4)
31/03/2022	2,239.3	744.7	(12.9)	(22.7)	(31.9)	(155.2)	2,761.3
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

QUARTERLY SEPARATE CASH FLOW STATEMENT

	3 months ended 31/03/2022	3 months ended 31/03/2021
Cash flow from operating activities		
Profit / (loss) before tax	(55.0)	(89.7)
Adjustments		
Depreciation, amortization and impairment losses	150.0	139.0
(Profits) / losses on interest, dividends	17.2	9.5
Received / (paid) interest	0.4	0.1
Movement in working capital	(84.2)	(36.0)
Other adjustments	(2.1)	0.1
Net cash from operating activities	26.3	23.0
Cash flow from investing activities		
Expenditures on the acquisition of non-financial non-current assets	(242.1)	(131.8)
Proceeds from the sale of non-financial non-current assets	25.1	10.0
Expenditures on the acquisition of shares in related entities	(0.1)	(33.0)
Other inflows from investing activities	0.5	1.6
Net cash from investing activities	(216.6)	(153.2)
Cash flow from financing activities		
Payments on lease liabilities	(20.3)	(18.6)
Proceeds from bank loans and borrowings	163.2	16.6
Repayment of bank loans and borrowings	(74.7)	(67.3)
Interest paid on lease liabilities and bank loans and borrowings	(16.4)	(9.5)
Grants received	23.8	16.4
Inflows / (outflows) as part of cash pool	9.8	44.5
Other outflows from financing activities	(0.9)	(1.1)
Net cash from financing activities	84.5	(19.0)
Net increase / (decrease) in cash and cash equivalents	(105.8)	(149.2)
Cash and cash equivalents as at the beginning of the reporting period	141.0	180.5
Cash and cash equivalents as at the end of the reporting period, including:	35.2	31.3
<i>Restricted cash</i>	21.0	19.8

Other information
to **PKP CARGO GROUP'S**
consolidated quarterly report
for Q1 2022



Table of contents

1. Introduction	6
2. Organization of the PKP CARGO Group.....	7
2.1. <i>Highlights on the Company and the PKP CARGO Group</i>	<i>7</i>
2.2. <i>Consolidated entities</i>	<i>9</i>
3. Information about the Parent Company	10
3.1. <i>Composition of the Management Board and Supervisory Board of PKP CARGO S.A.</i>	<i>10</i>
3.2. <i>Structure of PKP CARGO S.A.'s share capital</i>	<i>15</i>
3.3. <i>Shareholders holding at least 5% of the total votes</i>	<i>16</i>
3.4. <i>Listing of shares held by management and supervisory board members.....</i>	<i>16</i>
4. Key areas of operation of the PKP CARGO Group.....	17
4.1. <i>Macroeconomic environment.....</i>	<i>17</i>
4.2. <i>Freight transportation activity.....</i>	<i>27</i>
4.3. <i>Other services</i>	<i>38</i>
4.4. <i>Headcount.....</i>	<i>38</i>
4.5. <i>PKP CARGO Group's investments.....</i>	<i>39</i>
4.6. <i>Key information and events</i>	<i>40</i>
5. Analysis of the financial situation and assets of the PKP CARGO Group	43
5.1. <i>Key economic and financial figures of the PKP CARGO Group.....</i>	<i>43</i>
5.2. <i>Factors that will affect financial performance in the next quarter</i>	<i>50</i>
5.3. <i>Management Board's stance with respect to the possibility of achieving previously published result forecasts for the year</i>	<i>53</i>
5.4. <i>Information about production assets</i>	<i>53</i>
6. Other relevant information and events	55
6.1. <i>Impact of the war in Ukraine on the activity of the PKP CARGO Group.....</i>	<i>55</i>
6.2. <i>Proceedings pending before courts, arbitration bodies or public administration authorities</i>	<i>56</i>
6.3. <i>Information on transactions with related parties.....</i>	<i>56</i>
6.4. <i>Information on extended guarantees and sureties for loans or borrowings</i>	<i>56</i>
6.5. <i>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</i>	<i>56</i>

Table 1 Subsidiaries consolidated by the full method	9
Table 2 Composition of the PKP CARGO S.A. Management Board from 1 January 2022 to the delivery date of this report	12
Table 3 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2022 to the delivery date of this report.....	13
Table 4 Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 January 2022 to the delivery date of this report ..	14
Table 5 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2022 to the delivery date of this report	15
Table 6 Composition of the Strategy Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2022 to the delivery date of this report.....	15
Table 7 Structure of PKP CARGO S.A.'s share capital.....	15
Table 8 Shareholder structure of PKP CARGO S.A. as at 31 March 2022 and as at the delivery date of this report	16
Table 9 PKP CARGO S.A. shares held by Management Board members.....	16
Table 10 PKP CARGO S.A. shares held by Supervisory Board members	17
Table 11 Freight transport market in the Czech Republic in 2022.....	31
Table 12 Freight turnover of the PKP CARGO Group in Q1 2022 and Q1 2021	35
Table 13 Freight volume of the PKP CARGO Group in Q1 2022 and Q1 2021	36
Table 14 Average haul of the PKP CARGO Group in Q1 2022 and Q1 2021.....	36
Table 15 Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in 3M 2022 as compared to 3M 2021 (millions of PLN).....	40
Table 16 Financial highlights of the PKP CARGO Group.....	43
Table 17 Financial highlights of PKP CARGO S.A.	44
Table 18 Key financial and operating ratios of the PKP CARGO Group in 3M 2022 as compared to the corresponding period of 2021	49
Table 19 Real estate owned and used by the PKP CARGO Group as at 31 March 2022 as compared to 31 December 2021.	54

Figure 1 Structure of capital links with the companies in which PKP CARGO S.A. or its subsidiaries hold shares – as at 31 March 2022	8
Figure 2 Structure of the PKP CARGO INTERNATIONAL Group as at 31 March 2022	9
Figure 3 Real GDP growth rate in Poland in 2016-2021, its decomposition and forecasts for 2022-2024 – data not adjusted for seasonality	18
Figure 4 Current and historical values of coal price indices on the European ARA* vs. RB** markets	20
Figure 5 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2) ..	20
Figure 6 Real GDP growth rate in the Czech Republic in 2017-2021 and forecasts for 2022-2025 – data adjusted for seasonality	24
Figure 7 Bar chart showing quarterly hard coal mining volumes in the Czech Republic in 2016-2022 (in thousands of tons).	26
Figure 8 Bar chart showing quarterly lignite mining volumes in the Czech Republic in 2016-2022 (in thousands of tons).	26
Figure 9 Rail freight volumes in Poland broken down by quarter in 2017-2022 (million tons)	28
Figure 10 Rail freight turnover in Poland (billion tkm) broken down by quarter in 2017-2022.....	28
Figure 11 Share of the PKP CARGO Group in total freight volume in Poland in 2017-2022	29
Figure 12 Share of the PKP CARGO Group in total freight turnover in Poland in 2017-2022	29
Figure 13 Market shares of the largest rail operators in Poland in Q1 2022	30
Figure 14 Shares of various modes of transport in the land transport market in the Czech Republic in 2021: freight volume (L) and freight turnover (R)	31
Figure 15 Quarterly rail freight transport in the Czech Republic by freight volume in 2017-2021 (million tons).....	32
Figure 16 Rail freight transport in the Czech Republic by freight turnover broken down by quarter in 2017-2021 (billion tkm)	33
Figure 17 PKP CARGO International’s quarterly market shares in total freight volume in the Czech Republic in 2017-2021*	34
Figure 18 PKP CARGO International’s quarterly market shares in terms of freight turnover in the Czech Republic in 2017-2021*	34
Figure 19 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in Q1 2022 (btkm).....	34
Figure 20 Headcount in the PKP CARGO Group and PKP CARGO S.A. in 3M 2022 and 2021.	39
Figure 21 EBIT in 3M 2022 as compared to the corresponding period in 2021 (PLN million)	45
Figure 22 Structure of assets – as at 31 March 2022 and 31 December 2021.....	46
Figure 23 Movement in the Group’s assets in the first 3 months of 2022 (PLN million)	46
Figure 24 Structure of the Group’s equity and liabilities as at 31 March 2022 and 31 December 2021	47
Figure 25 Movement in the Group’s equity and liabilities in the first 3 months of 2022 (PLN million).....	48
Figure 26 Cash flows of the PKP CARGO Group in the first 3 months of 2022 (PLN million)	49
Figure 27 Structure of rolling stock used by the PKP CARGO Group as at 31 March 2022 and 31 December 2021	54

1. Introduction

Dear Stakeholders,

In the first quarter of 2022, the Polish economy continued to enjoy strong economic growth, in particular in terms of industrial output, which affected the situation on the rail freight transport market. Favorable trends transpire from the PKP CARGO Group's financial and operating performance, which in the January-March period was marked by a significant increase in the volume of transport services and revenues from contracts with customers compared to the corresponding period in 2021. Our EBITDA in this period also improved.

On the other hand, the rail industry had to cope with high operating expenses, especially those arising from the increasing prices of fuel and electricity, but also the inevitability of spending more money on the purchases of other items and services indispensable for the execution of transport processes.

It should also be pointed out that the PKP CARGO Group's standing in the first quarter of this year was affected by geopolitical circumstances of a scale not seen in modern times. Clearly, we were among the operators who experienced the consequences of the armed aggression of the Russian Federation against Ukraine, as the war caused disturbances in the provision of rail transport services on the East-West route. However, they did not exert a major impact on the provision of transport services on the New Silk Road.

Despite the ongoing war in Ukraine and the related tough macroeconomic environment, the PKP CARGO Group keeps making efforts to improve its competitive position on the market and bolster its business efficiency. This gives us reasons to remain optimistic about the subsequent quarters of 2022.



Dariusz Seliga
President of the PKP CARGO S.A. Management Board

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group

The PKP CARGO Group is the largest rail freight operator in Poland and the European Union (“EU”) and a key partner on the New Silk Road. The PKP CARGO Group provides its services to customers in diverse industries – from mining and metallurgy, to construction, chemicals, wood processing, food production and automotive.

The PKP CARGO Group offers its customers comprehensive intermodal services, freight forwarding, terminal, siding and traction services, repair and maintenance of rolling stock, and land reclamation services.

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

The Group (including the Parent Company, PKP CARGO INTERNATIONAL a.s. and PKP CARGO SERVICE Sp. z o.o.) offers a broad range of services on the domestic market and the international market. Moreover, the following services are provided by the PKP CARGO Group to support its clients and supplement its offering:

Figure 1 Structure of capital links with the companies in which PKP CARGO S.A. or its subsidiaries hold shares – as at 31 March 2022

Source: Proprietary material

Figure 2 Structure of the PKP CARGO INTERNATIONAL Group as at 31 March 2022

Source: Proprietary material

The duration of individual Group companies is unlimited.

In Q1 2022, the following changes were made to the structure of capital ties:

- On 11 March 2022, PKP S.A. sold all 50 (fifty) shares held by PKP S.A. in Centralny Terminal Multimodalny Sp. z o.o. with its registered office in Warsaw, of the total par value of PLN 2,500.00, to PKP CARGO S.A. (as a shareholder of Centralny Terminal Multimodalny Sp. z o.o.). As a result of the transaction, PKP CARGO S.A. became the sole shareholder of Centralny Terminal Multimodalny with a 100% equity stake.

2.2. Consolidated entities

The Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group as at 31 March 2022 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.
PKP CARGOTABOR USŁUGI Sp. z o.o. (“PKP CARGOTABOR USŁUGI”)	Wholesale of machinery and equipment, collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of this report, the company does not conduct any operating activity.
PKP CARGO TERMINALE Sp. z o.o. (“PKP CARGO TERMINALE”) (formerly CL Medyka-Żurawica and CL Małaszewicze)	Transshipment and handling of containers and bulk cargo, storage, ability to offer rail gauge switching services and the only company on the country’s eastern border with a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o. (“CARGOSPED TERMINAL BRANIEWO”)	Transshipment of bulk cargo and containers, retail and wholesale of coal, customs services.
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 services.
PKP CARGO INTERNATIONAL a.s. (“PKP CARGO INTERNATIONAL”) (formerly Advanced World Transport a.s.)	Rail transport and freight forwarding in Europe, siding services, management of an intermodal terminal in Paskov, 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.	International freight forwarding services.
AWT Rekultivace a.s. (“AWT Rekultivace”)	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
PKP CARGO INTERNATIONAL HU Zrt. (formerly AWT Rail HU Zrt) (“PKP CARGO INTERNATIONAL HU”)	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator’s license.

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. 61/VII/2021 of the PKP CARGO S.A. Supervisory Board of 12 July 2021);

- 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 regulations.

On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 1/VII/2022 on ending the secondment of Mr. Władysław Szczepkowski, a PKP CARGO S.A. Supervisory Board Member, to act temporarily in the capacity of the President of PKP CARGO S.A. Management Board.

On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 2/VII/2022 deciding that the composition of the Management Board of PKP CARGO S.A. joint 8th term of office shall at any one time be no more than 5 persons.

As a result of the completed recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Commerce, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Operations. On 13 January 2022, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 6/VII/2022 on the appointment of Mr. Marek Olkiewicz to the position of Management Board Member in charge of Operations.

On 13 January 2022, the PKP CARGO S.A. Supervisory Board of adopted Resolution No. 7/VII/2022, seconding Mr. Władysław Szczepkowski, a PKP CARGO S.A. Supervisory Board Member, to act in the capacity of President of PKP CARGO S.A. Management Board for a period not longer than 3 (three) months.

On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 9/VII/2022, on ending without a decision the recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Commerce, and on starting a new recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Commerce.

On 27 January and 1 February 2022, the Supervisory Board adopted Resolution No. 11/VII/2022 and Resolution No. 12/VII/2022, respectively on amendments to the Bylaws for Electing Candidates for Employee Representative to PKP CARGO S.A. Management Board and for Employee Representatives to PKP CARGO S.A. Supervisory Board, as well as on the procedure of their dismissal.

As a result of recruitment procedures carried out to fill in the positions of: President of the Management Board, Management Board Member in charge of Operations, Management Board Member in charge of Finance, Management Board Member in charge of Commerce and Management Board Member – Employee Representative PKP CARGO S.A., the following individuals were appointed to the PKP CARGO S.A. Management Board:

- 1) Mr. Dariusz Seliga to the position of President of the PKP CARGO S.A. Management Board – by Resolution No. 33/VII/2022 of 13 April 2022 for the joint 7th and 8th terms of office – as of 13 April 2022.
- 2) Mr. Maciej Jankiewicz to the position of Management Board Member in charge of Finance – by Resolution No. 39/VII/2022 of 22 April 2022 for the joint 7th and 8th terms of office – as of 25 April 2022.
- 3) Mr. Jacek Rutkowski to the position of Management Board Member in charge of Commerce – by Resolution No. 37/VII/2022 of 22 April 2022 for the joint 7th and 8th terms of office – as of 25 April 2022.
- 4) Mr. Marek Olkiewicz to the position of Management Board Member in charge of Operations – by Resolution No. 6/VII/2022 of 13 January 2022 for the joint 7th and 8th terms of office – as of 3 February 2022.
- 5) Mr. Zenon Kozendra to the position of Management Board Member – Employee Representative – by Resolution No. 35/VII/2022 of 13 April 2022 for the joint 8th term of office.

On 13 April 2022, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 30/VII/2022 to declare the proper and valid election and appointment of candidates for employee representatives to the PKP CARGO S.A. Supervisory Board of the 8th term of office.

Powers of the Management Board

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 2022 to the delivery date of this report

No.	Name	Position	Period in office	
			from	to
1	Dariusz Seliga	President of the Management Board	13 April 2022	to date
2	Marek Olkiewicz	Management Board Member in charge of Operations	3 February 2022	to date
3	Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
4	Maciej Jankiewicz	Management Board Member in charge of Finance	25 April 2022	to date
5	Jacek Rutkowski	Management Board Member in charge of Commerce	25 April 2022	to date
6	Władysław Szczepkowski	Temporary discharge of duties	18 October 2021	13 January 2022
		President of the Management Board	13 January 2022	12 April 2022

Source: Proprietary material

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Vice-Chairperson) appointed for a joint term of office. The number of Supervisory Board members in a specific term of office is set by PKP S.A. (in the 7th term: 11 members).

The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

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

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson or 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. Decisions in this respect are made by the Supervisory Board Chairperson at his/her own initiative or at a written motion of a Management Board member or Supervisory Board member.

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

Table 3 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2022 to the delivery date of this report

No.	Name	Position	Period in office	
			from	to
1	Krzysztof Mamiński	Supervisory Board Chairman	26 June 2019	to date
		Supervisory Board Member	26 June 2019	to date
2	Marcin Kowalczyk	Supervisory Board Member	14 Jan 2021	to date
		Supervisory Board Vice-Chairman	25 Jan 2021	to date
3	Krzysztof Czarnota	Supervisory Board Member	26 June 2019	to date
4	Zofia Dzik	Supervisory Board Member	26 June 2019	to date
5	Dariusz Górski	Supervisory Board Member	26 June 2019	to date
6	Paweł Sosnowski	Supervisory Board Member	26 June 2019	to date
7	Jerzy Sońnierz	Supervisory Board Member	26 June 2019	to date
8	Tadeusz Stachaczyński	Supervisory Board Member	26 June 2019	to date
9	Władysław Szczepkowski	Supervisory Board Member	26 June 2019	to date
		(seconded to temporarily perform the duties of President of the Management Board)	18 October 2021 13 January 2022	13 January 2022 12 April 2022
10	Izabela Wojtyczka	Supervisory Board Member	16 July 2020	to date
11	Antoni Duda	Supervisory Board Member	21 August 2020	to date

Source: Proprietary material

SUPERVISORY BOARD AUDIT COMMITTEE

The Supervisory Board's Audit Committee is appointed by the Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Audit Committee members, including its Chairperson, meet the independence criteria specified in § 20 and § 21 of the Company's Articles of Association and in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, Item 1089, as amended). At least one Member of the Audit Committee has qualifications in the area of accounting or audit of financial statements and at least one Member of the Audit Committee has knowledge and skills in the specific industry in which the Company operates. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the firm authorized to audit financial statements, also when it provides to the Company other services than financial audit and review, assessing the independence of a statutory auditor and giving consent for it to provide permitted 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 2022 to the delivery date of this report

No.	Name	Position	Period in office	
			from	to
1	Dariusz Górski	Committee Member Committee Chairman	1 July 2019	to date
2	Zofia Dzik	Committee Member	1 July 2019	to date
3	Władysław Szczepkowski	Committee Member (seconded to temporarily perform the duties of President of the Management Board)	24 August 2020 18 October 2021 13 January 2022	to date 13 January 2022 12 April 2022

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 2022 to the delivery date of this report

No.	Name	Position	Period in office from	to
1	Zofia Dzik	Committee Chairwoman	1 July 2019	to date
2	Izabela Wojtyczka	Committee Member	21 September 2020	to date
3	Paweł Sosnowski	Committee Member	18 October 2021	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 2022 to the delivery date of this report

No.	Name	Position	Period in office from	to
1	Władysław Szczepkowski	Committee Member	1 July 2019	to date
		Committee Chairman	23 September 2020	to date
		(seconded to temporarily perform the duties of President of the Management Board)	18 October 2021 13 January 2022	13 January 2022 12 April 2022
2	Dariusz Górski	Committee Member	1 July 2019	to date
3	Paweł Sosnowski	Committee Member	21 September 2020	to date
4	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 2022 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⁾	5,788,024	12.92%	5,788,024	12.92%
Aviva OFE ⁽³⁾	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	21,876,328	48.85%	21,876,328	48.85%
Total	44,786,917	100.00%	44,786,917	100.00%

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 1 January 2022 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	
Dariusz Seliga	0
Marek Olkiewicz	0
Jacek Rutkowski	0
Maciej Jankiewicz	0
Zenon Kozendra	46
as at 31 March 2022	
Dariusz Seliga	0
Marek Olkiewicz	0
Jacek Rutkowski	0
Maciej Jankiewicz	0
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 1 January 2022 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 2022	
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

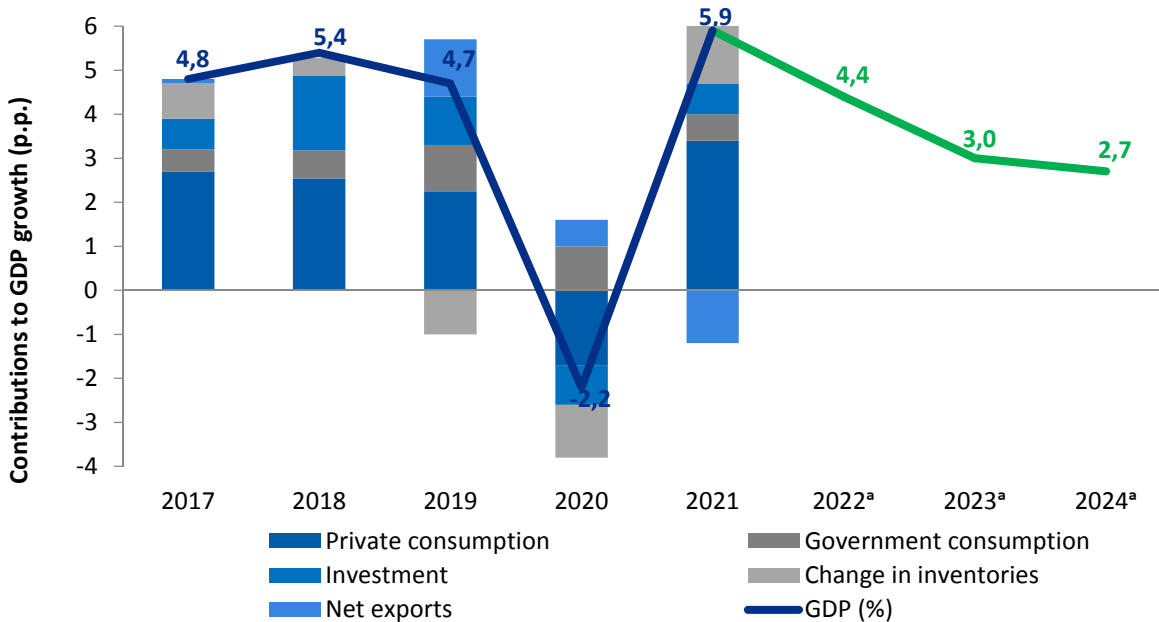
- In Q1 2022, sold industrial output increased by +16.7% yoy (+7.8% in Q1 2021 and +14.4% in 2021 yoy).¹
- In Q1 2022, signs of economic revival in Polish industry continued, with the industrial sector and the country's economy demonstrating a relatively high degree of resilience both to the economic impact of the COVID-19 pandemic and the worrying geopolitical situation related to the outbreak of the armed conflict in Ukraine. Output increased in 31 (out of 34) industrial sectors, including those of key significance for the PKP CARGO Group, such as: extraction of hard coal and lignite (+38.4%), chemicals and chemical products (+26.1%), metal products (+25.3%), metals (+24.0%), wood products (+23.6%), machinery and equipment (+22.6%), coke and refined petroleum

¹ Statistics Poland

products (21.2%), other non-metallic products (+17.8%), paper and paper products (+15.2%), furniture (+14.1%), rubber and plastic products (+13.0%).²

- The GDP is forecast it grow in Q1 2022 by over 8% yoy (the continuation of the relatively high GDP growth rate is expected to be driven by the very strong industrial and construction output, supported by robust performance of the retail sector).³
- GDP in 2021: +5.9% yoy. GDP in Q4 2021: +7.6% yoy.

Figure 3 Real GDP growth rate in Poland in 2016-2021, its decomposition and forecasts for 2022-2024 – data not adjusted for seasonality



a – macroeconomic forecasts of the National Bank of Poland for 2022-2024 (data without decomposition) published in March 2022 and information from Statistics Poland on the updated GDP estimates for 2020-2021.

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

- Inflation in Q1 2022: +9.7% yoy.⁴ One of the primary drivers of the persisting increase in inflation is the armed conflict in Ukraine, which exacerbated the adverse trends on world markets in terms of rising energy commodity prices and caused further disruptions in the supply chains, translating into an overall increase in prices.⁵
- The Purchasing Managers' Index (PMI) for industrial processing indicates the continuation of the good economic situation in the industrial sector in Poland in 2022. In 2021, the PMI averaged 55.1 points, and in Q1 2022, it stood at 54.0 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), which signified less pessimism than in Q4 2020 (-15.0 points).⁶
- Projections: enterprises are coping well with the evolution of the COVID-19 pandemic in Poland, although turbulences in the global economy remain a major determinant of the rate of growth of the Polish industry, and the level and growth of output in the subsequent quarters of 2022 will depend on how the epidemic situation develops going forward. Taking into account the existing resistance of the industrial sector in Poland to the consequences of the COVID-19 pandemic, it may be expected that the level of activity in the industrial sector will stabilize. Unfortunately, it is impossible to estimate the effects of the ongoing conflict in Ukraine on the distinct sectors of the economy. The

² Statistics Poland

³ National Bank of Poland, 6 May 2022

⁴ Statistics Poland

⁵ National Bank of Poland

⁶ Statistics Poland

first symptoms of the war's impact may already be seen, specifically in the high inflation rate plaguing almost all regions of the world, turbulences in the fuel and energy markets, growing prices of energy, commodities and components, their limited availability and ongoing disruptions of supply chains. Both the national economy and the global economy in 2022 are burdened with an elevated degree of uncertainty, it is unpredictable how the geopolitical situation will develop, and the collapse of more supply chains will only intensify these negative trends. Due to these phenomena, economic forecasts predict a decrease in the growth rate of the global and national economies in 2022. In the coming quarters, the continuation of increases in the prices of consumer goods and services should also be expected, manifesting themselves in high values of year-over-year rates, chiefly due to the uncertain situation in the international environment. The NBP's inflation projection anticipates a major increase in the overall level of consumer prices (CPI in 2022: 10.8% yoy, in 2023: 9.0% yoy, in 2024: 4.2% yoy). The NBP's economic growth projection anticipates a strong slowdown in the country's economic activity in 2022-2024 and GDP year-over-year growth rates of +4.4%, +3.0% and +2.7% in the respective years of this period.⁷

In addition to the supply-side problems highlighted above, in Q1 2022, the following factors significantly affected the economic standing in the respective industries:

Mining industry

- Strong demand on the coal market in Q1 2022 driven by, among others: increased purchases of electricity in the Polish economy (very rapid economic growth and increasing industrial output), significant increase in the prices of natural gas on the international market (decrease in energy generation by gas-fired power plants).
- Increase in hard coal output in Q1 2022 to 14.3 million tons (+0.3% yoy). In March 2022, hard coal output reached 5.5 million tons (the best monthly figure since November 2018).⁸
- Hard coal sales in Q1 2022 increased to 15.0 million tons (+4.1% yoy). Total hard coal sales in the first months of 2022 turned out to be higher than output by 0.7 million tons, which translated into a reduction in inventories. Sales of coal in March 2022 reached 5.5 million tons (compared to over 4.8 million tons in February and over 4.7 million tons in January of this year). The March level of coal sales was the largest since October 2020.⁹
- The level of hard coal inventories in the mines' storage yards stood at 1.4 million tons, down by -4.5 million tons yoy, or -76.8% (compared to 6.2 million tons of this commodity at yearend 2020 and 2.2 million tons of coal at the end of 2021).¹⁰
- Decline in hard coal imports in 2021 to 12.6 million tons (-2.3% yoy). During this period, the commodity was imported predominantly from Russia (down -12.7% yoy to 8.2 million tons, accounting for 65.1% of total imports to Poland) and Australia (up by 100.0% yoy to 2.1 million tons, accounting for 16.5% of total coal imports to Poland);¹¹ According to preliminary and incomplete data for the first 2 months of 2022, imports decreased by -3.3% to 2.5 million tons yoy, while Russia remained the main source of imports (despite a decrease by -16.1% yoy from 1.9 million tons to 1.6 million tons). At the same time, significant increases in imports from Australia, Kazakhstan and the Czech Republic were recorded.
- Coal prices on the international market: in Q1 2022, the average price of coal stood at USD 216.29 per ton (compared to USD 66.59 per ton in Q1 2021), signifying an increase by 224.8% yoy. The global coal supply became severely limited due to Russia's invasion of Ukraine, which resulted in a strong upward trend in coal prices across the world's coal terminals (which started already in 2021) to levels previously unseen on a global scale. Among the major factors driving the growth in demand for coal in the European market are also the uncompetitive high gas prices and the low level of stocks at the ARA transshipment center where inventories declined to 2.4 million tons, the lowest level since 2014.¹²

⁷ National Bank of Poland

⁸ Industrial Development Agency (ARP)

⁹ Industrial Development Agency (ARP)

¹⁰ Industrial Development Agency (ARP)

¹¹ Eurostat

¹² Industrial Development Agency (ARP)

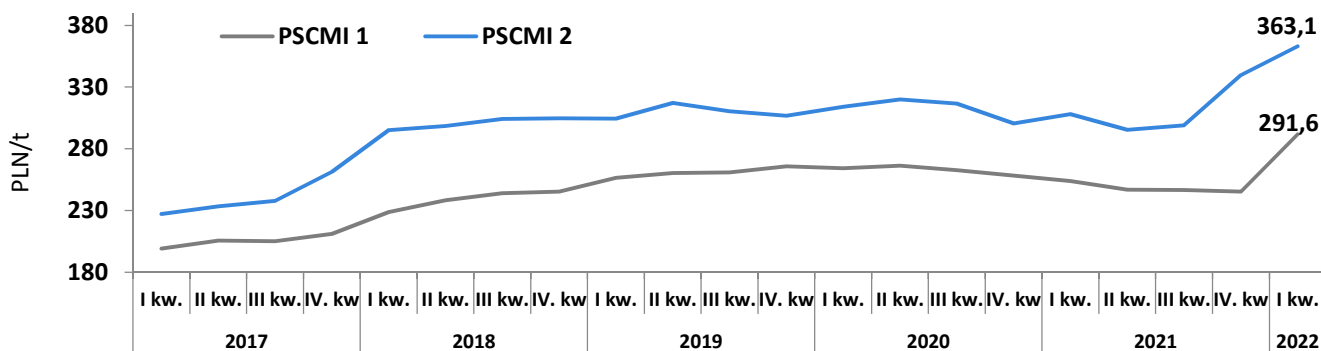
- Coal prices on the Polish market: in Q1 2022, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 291.59 per ton (+14.8% yoy and +18.8% qoq). PSCMI2 for the heating industry in Q1 2022 reached PLN 363.07 per ton (+17.9% yoy and +6.9% qoq).¹³
- Increase in electricity consumption in Poland in Q1 2022 by +0.9% yoy to 45.7 TWh.¹⁴
- Increase in electricity output in Q1 2022 by +8.1% yoy to 46.6 TWh. In parallel, the volume of electricity generated by coal-fired commercial power plants decreased by -6.9% yoy and, at the same time, increased for lignite-fired power plants by +19.4% yoy.¹⁵
- Reversal of the favorable (from the perspective of hard coal producers) trend in the national energy mix in Q1 2022 – decrease in the share of hard coal in total energy output to 48.7% (-7.8 p.p. yoy, from a level when the share of hard coal in total energy output was 56.5%).¹⁶

Figure 4 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 5 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

¹³ Industrial Development Agency (ARP)

¹⁴ Polskie Sieci Elektroenergetyczne

¹⁵ Polskie Sieci Elektroenergetyczne

¹⁶ Polskie Sieci Elektroenergetyczne

Construction industry

- Upturn in construction projects (upsurge in the construction of apartments, growth of the number of individual construction projects, road construction projects, rail investments and construction of warehouse centers).
- Increase in domestic construction and assembly output in Q1 2022 by +23.3% yoy (compared to a decrease by -13.2% yoy in the corresponding period of the previous year and an increase by +2.5% yoy throughout 2021).¹⁷ Increased performance was recorded in all sections of construction and assembly output (with a decrease in output in each of these sections in Q1 of the previous year), including by enterprises involved in the construction of buildings (+39.0% yoy), specialist construction works (+16.3% yoy) and construction of civil engineering facilities (+14.1% yoy).¹⁸
- Increase in cement production in Poland in Q1 2022 by +20.6% yoy to 3.6 million tons and increase in cement clinker production by +10.2% yoy to 2.7 million tons.¹⁹
- Forecasts published by the Association of Cement Producers for 2022 predict an increase in demand for cement to 19.6-19.8 million tons from approx. 19.2 million tons in 2021, coupled with a persistently high level of demand for cement, even in excess of 20 million tons annually by 2025.
- On 4 June 2022, a ban on cement imports from Belarus will come into force (in 2016-2021, the volume of cement imported from this country increased exponentially from 119 thousand tons to 538 thousand tons).²⁰
- The plan adopted by the General Directorate for National Roads and Motorways (GDDKiA) for 2022 provides for the announcement of tenders for a total of approx. 475 km of roads, that is 340 km of expressways, over 30 km of ring roads, an expansion of the A2 motorway and the construction of a second carriageway on the Sokołów Małopolski Północ – Jasionka section of the S19 road. At the same time, it is assumed that this year a total of approx. 345.5 km of new roads will be put into service, including 46.1 km of motorways and 253.1 km of expressways. As part of the 100 ring roads construction program for 2020-2030 (PLN 28 billion for the execution of the program), GDDKiA is conducting intense preparatory work for 85 ring roads (sections with a total length of 744 km). There are already 14 ring roads under construction (with a total length of approx. 110 km, with a value of approx. PLN 1.9 billion, and the scheduled completion date of the first sections is 2022).²¹
- PKP PLK: in 2022, PKP PLK S.A. announced tenders for construction projects on the national rail network worth nearly PLN 11 billion. Specifically, they will include an upgrade of rail line no. 104 from Chabówka to Nowy Sącz, a reconstruction of the Katowice Szopienice – Katowice – Katowice Piotrowice route and an upgrade of the Będzin – Sosnowiec – Katowice – Tychy – Zebrzydowice border crossing route.²²
- Polish Deal Governmental Fund: Strategic Investments Program (aimed at co-financing investment projects carried out by municipalities, counties, towns and cities in order to help rebuild the economy affected by the economic consequences of the pandemic and at stimulating investments) under the first round of which 97% of Polish local governments will receive a total of PLN 23.8 billion in aid, followed by the second round worth PLN 22 billion. A significant portion of investments intended for execution under this program involve local roads.²³
- Impact of the conflict in Ukraine on the sector: the following problems became more apparent in the Polish construction sector after the outbreak of the armed conflict in Ukraine: shortage of materials, increase in prices, slowdown in investments, staff shortages (partly due to the outflow of workers from Ukraine who, according to information provided by representatives of employees in the sector, accounted for 30% of the sector's workforce) and higher cost of capital (related to the NBP's interest rate hikes). According to the data published by the Metallurgical Chamber of Commerce and Industry, approx. 20% of the steel used in Poland in 2021 was imported from the east, chiefly from Russia and Ukraine (nearly 1.4 million tons each). Also, Ukraine and Belarus are significant exporters of the high-quality aggregates used in Poland for the construction of roads and rail lines as well as for the production of concrete and prefabricated elements. Most of the problems associated with increasing prices and supply chains transpired during the pandemic, but the restrictions on the imports of aggregates, cement, wood, aluminum and steel have been severely affecting the construction market since the outbreak of the conflict. Representatives of the Polish Chamber of Civil Engineers predict the occurrence of delays in the execution of

¹⁷ Statistics Poland (preliminary estimate for the whole population)

¹⁸ Statistics Poland

¹⁹ Statistics Poland

²⁰ Association of Cement Producers

²¹ WNP

²² PKP PLK S.A.

²³ Republic of Poland Website

construction projects and increased costs as merchandise from other directions will be insufficient to fill the supply gap, thereby causing further price increases.²⁴

- Forecasts for the construction industry:
 - favorable factors: robust increases in industrial output generated by sectors related to construction as well as the expected increase in spending on infrastructure by the public sector and State Treasury-owned companies indicate the sector's strong growth maintenance potential in the coming months. Demand for aggregates and other construction materials in Poland is driven by large infrastructural investment projects executed within the framework of the "National Road Construction Program" and the "National Railway Program". It may be expected that these production sectors should exert a favorable impact on the performance of the whole construction sector in the coming months;
 - unfavorable factors: in the coming months, the rate of growth of the construction sector will be hindered by the consequences of an increasingly higher reference base, the impact of Russia's conflict with Ukraine, rapid increases in the prices of energy commodities and construction materials, and the effects of the expected decline in demand for investment generated by companies as a result of the anticipated slowdown in economic activity (persistently lower demand in many industries, specifically in the construction of commercial facilities such as offices, retail stores, hotels, and persisting high costs). In the following quarters of 2022, a decline in the annual rate of growth in construction and assembly output should be expected, which will probably reach approx. +10.0% yoy in Q2 this year and then, in the following quarters, will decline below this level.

Steel industry

- The problems experienced in recent years on the steel market due to the COVID-19 pandemic, along with the increasing energy prices and production costs in Q1 2022, were exacerbated by the armed conflict between Russia and Ukraine. The consequences of the hostilities in Ukraine included the disruption of steel supply chains from the East and sudden exorbitant price increases. The industry was affected by problems in obtaining both commodities and finished products from Ukraine, which came as a major blow for Polish producers and distributors.
- In Q1 2022, the following decreases in output were recorded:
 - global crude steel production: 456.6 million tons (-6.8% yoy),²⁵
 - production of steel in the European Union: 36.8 million tons (-3.8% yoy),²⁶
 - production of steel in Asia: 331.3 million tons (-7.8% yoy), of which China produced 243.4 million tons (-10.5% yoy), accounting for approx. 53% of the global market,²⁷
 - production of steel in Poland: down by -4.2% yoy to 2.0 million tons (after an increase the year earlier by +2.4% yoy to 8.1 million tons),²⁸
 - production of certain products in Poland: cold-rolled sheets by -24.3% yoy to 0.4 million tons, hot-rolled products by -9.7% yoy to 2.0 million tons, hot-rolled bars and rods by -4.7% yoy to 0.4 million tons and thin sheets by -0.2% yoy to 0.3 million tons,²⁹
- In Q1 2022, increases in the output of the following products were recorded in Poland:
 - steel pipes by +26.6% yoy to 0.3 million tons and rods and flat bars by +6.9% yoy to 0.9 million tons,³⁰
 - coke by +5.3% yoy to 2.4 million tons (preceded by an increase in 2021 by +25.4% yoy to 9.6 million tons),³¹

²⁴ Polish Chamber of Civil Engineers

²⁵ Worldsteel.org

²⁶ Worldsteel.org

²⁷ Worldsteel.org

²⁸ Statistics Poland

²⁹ Statistics Poland

³⁰ Statistics Poland

³¹ Statistics Poland

- Forecast for steel consumption in the European Union in 2022: according to the European Steel Association (Eurofer), steel consumption will decline by -1.9% yoy (preceded by an increase by +15.2% in 2021 and an almost -11% slump during the coronavirus year of 2020) but will increase again in 2023 by +5.1% yoy.³²
- Forecast for steel production in the European Union in 2022: in February 2022, Eurofer also forecasts that this year's steel output in the EU will increase by +4%, but after Russia's invasion of Ukraine and the sharp deterioration of the economic situation in Europe, production is now expected to increase by no more than +2% in 2022 and +2.3% in 2023.³³
- Forecasts for the steel sector:

– favorable factors: forecasted recovery in the construction sector in Poland – especially of engineering projects, with a simultaneous strong deceleration of the high rate of growth in the large facility construction segment (due to, among other factors, the limited availability of mortgage loans and the further interest rate hikes translating into increases in the cost of capital). Also possible is the continuation of the sector's growth rate in the following quarters of 2022, especially due to the ongoing infrastructural projects and the demand rebounds in selected sectors of the economy, which should enable the restoration of broken supply chains and the restoration of the full operational levels (e.g. in the automotive industry).

– unfavorable factors: increasing prices of commodities, products necessary for the conduct of operations, energy and emission allowance costs, and uncertainty as to the rate of economic recovery, including possible restrictions related to COVID-19 (possible new waves and variants of the virus, temporary lockdowns of some Asian economies), ongoing armed conflict in Ukraine and related disruptions in the supply chains. Ukraine's return to European markets will be a slow process, regardless of military outcomes. The requirements imposed by the European Union on the conduct of manufacturing operations in a manner that is possibly the least harmful to the environment suppress the competitiveness of European steel producers and translates into the exacerbation of shortages and sustained pressure on price increases, which has a particularly adverse impact on the buyers of steel products. In 2022, the European steel market will receive another blow from rising freight rates and problems with supply chains.

Czech industry and economy

- In Q1 2022, sold industrial output in the Czech Republic increased by +0.4% yoy (preceded by an increase by +6.6% yoy in 2021 and a decrease by -7.2% yoy in 2020). In Q1 2022, the volume of new orders increased by +6.1% yoy (of which domestic orders by +5.4% yoy and foreign orders by +6.4% yoy), mostly in the chemical sector by +33.6% yoy and in the production of textiles by +22.9% yoy.³⁴
- The volume of Czech industrial output in Q1 2022 was affected by the economic situation, especially the ongoing COVID-19 pandemic with new variants of the virus and the intensification of supply-side problems, including the disturbances in international supply chains and the growing shortages of commodities and components (such as those experienced by the automotive manufacturing segment, which forms the backbone of the Czech industry). The armed conflict in Ukraine additionally exacerbated the distortions in international trade and led to additional price increases/fluctuations;
- In Q1 2022, in key sectors of the Czech industry (from the perspective of potential transport services to be provided by the PKP CARGO Group), an increase was observed in: production of chemicals and chemical products (+4.7% yoy), extraction of hard coal and lignite (+1.1% yoy) and production of metals and metal products (+1.1% yoy).³⁵ In turn, the key segment of the Czech industry, namely the production of motor vehicles, recorded a significant slump in output (-10.3% yoy).³⁶ The increase in performance of the coal mining sector was largely due to the lower lignite output in the comparable period of 2021, which was significantly affected by the coronavirus situation. The long-term downward trend in lignite and hard coal output is caused by declining demand. All lignite mining operations are scheduled to be shut down by 2038. For hard coal, the same will happen in the second half of 2022;

³² Eurofer

³³ Eurofer

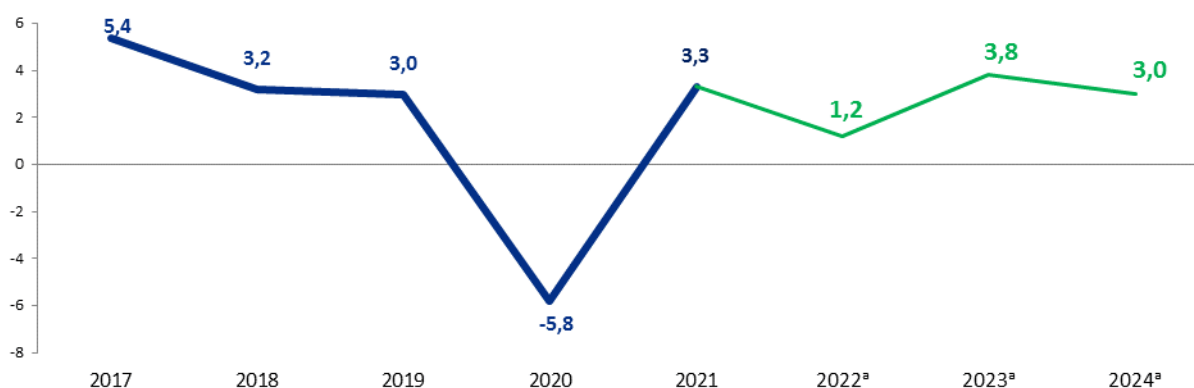
³⁴ Czech Statistical Office

³⁵ Czech Statistical Office

³⁶ Czech Statistical Office

- According to preliminary estimates published by the CZSO, the country's GDP in Q1 2022 improved +4.6% yoy and +0.7% qoq. Consumption of households was the primary driver that contributed to the GDP growth rate in annual terms. In terms of the sectoral structure, the increase in year-over-year gross value added was chiefly driven by the increase in output in the construction sector and in the "trade, transport and hospitality sector" line item.³⁷ The Czech economy, after the deepest economic downturn in its history in 2020, when the GDP hit a record fall by -5.8 yoy, clearly recovered in 2021, having returned to the growth path in spite of numerous problems, especially on the supply side. According to preliminary estimates published by the Czech Statistical Office (CZSO), the country's GDP increased in 2021 by +3.3% yoy. At the beginning of 2022, the Czech economy was still in an upward trend, yet the conflict in Ukraine, among other factors, brought down the rate of this growth significantly. It is expected that the Czech Republic will achieve the pre-crisis levels in 2023 at the earliest due to the projected lower GDP growth rate this year.
- GDP forecasts: the Czech economy is slowing down – according to macroeconomic forecasts published by the Czech Ministry of Finance in April 2022, economists from the Ministry of Finance predict continuation of the positive growth rate of GDP this year and in the coming years by +1.2% yoy in 2022, +3.8% yoy in 2023, +3.0 yoy in 2024 and 2.5% yoy in 2025.³⁸ It is worth pointing out that the forecast figures take into account a possible quarter-over-quarter decline in GDP in Q2 2022. Due to the strong ties between the Czech economy and global markets, the current macroeconomic forecast remains under the influence of a number of factors/risks that may adversely affect the expected development of the situation. The adverse impact on economic results is exerted primarily by the pandemic and disturbances in supply chains, accompanied by the problem of rising prices (among others, raw materials, therefore supply-side factors) associated with the ongoing conflict in Ukraine. At the moment, it is impossible to ascertain precisely the consequences of the armed conflict, but it is clear that, at least in the short term, the hostilities will reduce economic growth, exacerbate supply chain problems and increase inflationary pressures.

Figure 6 Real GDP growth rate in the Czech Republic in 2017-2021 and forecasts for 2022-2025 – data 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

- In 2021, inflation reached 3.8% yoy (compared to 3.2% yoy in 2020).³⁹
- In Q1 2022, the inflation rate reached +11.2% yoy.⁴⁰
- Inflation forecasts: according to forecasts published by the Czech Ministry of Finance, inflation in 2022 is expected to reach +12.3% yoy, followed by +4.4% yoy in 2023.⁴¹ The inflation is expected to peak in Q2 and Q3 2022, when it stand

³⁷ Czech Statistical Office

³⁸ Confederation of Industry and Transport of the Czech Republic

³⁹ vdb.czso.cz

⁴⁰ vdb.czso.cz

⁴¹ Czech Ministry of Finance

at +13.0% yoy and 12.7% yoy, respectively, according to the forecasts. The current inflation in the Czech Republic has been caused both by external factors (disruptions in supply chains causing higher prices and increasing commodity prices, also due to the current geopolitical situation) and internal factors, such as problems on the labor market. Importantly, the current lockdowns in China generate additional problems for the country's economy, which is largely based on imports and exports of products due to the size of its internal market.

- In Q1 2022, the PMI for the Czech Republic averaged 56.7 points (compared to 58.9 points in 2021 and 57.2 points in Q1 2021, clearly above its long-term average and the 50.0 threshold delineating the technical boundary between recovery and recession in the industrial sector.⁴² The major cause of the increase in the index in 2021 was a stronger growth of production, new orders (including export orders) and growing employment. The beginning of 2022 brought a gradual reversal of these trends. The decline in the PMI was largely caused by the significant increases in delivery times in the face of severe supply chain delays and the sharp increase in expenses.⁴³ The increase in capital expenditures and the armed conflict in Ukraine weakened the optimism that emerged before the end of 2021.⁴⁴

In addition to the supply-side problems highlighted above, in Q1 2022, the following factors significantly affected the economic standing in the respective industries:

Mining industry

- In Q1 2022, hard coal output (predominantly of coking coal) was at a level similar to that recorded in Q4 2021. According to data released by the Czech Ministry of Industry and Trade, in Q1 2022, the total volume of hard coal mined in the Czech Republic was 0.43 million tons (-50.1% yoy), including 0.39 million tons of coking coal (-14.9 % yoy) and 0.04 million tons of thermal coal (-91.0% yoy). The year-over-year decline was largely due to the cessation of mining operations by the ČSA and Darkov mines at the end of February 2021, leaving ČSM as the only active hard coal mine in the Czech Republic.⁴⁵
- In the whole of 2021, hard coal output in the Czech Republic exceeded 2.0 million tons, which means that the output plan was surpassed by 0.37 million tons (or nearly 20%). The plan for 2022 calls for the production of 1.3 million tons of hard coal, and in 2023 (the last year of scheduled hard coal mining operations) OKD intends to extract 0.45 million tons of this commodity.⁴⁶
- In Q1 2022, hard coal imports totaled 0.73 million tons (-18.3% yoy), while exports amounted to 0.21 million tons (-29.1% yoy).⁴⁷
- CSM in Stonava (the last hard coal mine in the Czech Republic) announced that it would not end its mining operations in 2022. The mine, controlled by the state-owned company OKD, has confirmed that by the end of this year it intends to extract 1.3 million tons of coal, followed by another 450 thousand tons in the first half of 2023. Virtually all this output is expected to be sold (due to the continued demand on the domestic market) to domestic buyers. Due to the ban on coal imports from Russia and the ongoing conflict in Ukraine, options for further mining operations are being reviewed. According to preliminary announcements, it may be possible to continue mining operations until 2025, provided that appropriate financial investments are made. At the moment, the resumption of operations in the mines that were shut down last year is not being considered.⁴⁸

⁴² Markit PMI

⁴³ Markit PMI

⁴⁴ Markit PMI

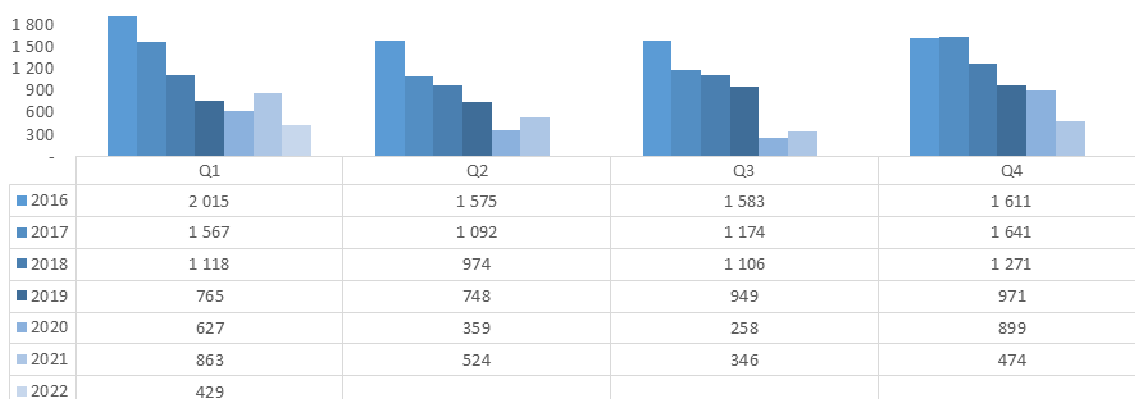
⁴⁵ Ministry of Industry and Trade of the Czech Republic

⁴⁶ OKD a.s.

⁴⁷ Ministry of Industry and Trade of the Czech Republic; data for March 2022 were not yet available at the time of preparation of this report

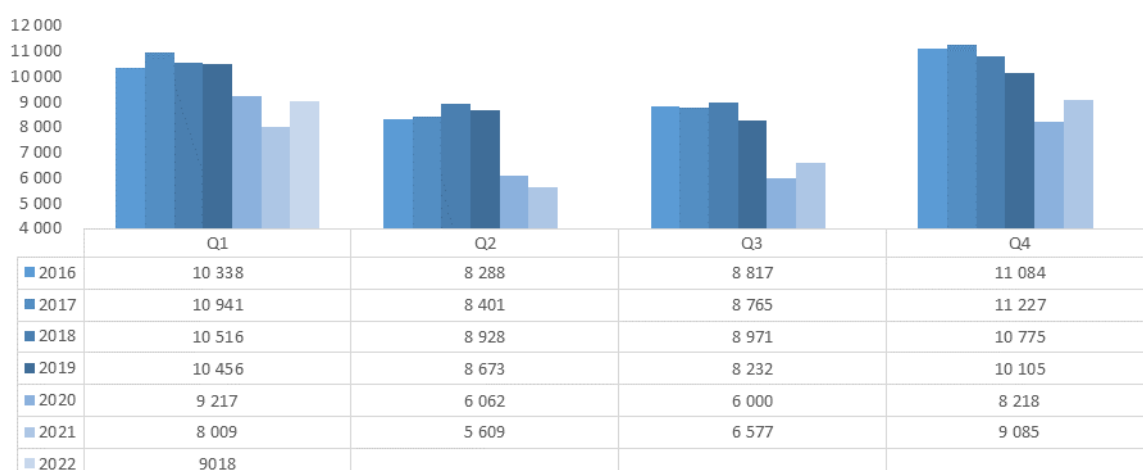
⁴⁸ wyborcza.pl

Figure 7 Bar chart showing quarterly hard coal mining volumes in the Czech Republic in 2016-2022 (in thousands of tons).



Source: Proprietary material

Figure 8 Bar chart showing quarterly lignite mining volumes in the Czech Republic in 2016-2022 (in thousands of tons).



Source: Proprietary material

Steel industry

- Coke production in the Czech Republic in Q1 2022: 0.62 million tons (-1.1% yoy).⁴⁹
- Modernization of the hot strip mill within a project increasing the production capacity to over 1 million tons per year. In 2021-2023, Liberty Ostrava (the only manufacturer of hot-rolled steel strip in the Czech Republic) has performed multi-directional works aiming to improve product quality and increase production capacities.⁵⁰
- Liberty Ostrava recorded some very robust performance in 2021, having produced 2.3 million tons of liquid steel, +33% yoy (the best result since 2016), and 1.9 million tons of pig iron, +35% yoy. The output of seamless pipes at 136 thousand tons is also significant (the best result since 2016 and a 5% share in the European market). The company's management emphasizes the company's continued efforts to improve the quality parameters of its products and, at the same time, to increase output to over 3 million tons.⁵¹

⁴⁹ Ministry of Industry and Trade of the Czech Republic

⁵⁰ Liberty Ostrava

⁵¹ Liberty Ostrava

Automotive industry

Output decline in the automotive sector: in Q1 2022, a total of 0.3 million motor vehicles of various types (passenger, trucks, buses and motorcycles) were manufactured, which means a decrease by -18.4% yoy compared to the corresponding period of 2021.⁵² The main cause of the strong year-over-year decline in output was the limited availability of components used in production processes (mainly microchips) and the resulting forced downtimes. According to AutoSAP's estimates, in 2021, due to the observed supply chain disruptions, automotive manufacturers failed to produce even 300 thousand passenger cars.⁵³ At the same time, the increase in demand for the sector's products generated by the macroeconomic environment suggests the likelihood of a rapid increase in output once the currently observed supply-side disruptions disappear, although in 2022, the situation connected with the supply of components is still tense. This translated significantly into the subsequent declines in the production of chiefly passenger cars in Q1 by -18.9% yoy (accounting for over 97% of all vehicles manufactured) and, to a lesser extent, trucks, by -5.3% yoy.⁵⁴

4.2. Freight transportation activity

4.2.1. Rail transport market in Poland

According to data presented by the Office of Rail Transport (UTK), there are currently 116 rail operators on the Polish rail freight market that hold an active license issued by the UTK President for the performance of their services (as at 11 April 2022).⁵⁵ Three members of the PKP CARGO Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s., currently render rail freight transport services on the Polish market.⁵⁶

In Q1 2022, rail freight operators transported a total of 62.2 million tons of cargo (+9.8% yoy) and achieved a freight turnover of 14.6 billion tkm (+13.6% yoy).⁵⁷ Therefore, compared to the Q1 2021 performance, the industry achieved an increase in the volume of transported cargo by 5.6 million tons and an increase in freight turnover by 1.7 billion tkm. The more rapid improvement in freight turnover compared to that in freight volume was caused by an increase in the average haul, which in Q1 2022 stood at 234 km, up by +8 km compared to the corresponding period of the previous year.⁵⁸ March 2022 was the best month in a decade in terms of the freight volume transported by rail (22.9 million tons, or +7.3% year-over-year and +15.6% month-over-month). In parallel, freight turnover also reached a record level (the highest since October 2018) and stood at 5.5 billion tkm (+13.9% year-over-year and +20.7% month-over-month).

In Q1 2022, the economic situation in the rail freight market and in the domestic industry was relatively good, especially in the face of the uncertainty caused by the tense geopolitical situation: the ongoing armed conflict in Ukraine and potential scenarios for the development of the COVID-19 pandemic. Rail operators clearly adapted to both the new situation and the changes in the logistics and transport markets. In Q1 2022, clear symptoms of a rebound in industrial activity in Poland were observed. The sector acted as a stabilizer of the Polish economy. Ultimately, despite the high level of market uncertainty and the continued risk of weakened demand generated by companies and consumers, industrial output figures for Q1 2022 turned out to be +16.7% higher in year-over-year terms (compared to an increase by +7.8% yoy in 2021),⁵⁹ which translated noticeably into an improvement in the situation of the rail transport sector.⁶⁰ The improved performance in rail transport (especially in March) was driven by the stronger demand for commodities and the transport and storage of merchandise due to the situation beyond Poland's eastern border.

⁵² AutoSap

⁵³ AutoSap

⁵⁴ AutoSap

⁵⁵ Office of Rail Transport (as at 11 April 2022), the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating on the market under an international license.

⁵⁶ Office of Rail Transport

⁵⁷ Office of Rail Transport

⁵⁸ Office of Rail Transport

⁵⁹ Statistics Poland,

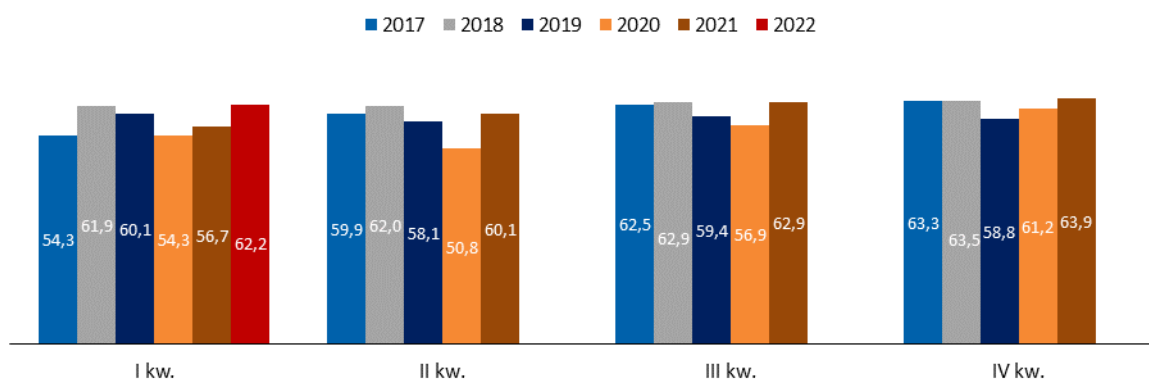
⁶⁰ Office of Rail Transport

During the first 2 months of 2022 (the March figures are not yet available), the following changes in rail transport year-over-year performance were recorded in the cargo categories defined by Statistics Poland:⁶¹

- hard coal (freight volume up by 11.0% yoy to 15.3 million tons),
- aggregates, stone, sand and gravel (freight volume up by 25.0% yoy to 6.4 million tons),
- refined petroleum products (up 5.2% yoy to 2.9 million tons),
- coke (up 9.4% yoy to 2.0 million tons),
- metals and metal products (up 10.6% yoy to 1.7 million tons),
- chemicals, chemical products (down -6.8% yoy to 1.7 million tons),
- iron ores (down -12.5% yoy to 1.1 million tons).

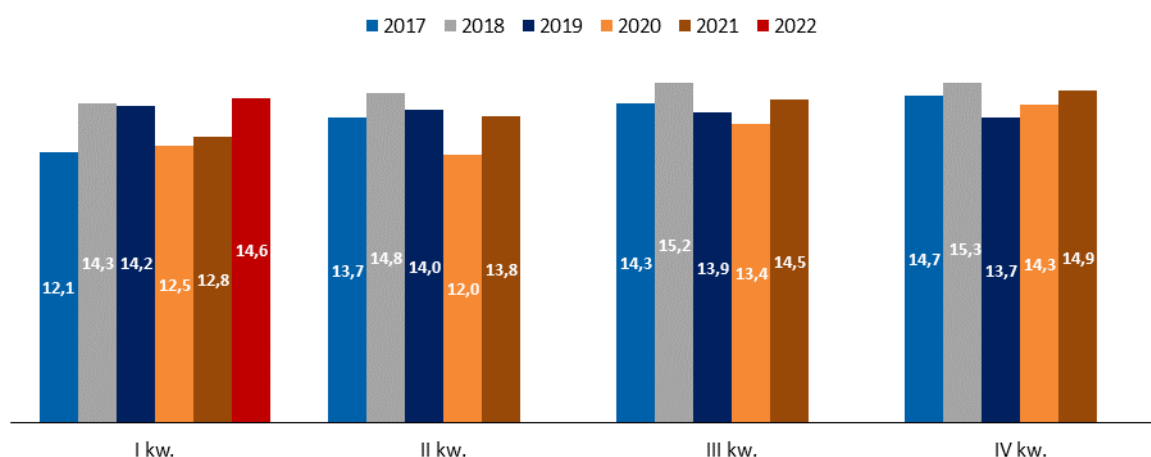
In aggregate, during the first 2 months of 2022, these cargo categories accounted for 82% of the rail market's total freight volume. The highest increase in freight volume transported by rail compared to the corresponding period of 2021 was recorded in the transport of hard coal (+1.5 million tons yoy) and aggregates, stone, sand and gravel (+1.3 million tons yoy).

Figure 9 Rail freight volumes in Poland broken down by quarter in 2017-2022 (million tons)



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

Figure 10 Rail freight turnover in Poland (billion tkm) broken down by quarter in 2017-2022



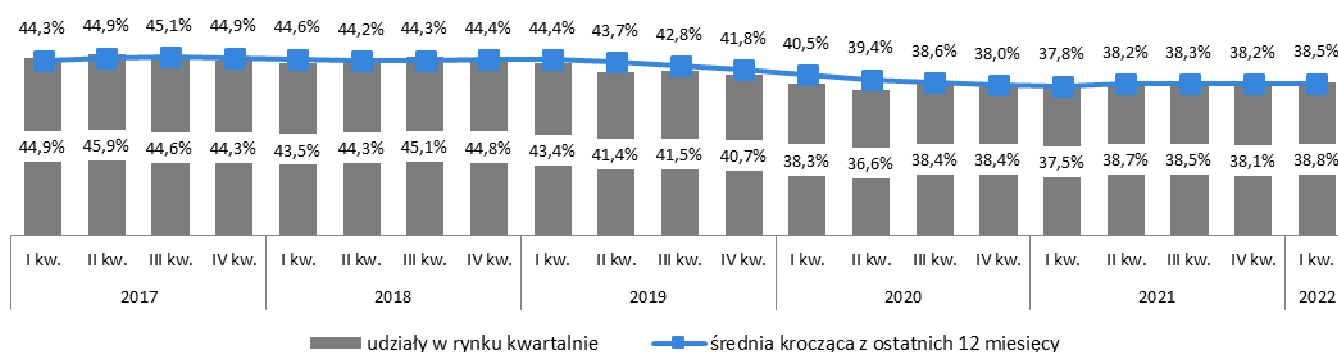
Source: Proprietary material based on the Office of Rail Transport's data

⁶¹ Statistics Poland – data for the first 2 months of 2022. Data for March and the whole Q1 2022 will be available at the end of May 2022.

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

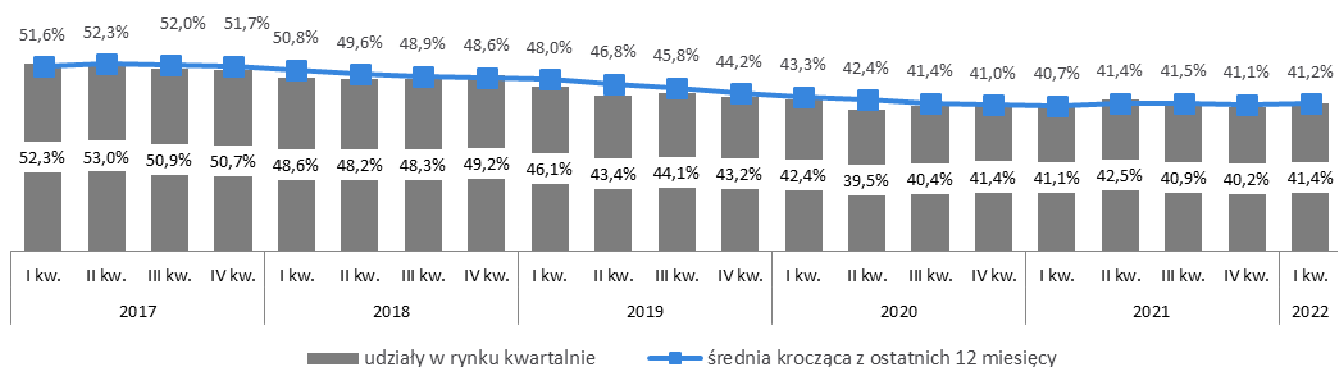
In Q1 2022, the rail freight market improved year-over-year in terms of freight volume and freight turnover compared to the same period of the previous year. The PKP CARGO Group's market share in Q1 2022 was 38.8% (+1.3 p.p. yoy) in terms of freight volume and 41.4% in terms of freight turnover (+0.3 p.p. yoy).⁶² The PKP CARGO Group⁶³ upheld its position of the undisputed leader in Poland's rail freight market, having even improved its market share year-over-year. The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 36.9% (+0.8 p.p. yoy) and 40.9% (+0.1 p.p. yoy) in Q1 2022.⁶⁴

Figure 11 Share of the PKP CARGO Group in total freight volume in Poland in 2017-2022



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

Figure 12 Share of the PKP CARGO Group in total freight turnover in Poland in 2017-2022



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

⁶² PKP CARGO Group and Office of Rail Transport data

⁶³ The freight volume of the PKP CARGO Group also takes into account the cargo transported by PKP CARGO International a.s. in Poland.

⁶⁴ Office of Rail Transport

Figure 13 Market shares of the largest rail operators in Poland in Q1 2022

By freight volume

By freight turnover

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 in Q1 2022: DB Cargo Polska, Lotos Kolej, PKP LHS, PUK Kolprem, CTL Logistics and Orlen KolTrans.

In Q1 2022, the PKP CARGO Group's competitors transported a total of 38.1 million tons of freight (+7.5% yoy). In this period, the largest freight volume was transported by DB Cargo Polska companies (10.3 million tons, down -1.8% yoy), Lotos Kolej (3.1 million tons, up +10.2% yoy) and PKP LHS (2.6 million tons, up +10.7% yoy).⁶⁵

At the same time, in Q1 2022, freight turnover generated by operators competing with the PKP CARGO Group increased by 12.9% yoy, to 8.5 billion tkm. In this period, the largest completed freight turnover was achieved by the following competitors: Lotos Kolej (1.3 billion tkm, up +9.5% yoy), DB Cargo Polska (0.8 billion tkm, up +15.5% yoy) and PKP LHS (0.7 billion tkm, down -1.2% yoy).⁶⁶

In Q1 2022, the average haul of competitive rail operators increased to 224 km (+5.0% yoy).⁶⁷

4.2.3. Rail freight transport market in the Czech Republic

In 2021, a total of 609.6 million tons of cargo was transported in the Czech Republic (+8.6% yoy) and freight turnover stood at 82.3 billion tkm (+12.1% yoy).⁶⁸ A year-over-year increase was recorded in freight volumes transported by road, by rail and by the other means of transport in aggregate. The situation was similar in terms of the realized freight turnover (with a clearly higher growth rate in transport by road).

The average haul increased by 3.3% yoy and reached 135.0 km, as part of which the road transport segment recorded an extension of the average haul by 4.4% yoy (to 127.4 km), whereas in rail transport the average haul declined by -0.4% yoy (to 165.8 km).⁶⁹

⁶⁵ proprietary material based on Office of Rail Transport data

⁶⁶ proprietary material based on Office of Rail Transport data

⁶⁷ proprietary material based on Office of Rail Transport data

⁶⁸ Ministry of Transport of the Czech Republic, data for Q1 2022 will be available at the turn of Q3 2022 (data without air transport).

⁶⁹ Ministry of Transport of the Czech Republic (data without air transport).

Table 11 Freight transport market in the Czech Republic in 2022

	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (million tons)	Change yoy	% Change yoy	Volume (million tons)	Change yoy	% Change yoy	Volume (million tons)	Change yoy	% Change yoy
Total market	609.6	48.0	8.6%	82.3	8.9	12.1%	135.0	4.3	3.3%
Road transport	500.3	40.6	8.8%	63.8	7.7	13.7%	127.4	5.4	4.4%
Rail transport and professional	97.2	6.4	7.0%	16.1	1.0	6.5%	165.8	-0.7	-0.4%
Other land transport segments	12.1	1.1	9.9%	2.4	0.2	10.5%	199.4	1.2	0.6%

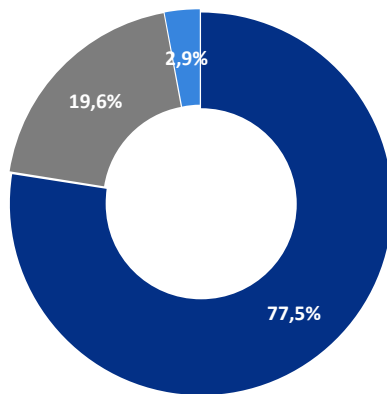
Source: Proprietary material

In 2021, rail transport in the Czech Republic recorded a yoy increase in transported freight volume to 97.2 million tons (7.0% yoy) with a concurrent increase in realized freight turnover to 16.1 billion tkm (6.5% yoy),⁷⁰ compared to increases of freight volumes transported by road in the period (by 8.8% in freight volume and by 13.7% in freight turnover). This performance translated into a further increase in the share of road transport at the expense of the share of rail transport in the overall land transport market. In terms of freight volume, rail operators lost -0.2 p.p. of the market share yoy, with a concurrent decrease in the market share in terms of freight turnover by -1.0 p.p. yoy.⁷¹

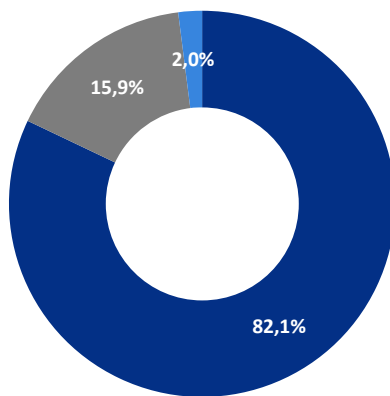
Figure 14 Shares of various modes of transport in the land transport market in the Czech Republic in 2021: freight volume (L) and freight turnover (R)

⁷⁰ Ministry of Transport of the Czech Republic (data without air transport).

⁷¹ Ministry of Transport of the Czech Republic (data without air transport).



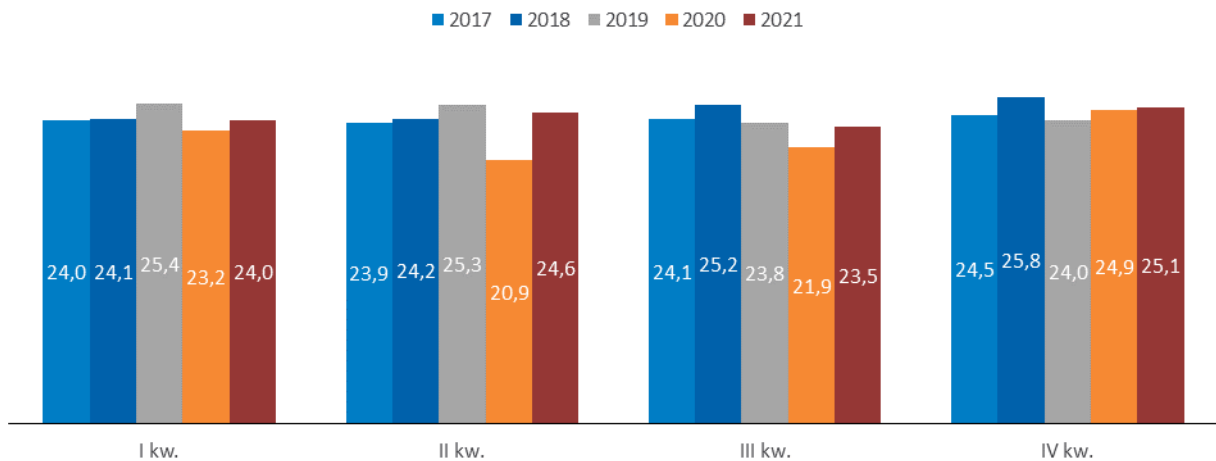
■ Road transport ■ Rail transport ■ Other land transport modes



■ Road transport ■ Rail transport ■ Other land transport modes

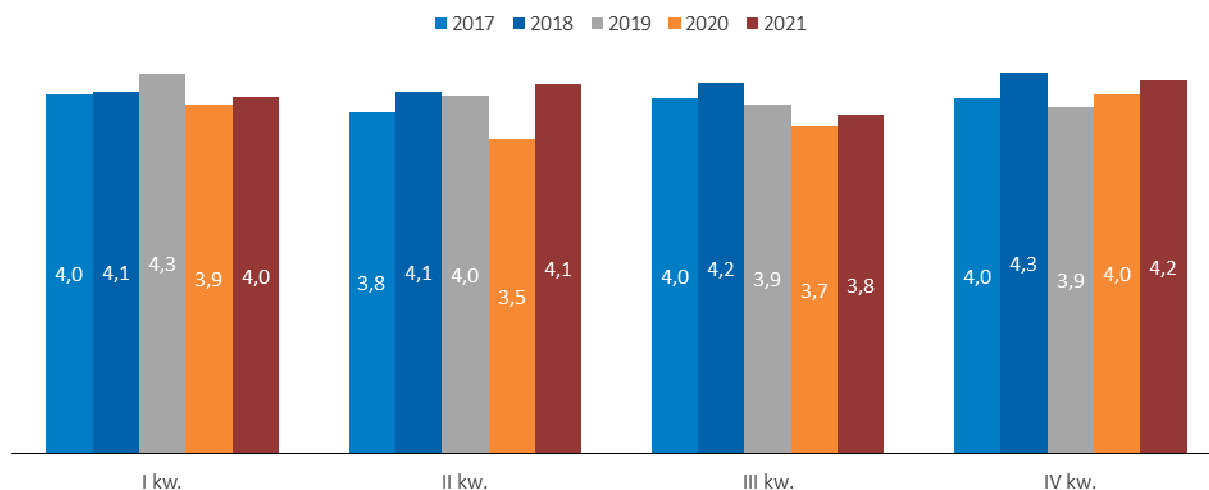
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 15 Quarterly rail freight transport in the Czech Republic by freight volume in 2017-2021 (million tons)



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

Figure 16 Rail freight transport in the Czech Republic by freight turnover broken down by quarter in 2017-2021 (billion tkm)



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

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

According to data published by the Czech rail infrastructure manager (SŽDC), 126 operators are currently licensed to provide rail freight services in this country, including 2 members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s.⁷²

In Q1 2022, PKP CARGO International a.s. transported 1.8 million tons of freight (-13.8% yoy) and achieved freight turnover of 0.2 billion tkm (-18.7% yoy).⁷³ In the same period, the average haul of PKP CARGO International decreased to 126.2 km (-5.7% yoy), chiefly as a result of a rearranged mix of transported freight.⁷⁴ Decreases in the volume of transported freight were recorded predominantly in liquid fuels (-47.3% yoy to 0.2 million tons) and solid fuels – including hard coal (-13.3% yoy to 0.6 million tons) and, to a lesser extent, aggregates and construction materials, and other cargo. In the period under analysis, intermodal transport continued to demonstrate a positive rate of growth (+7.5% yoy to 0.4 million tons). There was also an increase in the volume of transported chemicals (+10.7% yoy) and metals and ores (+6.1% yoy).⁷⁵

The reduction in freight performance for certain cargo categories was 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) as well as economic factors reflecting the lingering effects of the pandemic and the consequences of the tense geopolitical situation caused by the armed conflict in Ukraine.

According to SŽDC data on the shares in the rail transport market in terms of gross freight turnover in Q1 2022, PKP CARGO International's market share decreased by -1.5 p.p. yoy to 5.4%.⁷⁶ However, the company continues to hold a stable position as the third largest rail operator on the Czech market.⁷⁷

⁷² SŽDC (as at 20 December 2021)

⁷³ PKP CARGO International's own statistics

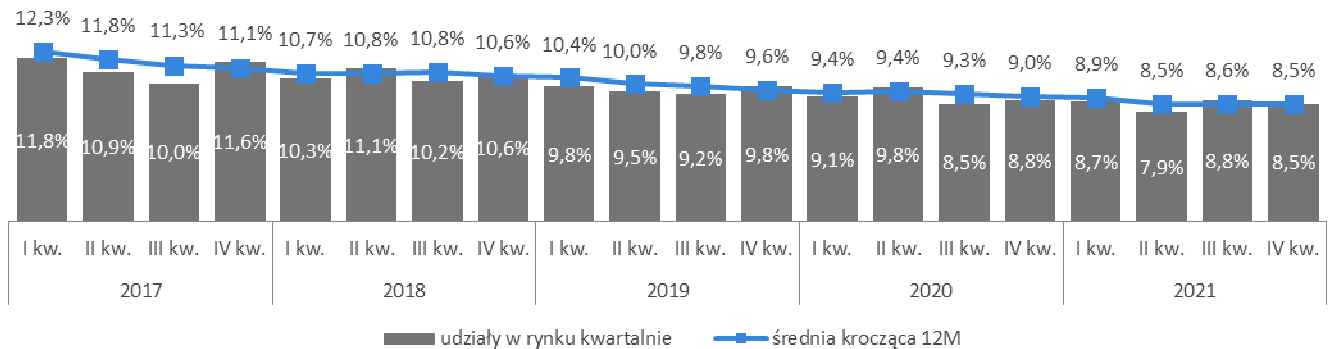
⁷⁴ PKP CARGO International's own statistics

⁷⁵ PKP CARGO International's own statistics

⁷⁶ SŽDC

⁷⁷ SŽDC

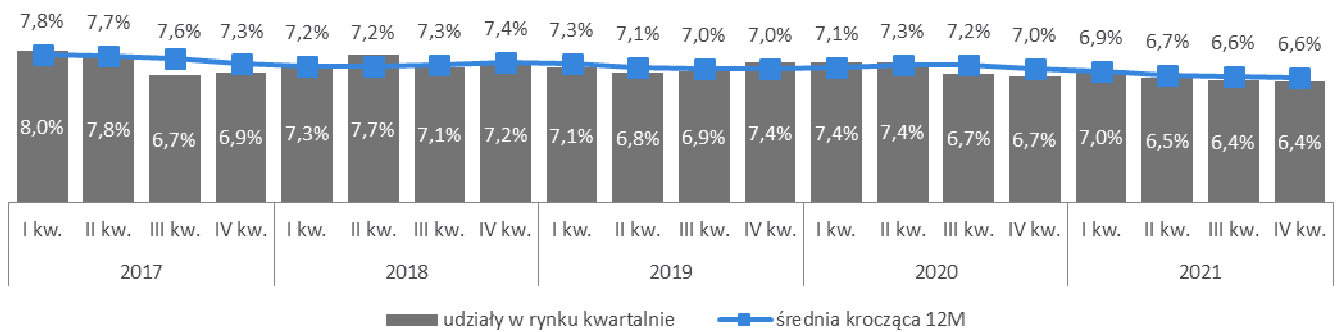
Figure 17 PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2017-2021*



* data for Q1 2022 will be available at the turn of Q3 2022

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

Figure 18 PKP CARGO International's quarterly market shares in terms of freight turnover in the Czech Republic in 2017-2021*



* data for Q1 2022 will be available at the turn of Q3 2022

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

Figure 19 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in Q1 2022 (btkm)

Source: SŽDC (Czech rail infrastructure manager)

In Q1 2022, ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market in terms of gross operational turnover, although in the same period its market share was in a rapid upward yoy trend, having increased to 58.2% (+2.7 p.p. yoy).⁷⁸ Metrans Rail also recorded a year-over-year increase in the market share (+0.5 p.p. yoy to 9.8%), thus having solidified its position as the second largest rail freight carrier in the Czech Republic, followed by LOKORAIL a.s. (+0.5 p.p. yoy to 2.5%) and DB Cargo Czechia s.r.o. (+0.4 p.p. yoy to 2.4%).⁷⁹ The list currently includes a rail operator that was not included in 2021, namely CER Slovakia a.s. (with a share of 1.4%). In Q1 2022, lower market shares were held by PKP CARGO International (-1.5 p.p. yoy to 5.4%), ORLEN Unipetrol Doprava (-1.5 p.p. yoy to 3.7%, the operator focuses its business on the fuel transport segment), Rail Cargo Carrier – Czech Republic (-0.7 p.p. yoy to 4.3%) and IDS Cargo (-0.5 p.p. yoy to 2.4%). A minor decrease in the market share was also experienced by small rail operators. Due to their individual shares falling below the market threshold, they are not specified by name in the statistics (-0.2 p.p. yoy to 9.8%).⁸⁰

The list of the largest rail operators on the Czech market in Q1 2022 published by SŽDC does not include PKP CARGO S.A. Yet at the same time, the following transports realized by PKP CARGO S.A. increased year-over-year: transports of ores from the East and from Polish ports via Poland to the Czech Republic, exports of slag from the Czech Republic to Poland and intermodal transport in transit via the Czech Republic on the route between Poland and Italy. There was also an increase in the volume of transport of other chemicals (transit of butadiene from Austria to Poland and sulfuric acid to Slovakia). Increased hard coal transports were also recorded in imports from the Czech Republic to Wałbrzych and Zdziessowice, imports of calcium flux from Poland and transport of metals through Polish ports to the Czech Republic. In parallel, in Q1 2022, compared to the corresponding period of the previous year, a decrease was recorded in the volume of wood and paper in transit through the Czech Republic and in automotive transit transport between Poland and Italy.⁸¹

4.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in Q1 2021 and Q1 2022 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and companies from the PKP CARGO International Group. 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 PKP CARGO INTERNATIONAL SI d.o.o. (formerly PRIMOL-Rail d.o.o.).

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

Table 12 Freight turnover of the PKP CARGO Group in Q1 2022 and Q1 2021

Description	Q1 2022	Q1 2021	Change		Q1 2022	Q1 2021
	(million tkm) ⁸²		Q1 2022 / Q1 2021	%	percentage of total (%)	
Solid fuels ¹	2,821	2,395	426	17.8%	43%	41%
of which hard coal	2,375	1,924	452	23.5%	36%	33%
Aggregates and construction materials ²	1,167	847	320	37.7%	18%	14%
Metals and ores ³	525	546	-21	-3.9%	8%	9%
Chemicals ⁴	545	542	3	0.5%	8%	9%
Liquid fuels ⁵	179	160	19	11.9%	3%	3%
Timber and agricultural produce ⁶	204	229	-25	-10.8%	3%	4%
Intermodal transport	1,003	1,066	-63	-5.9%	15%	18%
Other ⁷	106	116	-10	-8.3%	2%	2%
Total	6,550	5,901	648	11.0%	100%	100%

Source: Proprietary material

⁷⁸ SŽDC

⁷⁹ SŽDC

⁸⁰ SŽDC

⁸¹ PKP CARGO S.A.'s own statistics

⁸² 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 are presented with greater accuracy.

Table 13 Freight volume of the PKP CARGO Group in Q1 2022 and Q1 2021

Description	Q1 2022	Q1 2021	Change		Q1 2022	Q1 2021
	(million tons)		Q1 2022 / Q1 2021	%	percentage of total (%)	
Solid fuels ¹	14.16	12.73	1.43	11.3%	55%	55%
<i>of which hard coal</i>	12.75	11.12	1.63	14.7%	49%	48%
Aggregates and construction materials ²	4.59	3.34	1.25	37.3%	18%	14%
Metals and ores ³	1.68	1.72	-0.05	-2.7%	6%	7%
Chemicals ⁴	1.57	1.61	-0.04	-2.7%	6%	7%
Liquid fuels ⁵	0.51	0.47	0.04	8.3%	2%	2%
Timber and agricultural produce ⁶	0.68	0.65	0.03	5.1%	3%	3%
Intermodal transport	2.37	2.33	0.04	1.8%	9%	10%
Other ⁷	0.37	0.45	-0.08	-17.2%	1%	2%
Total	25.93	23.31	2.63	11.3%	100%	100%

Source: Proprietary material

In Q1 2022, the average haul of freight transported by rail by the PKP CARGO Group was 253 km (a slight year-over-year decrease in the average haul [-0.6 km]).

Table 14 Average haul of the PKP CARGO Group in Q1 2022 and Q1 2021

Description	Q1 2022	Q1 2021	Change	
	(km)		Q1 2022 / Q1 2021	%
Solid fuels ¹	199	188	11	5.9%
<i>of which hard coal</i>	186	173	13	7.7%
Aggregates and construction materials ²	254	254	1	0.3%
Metals and ores ³	313	316	-4	-1.2%
Chemicals ⁴	348	337	11	3.3%
Liquid fuels ⁵	348	336	11	3.4%
Timber and agricultural produce ⁶	299	352	-53	-15.2%
Intermodal transport	423	458	-35	-7.6%
Other ⁷	284	257	27	10.6%
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.

The following were key factors affecting the volume of transport in various cargo categories in Q1 2022:

- increase in coal transport services caused by the replenishment of the mandatory reserves in the storage facilities of power plants;
- greater hard coal imports via Poland's eastern border before the announced embargo on coal purchases from Russia;
- increased coal exports to Ukraine;
- decrease in the volume of transported coke on domestic and international routes;
- decrease in the volume of coal transported from OKD mines;
- decrease in the average haul of coal transported by PKP CARGO INTERNATIONAL;

- stronger demand for construction stone due to the mild winter, enabling the transport of aggregates to supplement storage facilities and continue construction works on the A1, S7, S5 and S19 roads as well as other road construction projects and the upgrade of the E59, E75 rail lines and stations (including Warszawa Zachodnia).

- change in the directions of metal ore supplies to steel mills in Poland (from imports from Ukraine to imports through sea ports);
- decrease in the volume of transported metals due to the lower steel output and the suspension of production in areas affected by the hostilities in Ukraine;
- increased transport of metal ores in transit to the Czech Republic;

- increase in transport services of hydrocarbons across the eastern border (upsurge in demand for natural gas by customers).
- decrease in transport services of nitrogen fertilizers domestically, in exports through seaports due to the suspension of fertilizer exports to Ukraine and the lower demand caused by higher prices of fertilizers;

- continued transport of semi-trailers as part of operator connections to Duisburg and from Lithuania to the Netherlands;
- continued shipments on the New Silk Road to Germany, the Czech Republic, Hungary and Italy, with a simultaneous decrease in the number of shipments due to the lockdown in China, the Chinese New Year and the military operations in Ukraine;
- decrease in the number of trains from and to ports due to modernization works currently in progress in the Tri-City area, restraining the capacity of rail routes and extending travel time;
- decrease in the volume of transport services from ports due to the persisting high rates of sea freight and the increasingly attractive commercial proposals from other rail operators;
- decrease in the volume of transported fuel wood chips, loss of the transport contract from the port of Koper to another rail operator (PKP CARGO INTERNATIONAL).

- increase in freight volume and change in the supply logistics of the largest client in this segment (increase in the volume of orders due to the stronger demand for fuels);
- increase in fuel transport services in exports to Ukraine;
- increase in fuel imports from Lithuania;
- decreased volume of transport services provided by PKP CARGO INTERNATIONAL from Slovakia to Poland (restrictions on the production of fuels by the Slovnaft refinery).

- increase in the volume of timber transported through seaports, change in the direction of timber supplies to the main buyers (paper manufacturers) instead of imports from Belarus – imports from ports;
- decrease in the average haul for the largest buyers (paper manufacturers) caused by the change in the structure of freight routes – increased share of domestic transport and transport from sea ports, no timber transport services from the Czech Republic to ports.

- decreased average haul in transport of other cargo in Poland due to a change in the structure of freight routes;
- decreased shipments of arsenic sulfide from Belarus;
- decreased imports of clay and salt from Ukraine;
- decline in the volume of transported cars in exports;
- increase in paper shipments in exports.

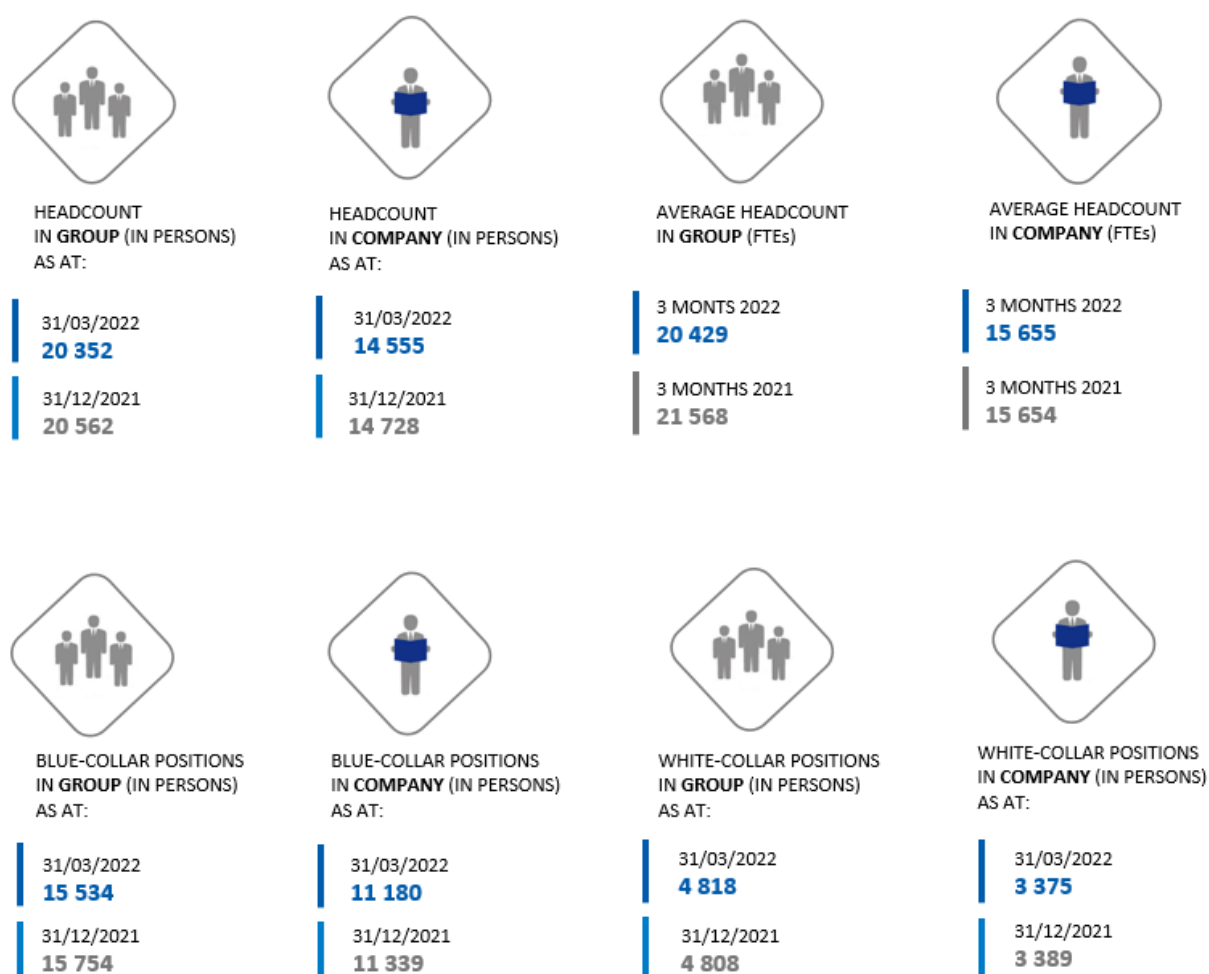
4.3. Other services

The PKP CARGO Group conducts its business activity within one main segment – domestic and international cargo freight and provision of comprehensive logistic services relating 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 and modernization, infrastructure maintenance and land reclamation services. From the perspective of the PKP CARGO Group's operations, these services are of minor significance and as such 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 2022 and the corresponding period of 2021 is provided below. Since the beginning of 2022, the PKP CARGO Group recorded a decrease in headcount by 210 persons, of which PKP CARGO by 173 persons.

Figure 20 Headcount in the PKP CARGO Group and PKP CARGO S.A. in 3M 2022 and 2021.



Source: Proprietary material

4.5. PKP CARGO Group's investments

In the first 3 months of 2022, the PKP CARGO Group incurred capital expenditures of PLN 222.2 million, up 5.3% compared to the corresponding period of 2021. 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 arising from IFRS16 (mainly related to real estate leases) were recognized.

The majority of capital expenditures in 3M 2022 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 204.6 million (i.e. 92.1% of capital expenditures). Moreover, expenditures were incurred on investment construction activity in the amount of PLN 3.7 million, purchases of machinery, equipment, other workshop fittings and means of transport for PLN 2.9 million, on ICT development, i.e. purchases

of computer hardware and intangible assets (software) in the amount of PLN 1.3 million, and on right-of-use assets for PLN 9.7 million, including PLN 6.6 million in real estate leases and PLN 3.1 million in other rights, mainly for leases of vehicles.

Table 15 Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in 3M 2022 as compared to 3M 2021 (millions of PLN)

Description	3 months of 2022	3 months of 2021	Change yoy	Change yoy in %
Investment construction activity	3.7	5.3	-1.6	-31.0%
Purchases of locomotives	0.0	0.0	0.0	-
Modernization of locomotives	12.2	73.0	-60.8	-83.3%
Purchases of wagons	74.7	20.1	54.6	272.2%
Wagon upgrades	0.0	0.0	0.0	-
Workshop machinery and equipment	2.4	0.9	1.5	166.1%
ICT development	1.3	5.5	-4.2	-75.5%
Other	0.5	0.0	0.5	6,316.1%
Components in overhaul, including:	117.7	78.1	39.6	50.7%
<i>Repairs and periodic inspections of locomotives</i>	23.2	23.4	-0.2	-0.9%
<i>Repairs and periodic inspections of wagons</i>	94.5	54.7	39.8	72.7%
Right-of-use assets*	9.7	28.1	-18.4	-65.5%
Total	222.2	211.0	11.2	5.3%

* Expenditures for right-of-use assets for 3M 2022 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 2022

- On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 1/VII/2022 on ending the secondment of Mr. Władysław Szczepkowski, a PKP CARGO S.A. Supervisory Board Member, to act temporarily in the capacity of the President of PKP CARGO S.A. Management Board.
- On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 2/VII/2022 deciding that the composition of the Management Board of PKP CARGO S.A. joint 8th term of office shall at any one time be no more than 5 persons.
- As a result of the completed recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Commerce, PKP CARGO S.A. Management Board Member in charge of Finance, and PKP CARGO S.A. Management Board Member in charge of Operations, on 13 January 2022 the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 6/VII/2022 on the appointment of Mr. Marek Olkiewicz to the position of the Management Board Member in charge of Operations.
- On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 7/VII/2022, seconding Mr. Władysław Szczepkowski, a PKP CARGO S.A. Supervisory Board Member, to act in the capacity of the President of PKP CARGO S.A. Management Board for a period not longer than 3 (three) months.
- On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 9/VII/2022, on ending without a decision the recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Commerce, and on starting a new recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Commerce.
- On 19 January 2022, by force of Resolution No. 12/2022, the Management Board of PKP CARGO S.A. temporarily entrusted oversight over organizational units in the Company's Head Office to:
 - Mr. Władysław Szczepkowski – seconded by the Supervisory Board of PKP CARGO S.A. pursuant to Resolution No. 7/VII/2022 of 13 January 2022 to perform the duties of the President of PKP CARGO S.A. Management Board for a

period not longer than 3 months, excluding the organizational units entrusted to Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative, falling within the scope of responsibilities of the following functions: PKP CARGO S.A. Management Board Member in charge of Commerce, PKP CARGO S.A. Management Board Member in charge of Finance, as well as temporary oversight over the affairs and organizational units falling within the scope of responsibilities of PKP CARGO S.A. Management Board Member in charge of Operations until 2 February 2022.

– Mr. Zenon Kozendra – PKP CARGO S.A. Management Board Member – Employee Representative, for a period not longer than 3 months, over the following units: Human Resources Management Department of PKP CARGO S.A. Head Office, the Information and Communication (ICT) Department of PKP CARGO S.A. Head Office, and the Procurement Department of PKP CARGO S.A. Head Office

- On 27 January and 1 February 2022, the Supervisory Board adopted Resolution No. 11/VII/2022 and Resolution No. 12/VII/2022, respectively on amendments to the Bylaws for Electing Candidates for Employee Representative to PKP CARGO S.A. Management Board and for Employee Representatives to PKP CARGO S.A. Supervisory Board, as well as on the procedure of their dismissal.

FEBRUARY 2022

- On 11 February 2022, PKP CARGO S.A. concluded an agreement with the consortium composed of: Siemens Mobility Sp. z o.o. and Siemens Mobility GmbH for delivery of 5 brand new electric multi-system locomotives, together with the provision of maintenance services. The schedule assumes delivery of 5 locomotives in Q1 2023. The value of the agreement will not exceed the net amount of PLN 139,125,093.48. The agreement will be effective from the date of execution to the end of the maintenance period of the last locomotive to be delivered.
- On 28 February 2022, PKP CARGO S.A. received from the Patent Office the decision granting protection right for the figurative trademark of PKP CARGO.

MARCH 2022

- In performance of the Memorandum of Agreement concluded on 27 August 2021 between the parties to the Collective Bargaining Agreement of PKP CARGO S.A. stipulating the commencement by 31 January 2022 of talks regarding the implementation of a system-based salary raise from 1 April 2022, on 1 March 2022 the Company requested the Trade Unions representing employees of PKP CARGO S.A. Units and Head Office (“Trade Unions”) to extend the pending social dialog at least until the evaluation of the Company’s financial performance for 2021 and Q1 2022, and consequently to defer any potential decisions on the system-based salary raise. As the Trade Unions upheld the postulates of implementing the salary raise as of 1 April 2022, the Parties signed a protocol ending the social dialog on 1 March 2022. On 1 March 2022, a collective dispute was launched by the Trade Unions.
- On 11 March 2022, PKP CARGO S.A. entered into an agreement with PKP S.A. on the sale of 50 (fifty) shares held by PKP S.A. in Centralny Terminal Multimodalny Sp. z o.o. with its registered office in Warsaw, of the par value of PLN 50.00 each, and of the total par value of PLN 2,500.00, to PKP CARGO S.A. (as a shareholder of Centralny Terminal Multimodalny Sp. z o.o.), for a total price equivalent to the total par value of the shares sold, i.e. PLN 2,500.00. As a result of the transaction, PKP CARGO S.A. became the sole shareholder of Centralny Terminal Multimodalny Sp. z o.o. with a 100% equity stake.
- On 23 March 2022, Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. with its registered office in Warsaw announced a decrease in its shareholding in PKP CARGO S.A. by 2% of the total number of votes.

APRIL 2022

- On 12 April 2022, the PKP CARGO S.A. Management Board reported that the end of 12 April 2022 marked the completion of the three-month period of secondment of Mr. Władysław Szczepkowski, Supervisory Board Member, to act temporarily in the capacity of President of the PKP CARGO S.A. Management Board.
- On 13 April 2022, the following individuals were appointed to the PKP CARGO S.A. Management Board: Mr. Dariusz Seliga to serve as the President of the Management Board with effect from 13 April 2022 and Mr. Zenon Kozendra to serve as the Management Board Member – PKP CARGO S.A. Employee Representative for another term of office.
- On 22 April 2022, the following individuals were appointed to the PKP CARGO S.A. Management Board: Mr. Jacek Rutkowski to serve as the Management Board Member in charge of Commerce with effect from 25 April 2022 and Mr. Maciej Jankiewicz to serve as the Management Board Member in charge of Finance with effect from 25 April 2022.

MAY 2022

- On 24 May 2022, as part of the procedure to resolve a collective dispute pending between the Company and the Trade Unions, a protocol was signed that provides for a salary increase to be granted to Company employees as of 1 June 2022. The cost of the employee compensation increases estimated by the Company will total approx. PLN 94 million. The signing the protocol by the Parties suspends the mediations in the collective dispute until November 2022.

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

5.1. Key economic and financial figures of the PKP CARGO Group

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

Table 16 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million ⁸³		EUR million	
	3 months of 2022	3 months of 2021	3 months of 2022	3 months of 2021
Operating revenue	1,180.7	1,010.9	254.1	221.1
Operating profit / loss	(31.5)	(71.0)	(6.8)	(15.5)
Profit / loss before tax	(55.5)	(85.2)	(11.9)	(18.6)
Net profit / loss	(47.6)	(71.3)	(10.2)	(15.6)
Total comprehensive income attributable to the owners of the parent company	(31.5)	(62.6)	(6.8)	(13.7)
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share (PLN)	(1.06)	(1.59)	(0.23)	(0.35)
Diluted earnings / losses per share (PLN)	(1.06)	(1.59)	(0.23)	(0.35)
Net cash flow from operating activities	37.6	57.8	8.1	12.6
Net cash flow from investing activities	(230.7)	(161.8)	(49.6)	(35.4)
Net cash flow from financing activities	49.1	(78.5)	10.5	(17.2)
Movement in cash and cash equivalents	(144.0)	(182.5)	(31.0)	(39.9)
	31 Mar 2022	31 Dec 2021	31 Mar 2022	31 Dec 2021
Non-current assets	6,492.2	6,458.7	1,395.4	1,404.3
Current assets	1,061.1	1,139.0	228.1	247.6
Non-current assets classified as held for sale	5.2	15.7	1.1	3.4
Share capital	2,239.3	2,239.3	481.3	486.9
Equity attributable to the owners of the parent company	3,009.1	3,040.6	646.7	661.1
Non-current liabilities	2,725.8	2,833.8	585.9	616.1
Current liabilities	1,823.6	1,739.0	392.0	378.1

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2022 prepared according to EU IFRS.

⁸³ To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data are presented with greater accuracy.

Table 17 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million ⁸⁴		EUR million	
	3 months of 2022	3 months of 2021	3 months of 2022	3 months of 2021
Operating revenue	882.7	731.9	189.9	160.1
Operating profit / loss	(33.2)	(77.3)	(7.1)	(16.9)
Profit / loss before tax	(55.0)	(89.7)	(11.8)	(19.6)
Net profit / loss	(46.2)	(74.0)	(9.9)	(16.2)
Total comprehensive income attributable to the owners of the parent company	(51.4)	(77.1)	(11.1)	(16.9)
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)	(1.03)	(1.65)	(0.22)	(0.36)
Diluted earnings / losses per share (PLN)	(1.03)	(1.65)	(0.22)	(0.36)
Net cash flow from operating activities	26.3	23.0	5.6	5.0
Net cash flow from investing activities	(216.6)	(153.2)	(46.6)	(33.5)
Net cash flow from financing activities	84.5	(19.0)	18.2	(4.2)
Movement in cash and cash equivalents	(105.8)	(149.2)	(22.8)	(32.6)
	31 Mar 2022	31 Dec 2021	31 Mar 2022	31 Dec 2021
			4.6603	4.6148
Non-current assets	6,062.2	6,031.2	1,303.0	1,311.3
Current assets	638.3	681.3	137.2	148.1
Non-current assets classified as held for sale	5.0	14.9	1.1	3.2
Share capital	2,239.3	2,239.3	481.3	486.9
Equity attributable to the owners of the parent company	2,761.3	2,812.7	593.5	611.5
Non-current liabilities	2,339.5	2,442.9	502.9	531.1
Current liabilities	1,604.7	1,471.8	344.9	320.0

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 3 months ended 31 March 2022 prepared according to EU IFRS.

The following exchange rates 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 2022:

- exchange rate in force on the last day of the reporting period: 31 March 2022: EUR 1 = PLN 4.6525, 31 December 2021: EUR 1 = PLN 4.5994
- the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 31 December 2022: EUR 1 = PLN 4.6472, 1 January – 31 December 2021: EUR 1 = PLN 4.5721.

⁸⁴ To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data are presented with greater accuracy.

5.1.2. 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 2022, EBIT reached PLN -31.5 million, having gone up by PLN 39.5 million compared to the corresponding period of 2021.

Figure 21 EBIT in 3M 2022 as compared to the corresponding period in 2021 (PLN million)

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

Source: Proprietary material

The following is a description of the most significant deviations affecting EBIT in the first 3 months of 2022 as compared to the first 3 months of 2021:

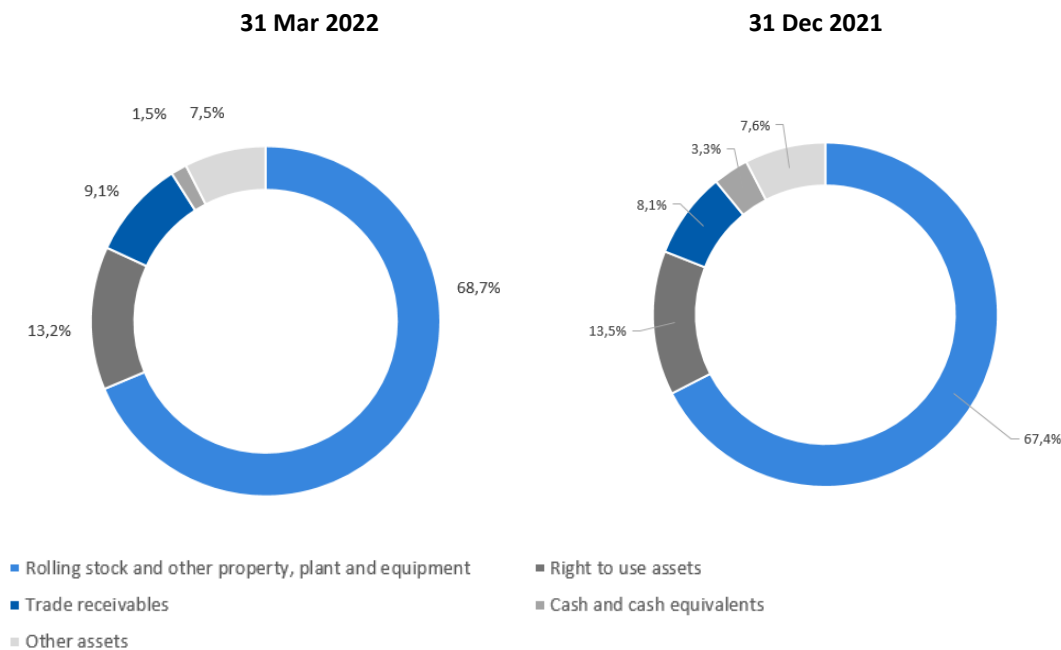
- increase in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services and also revenues from siding and traction services) as a direct consequence of the greater volume of transport (including in freight volume by 11.3% and freight turnover by 11.0%). At the same time, in the period under analysis, a decrease in transport rates was recorded, resulting chiefly from the intensification of competition on the rail freight market, especially in the bulk cargo segment. The details pertaining to the PKP CARGO Group's transport services are described in section 4.2.5 "PKP CARGO Group's rail transport business";
- increase in depreciation and impairment losses resulting from higher capital expenditures (including expenditures on rolling stock) in 2022;
- increase in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 28.4% associated with an increase in wholesale energy prices and fuel prices on the global markets coupled with an increase in the quantum of transport services;
- increase in costs under "other changes" by PLN 49.2 million, caused by, among other factors, an increase in rents and fees for the use of real properties and rolling stock, an increase in the costs of land reclamation services and an increase in the value of materials sold;

Statement of financial position of the PKP CARGO Group

ASSETS

The biggest share in the PKP CARGO Group's asset structure as at 31 March 2022 was held by rolling stock and other property, plant and equipment, which in aggregate accounted for 68.7% of total assets, compared to 67.4% as at 31 December 2021.

Figure 22 Structure of assets – as at 31 March 2022 and 31 December 2021



Source: Proprietary material

Figure 23 Movement in the Group's assets in the first 3 months of 2022 (PLN million)

Source: Proprietary material

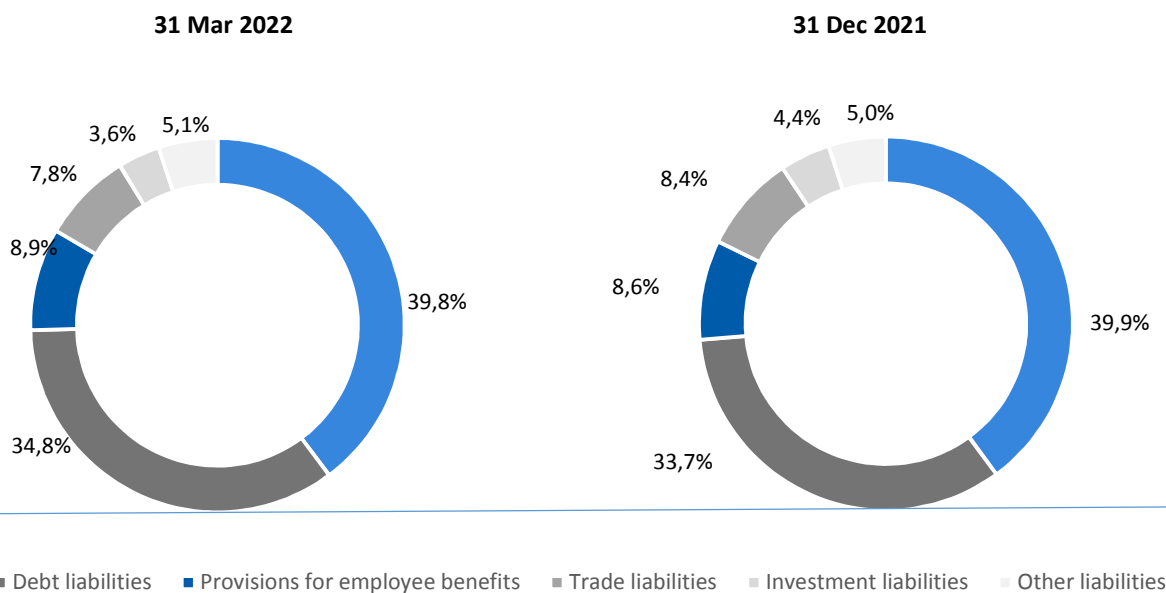
The following is the explanation of the most significant changes affecting the value of assets as at 31 March 2022 as compared to 31 December 2021:

- the increase in the value of rolling stock and other property, plant and equipment was due to the execution of investments in property, plant and equipment (chiefly rolling stock), the value of which in the period under analysis was greater than depreciation;
- the decrease in the right-of-use assets was mainly caused by the value of depreciation exceeding that of capital expenditures (a small scale of acquisition of new right-of-use assets with a simultaneous progressive depreciation of the assets already in use);
- the increase in trade receivables, chiefly as a result of an increase in revenues from contracts with customers in March 2022 compared to December 2021;
- the decrease in cash by PLN 143.2 million resulted predominantly from expenditures related to the acquisition of non-current assets in the amount of PLN 258.1 million, repayment of bank loans and leases along with interest in the amount of PLN 138.6 million, with simultaneous operating revenues of PLN 37.6 million and new loans of PLN 163.5 million;
- the increase in other assets was due mainly to the increase in assets associated with deferred costs by PLN 13.5 million (including prepayments for the purchase of electricity, purchase of employee transportation benefits).

EQUITY AND LIABILITIES

The largest share in the structure of the PKP CARGO Group’s equity and liabilities as at 31 March 2022 was attributable to equity, which accounted for 39.8% of the sum of equity and liabilities, compared to 39.9% as at 31 December 2021. Debt liabilities accounted for 34.8% of total equity and liabilities, compared to 33.7% as at 31 December 2021.

Figure 24 Structure of the Group’s equity and liabilities as at 31 March 2022 and 31 December 2021



Source: Proprietary material

Figure 25 Movement in the Group's equity and liabilities in the first 3 months of 2022 (PLN million)

Source: Proprietary material

The most significant changes affecting the value of equity and liabilities as at 31 March 2022, as compared to 31 December 2021, are discussed below:

- the decrease in the value of equity was chiefly due to the negative financial result generated by the PKP CARGO Group (retained earnings lower by PLN 47.6 million). The simultaneous increase in other items of equity by PLN 4.5 million (a positive change in the valuation of financial instruments under hedge accounting). An increase by PLN 20.6 million was also recorded in foreign exchange gains due to the conversion of financial statements of foreign operations.
- the increase in the value of debt liabilities reflects the addition of new loan and lease liabilities in the amount of PLN 163.9 million, modification of existing leases by PLN 9.3 million with a simultaneous repayment loans and leases along with in the amount of PLN 138.6 million. Detailed information on debt liabilities is presented in Note 4.1 to the Consolidated Financial Statements;
- the increase in trade payables results from the active working capital management;
- the decrease in investment liabilities was caused mainly by a decrease in investment liabilities related to rolling stock by PLN 32.3 million and to properties by PLN 14.7 million;
- the decrease in investment liabilities was caused mainly by a decrease in investment liabilities related to rolling stock by PLN 32.3 million and to properties by PLN 14.7 million;
- the increase in provisions for employee benefits largely due to the increased provisions for holidays by PLN 11.1 million, decreased provisions for retirement and disability severance pays and jubilee awards by PLN 4.2 million;

Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 March 2022 decreased by PLN 143.2 million compared to 31 December 2021.

Figure 26 Cash flows of the PKP CARGO Group in the first 3 months of 2022 (PLN million)

Source: Proprietary material

- cash flows from operating activities were generated, among other sources, on the loss before tax of PLN 55.5 million, depreciation and impairment allowances of PLN 183.9 million and negative cash flows caused by movement in working capital of PLN 108.7 million;
- cash flows from investing activities resulted from capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 258.1 million (including investments into rolling stock), with simultaneous inflows from the sale of non-financial non-current assets of PLN 27.2 million as a result of a decision to sell assets unnecessary for the efficient conduct of operating activities;
- cash flows from financing activities, chiefly as a result of the repayment of loans and leases with interests in the amount of PLN 138.6 million, offset by inflows of PLN 163.5 million from new loans and PLN 25.1 million from new subsidies.

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 2022 compared to the corresponding period of the previous year.

Table 18 Key financial and operating ratios of the PKP CARGO Group in 3M 2022 as compared to the corresponding period of 2021

Description	3 months of 2022	3 months of 2021	Change	
			2022-2021	Rate of change 2022/2021
EBITDA margin ¹	12.9%	10.3%	2.6	25.0%
Net profit margin ²	-4.0%	-7.1%	3.0	-
ROA ³	-2.7%	-2.4%	-0.3	-
ROE ⁴	-6.7%	-6.0%	-0.7	-
Average distance covered per locomotive (km per day) ⁵	213.7	211.0	2.7	1.3%
Average gross train tonnage per operating locomotive (tons) ⁶	1,516.0	1,448.0	68.0	4.7%
Average running time of locomotives (hours per day) ⁷	14.3	14.6	-0.3	-2.1%
Freight turnover per employee (thousands tkm/employee) ⁸	320.6	273.6	47.0	17.2%

Source: Proprietary material

1. *Calculated as the ratio of the operating result plus depreciation and amortization (EBITDA) to total operating revenue.*
2. *Calculated as the ratio of net result to total operating revenue.*
3. *Calculated as the ratio of net result for the last 12 months to total assets.*
4. *Calculated as the ratio of net result for the last 12 months to equity.*
5. *Calculated as the ratio of vehicle-kilometers (i.e. the distance covered by the Group's vehicles in the given period) to vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the respective period)*
6. *Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the 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 3M 2022, the EBITDA margin slightly improved, chiefly due to the significant increase of operating revenue. This also brought about an improvement in the net profit margin as compared to the corresponding period of 2021. Simultaneously, a lower net loss was reported. Detailed information on the reasons for movement in EBITDA and the net result is presented in section 5.3. Key economic and financial figures of the PKP CARGO Group;
- deterioration in the ROA and ROE ratios, largely due to the weaker net result in the period under analysis;
- An improvement in the average 24-hour mileage of locomotives and a simultaneous increase in the average gross tonnage per locomotive were achieved thanks to the freight process optimization.
- a slight decrease in the average running time of train locomotives stems from how the freight turnover process is run, the high number of closures and operating difficulties, and growth in the number of active locomotives which are doing the work with changing freight turnover;
- increase in the freight turnover per employee ratio, reflecting predominantly an increase in freight turnover by 11.0% yoy coupled with a decrease in the average headcount by 5.3% yoy.

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

Situation related to the war in Ukraine

- The war in Ukraine and its social and economic consequences create significant risks for the operating and financial performance of the PKP CARGO Group over the next several quarters. Currently, the Group does not identify any significant threats to its operating activity. Given the current structure of cargo transports and the scope of activities of PKP CARGO Group companies, a direct effect of the armed conflict in Ukraine may be the loss of a small portion of revenues from transportation services. Moreover, it will be possible to ultimately redirect at least part of the stream of cargo lost to alternative routes (among others by substituting hard coal imported by land from Russia to imports through domestic sea ports from Australia or Colombia). The war in Ukraine and the potential tightening of sanctions may adversely affect the operating revenues of the subsidiaries in PKP CARGO Group, especially those specialized in the operation of terminals on Poland's eastern border and providing forwarding services on routes leading from eastern Europe. The PKP CARGO Group also became involved in humanitarian aid, participating in the transshipment of cargo containing humanitarian aid.
- There are more and more signs that supply chains are being disrupted and that suppliers are changing their attitudes in the face of high levels of uncertainty about the future. These events have brought about the following:
 - significant limitations on the availability of materials purchased directly from Russia and Ukraine or based on imports of raw materials and components from those countries (including bearings, components for wheel sets such as axles, monoblock wheels);
 - increased prices and reduced availability of steel and metallurgical products such as sheet metal or sections;
 - increases in material prices - often by several dozen %, in some cases the increases exceed even 100%;
 - reduced number of fixed-price contracts signed for longer periods;

- pressure to shorten commercial credit terms (payment deadlines) due to increased market uncertainty;
- attempts of contracting parties to cancel contracts currently performed in view of a significant increase in production costs; - logistics problems; - limited numbers of workers in the transport sector, which is largely dependent on employees from Ukraine and other Eastern Bloc countries.
- The war in Ukraine also entails further increases in prices of energy commodities, fuels and products. This was already noted last year. In case of steel, the lack of incoming offers related to the transport of this raw material is related to its lack on the market (Ukraine being one of the main suppliers). A similar problem is emerging in the fertilizer industry, e.g.: prices for vegetation killers have risen four times as compared to last year. Rapidly changing fuel price may have a significant impact on the financial results in the coming quarters.
- The PKP CARGO Group has strengthened its efforts to search for new sources of supply from/to Poland.

Changes in the regulatory environment

- On 4 April 2022, the President of the Republic of Poland signed the Act of 9 February 2022 amending the Commercial Company Code and certain other acts. The amended regulations will enter into effect as of 13 October. This act is designed to introduce the following into Polish law: regulations in the area of holdings law, expansion of existing and assignment of new powers to supervisory boards, and supplementary regulations pertaining to the rights and obligations of members of corporate bodies. Therefore, it will be necessary to make appropriate changes to the relevant internal regulations of PKP CARGO S.A.
- On 14 April 2022, the President of the Republic of Poland signed the Act of 13 April 2022 on Special Solutions to Counteract Aggression against Ukraine and to Protect National Security, which prohibits the import and transit of coal and coke originating from the Russian Federation or Belarus through the territory of the Republic of Poland. These regulations also entitle the Minister of Interior and Administration to issue decisions that significantly confine economic relations with selected entities operating in Poland and may potentially affect PKP CARGO S.A.'s future revenues.

Market for intermodal transport services

- The market for intermodal transport services is still in high demand. According to various forecasts, it will become a major driver replacing the coal shipments which should gradually decline in the future.
- During the last quarter, the PKP CARGO Group continued to implement its current trade policy including mainly intermodal transports from the Port of Gdańsk (DCT), transports on the New Silk Road, and services on the Gliwice - Piacenza route. Intermodal transport between seaports and inland terminals was disrupted due to infrastructure repairs in the Gdańsk and Gdynia areas and the sustained high sea freight rates. Also, ongoing infrastructure repairs along the East-West corridor are resulting in capacity restraints and may translate into a long-term decline in traffic along the New Silk Road.
- Additionally, there Russian invasion of Ukraine brought about risks and revenue losses on existing contracts, but also potential benefits resulting from the evacuation of goods from Ukraine and transfers of humanitarian aid to that country. At the end of the first quarter, there was intensive work underway to deploy the additional transport streams triggered by the armed conflict.
- Strong inflationary pressure and further increase in energy costs will have a significant impact on the volume of transported goods in this segment and, consequently, on the final financial result.
- Currently, rail rates are not competitive as compared to road rates. Further negative effects came from the drastic price hikes for dispersed transport (over 100%), and for freight of at least 240 tons (approx. 50-80%) in comparison to the previous year. Increased charges for retained wagon availability will also play a significant role in the choice of means of transportation.

Exchange rates and interest rates

- In Q1 2022, the PKP CARGO Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term

receivables, and payables expressed in foreign currencies are mostly current and non-current liabilities on account of investment loan agreements with maturities of more than 5 years. For the EUR/PLN exchange rate, natural hedging exists due to the fact that proceeds in EUR are balanced out by expenditures in the same currency. Any surplus inflows in EUR were hedged, among other instruments, by the Group's use of currency risk management transactions.

In Q1 2022, hedge accounting was applied with respect to EUR-denominated loan agreements and leasing agreements. Detailed information on FX risk management is presented in Note 6.2 of the Consolidated Financial Statements for the financial year ended 31 December 2021.

- During the first 3 months of 2022, the PKP CARGO Group was exposed to risk of cash flow volatility resulting from changes in interest rates applicable to some of its loan and leasing agreements. Variable rates that were used in Q1 2022 included the following reference rates: WIBOR 1M, WIBOR 3M, and EURIBOR 3M.

In view of the Group's loans, the Monetary Policy Council's policy of interest rate increases will entail higher financial expenses for the PKP CARGO Group.

Financing of capital expenditures

- The PKP CARGO Group will finance capital expenditures using partly external financing sources (such as investment loans, leases, assistance funds or other sources) and using its own funds.

Infrastructural investments in PKP PLK

- Infrastructural investments in the area of the PKP Network performed by the Administrator in Q1 2022, related to the modernization of rail infrastructure under the National Railway Program (KPK), were among the significant factors influencing the PKP CARGO S.A.'s freight activity. The greatest transport difficulties were caused by track closures connected with, among others, continued modernization of the port infrastructure within the loading zones of the ports in Gdańsk, Gdynia, Szczecin, Świnoujście, and on sections of the access lines, which hindered efficient operation of key sidings. Aside from the port areas, particularly burdensome difficulties were present in the Upper Silesia because of the continued modernization of the Czechowice Dziedzice, Oświęcim, and Trzebinia interchanges, the "coal line" no. 131, further reconstruction of the Warsaw, Krakow, Łódź, and Wrocław interchanges, as well as in the Lublin, Stargard Szczeciński, and Szamotuły regions.

Major transport difficulties were related to repair works at the border crossings: Zebrzydowice/Petrovice crossing in Czech Republic and access to the border crossing in Zawidów, as well as continuation of closures in the area of Małaszewicze.

- In the next quarter of 2022, an upward trend is expected in line capacity limitations and the inconveniences related to infrastructural investments due to delays and build-up of subsequent modernizations to be completed at the final stage of execution of the National Railway Program (KPK).

Situation related to COVID-19

- The provisions of the Anti-Crisis Act to suspend performance of periodic medical examinations of employees during the period of either epidemic emergency or state of epidemic resulted in costs of preventive occupational health examinations in Q1 2022 being significantly lower than expected.

Nevertheless, the persisting state of epidemic has caused an accumulation of the number of employees who will have to undergo periodic medical tests over a short period of time after it is lifted. Starting from 1 February 2021, periodic examinations of employees on railroad positions directly related to the operation and safety of railroad traffic were resumed, and there are still significant delays in their completion. On 12 April, PKP CARGO delivered to the Head Office of the Railway Occupational Medicine Department a specification of the number of the Company's employees whose medical certificates have expired. As of the date of the specification, there were approximately 8,000 employees who did not hold valid periodic examination certificates. Therefore, in the coming months, there will be a significant increase in the costs of preventive occupational health examinations charged to the period in which they are settled.

- In the first quarter of 2022, the PKP CARGO Group companies observed a decrease in the negative impact of the pandemic on their operations in particular cargo categories. Most business partners have already adjusted their supply chains to the pandemic, which has had an effect on business continuity. In spite of the gradual liberalization and consequent lifting of COVID-19 restrictions, the Group still recognizes the risk associated with the return of pandemic restrictions and the consequent loss of revenues as well as disruption of supply chains.

Social dialog

- In the first quarter of 2022 meetings were held with the participation of representatives of the Management Board of PKP CARGO S.A. and Trade Union Organizations being signatories of the Collective Bargaining Agreement. On 31 January 2022, the Trade Unions submitted to the Company's Management Board a request to implement a systemic salary increase as of 1 April 2022.

A significant meeting of the first quarter of 2022 was held on 1 March 2022 and ended with the drafting of the *Memorandum concluding the social dialog*. At the meeting, the Management Board of PKP CARGO S.A. declared its will to follow the arrangements resulting from the Agreement concluded on 27 August 2021, but stated that, taking into consideration the current situation of the Company, it was unable to satisfy the demands relating to remuneration as specified by the Trade Unions in the letter of 31 January 2022. The Supra-Company Trade Union Organizations which are parties to the Collective Bargaining Agreement at PKP CARGO S.A. sustained their demand to implement a systemic salary increase as of 1 April 2022. That is why the Parties concluded that the social dialog could not be continued.

In the Minutes of negotiations of 23 March 2022, as part of the procedure of settling a collective dispute on the implementation of a systemic salary increase, PKP CARGO informed that currently it was unable to make any binding decisions regarding the implementation of the salary demands put forward by the Trade Unions. This was mainly due to the current performance of PKP CARGO S.A. and the situation in the Company's environment. The Trade Unions maintained their original demand and informed that the Trade Unions being party to the collective dispute transform themselves, as of 23 March 2022, into the Inter-Union Protest and Strike Committee. In accordance with the *Act on Resolution of Collective Disputes of 23 May 1991*, from 28 March to 8 April, the Committee conducted a strike referendum among the Company's employees concerning the dispute.

- During the meeting on 12 April 2022, the President of the Management Board offered to continue negotiations on the assumption that salary increases for the employees of PKP CARGO S.A. would be implemented in 2 tranches. As no specific amounts of salary increases were indicated, the Trade Unions did not accept the proposal, and at the same time reaffirmed their demand. In connection with the ongoing process of appointing the members of the Company's Management Board the talks resumed on 13 April. The new President of the Management Board appointed by the Supervisory Board of PKP CARGO S.A. confirmed the intent of the Management Board to adhere to the Agreement of 27 August 2021, requesting the continuation of negotiations on 27 April, which was accepted by the Trade Unions.
- During the negotiations held on 27 April the President of the Management Board emphasized the uncertainty of external conditions as well as the outlook for the Company's operations, mainly related to the pandemic which has been persisting for 2 years, and the war in Ukraine. Accordingly, to introduce the increases without first raising the funds would be a threat to the Company's financial stability, and therefore to the stability of employment. Stressing the will to conduct the negotiations in good faith and with a sense of responsibility for the future of the Company and its employees, as well as declaring that the newly appointed Management Board will take all possible measures to improve remuneration conditions for PKP CARGO S.A. employees, the President requested the Trade Unions to continue the talks.
- The Trade Unions sustained their demand regarding the basic salary increase for the PKP CARGO S.A. employees put forward on 1 March 2022.
Due to the impossibility to reach an agreement, the Parties considered this meeting to be the end of the negotiations and therefore signed a statement of differences of opinion. As provided for in the law, the collective dispute moved into the stage of mediation. The Parties agreed that the first mediation meeting in the pending dispute would be held on a date suggested by the mediator, however no later than 16 May 2022.
- 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 PKP CARGO Group.

5.3. Management Board's stance with respect to the possibility of achieving previously published result forecasts for the year

PKP CARGO S.A. S.A. has not published any financial forecasts for 2022.

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 is qualified to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5 and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, the Group's establishments also repair rolling stock and sub-assemblies for other owners.

Figure 27 Structure of rolling stock used by the PKP CARGO Group as at 31 March 2022 and 31 December 2021

Source: Proprietary material

5.4.2. Property

The properties operated by the PKP CARGO Group play an important role as maintenance and repair facilities and are used based on 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 2022.

Table 19 Real estate owned and used by the PKP CARGO Group as at 31 March 2022 as compared to 31 December 2021.

Description	31 Mar 2022	31 Dec 2021	Change 2021–2020
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,455	1,441	14
Buildings – owned, leased and rented from other entities [sqm]	728,123	728,944	-822

Source: Proprietary material

The change 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 analyzed period, the size of building space (own, leased and rented from other entities) was reduced chiefly as a result of the fact that PKP CARGO International a.s. had demolished an office building in Karviná-Doly (with the area of 301m²) and ceased its operating activity in Hodonín power plant (with the area of 435m²).

6. Other relevant information and events

- On 4 April 2022, the President of the Republic of Poland signed the Act of 9 February 2022 amending the Commercial Company Code and certain other acts. The Act is pending publication and will enter into effect 6 months after its promulgation. This act is designed to introduce the following into Polish law: regulations in the area of holdings law, expansion of existing and assignment of new powers to supervisory boards, and supplementary regulations pertaining to the rights and obligations of members of corporate bodies. Therefore, it will be necessary to make appropriate changes to the relevant internal regulations of PKP CARGO S.A.
- On 14 April 2022, the President of the Republic of Poland signed the Act of 13 April 2022 on Special Solutions to Counteract Aggression against Ukraine and to Protect National Security, which prohibits the import and transit of coal and coke originating from the Russian Federation or Belarus through the territory of the Republic of Poland. These regulations may potentially decrease the revenues of PKP CARGO S.A.
- By decisions dated 25 April 2022, the Minister of Interior and Administration included certain customers of our Company in the list referred to in Article 2(1) of the Act of 13 April 2022 on Special Solutions to Counteract Aggression against Ukraine and to Protect National Security. At this point in time, the Company is not able to accurately estimate the value of revenues lost in connection with the aforementioned decisions of the Minister of Interior and Administration or to determine whether and which further customers of the Company will be subject to similar decisions.

6.1. Impact of the war in Ukraine on the activity of the PKP CARGO Group

- In connection with the military aggression of the Russian Federation in Ukraine, developments of the transport situation at border crossings and its impact on the Company's operations are monitored on an ongoing basis. There is still a threat of traffic immobilization at border crossings (total restriction of transport to/from Ukraine) due to potential threat of attempts of landing operations and air attacks of Russian armed forces in the west of Ukraine and armed attack coming from Belarus. Due to the blockade of Ukrainian commercial ports on the Black Sea, Ukrainian Railways, Ukrainian forwarders and shippers are submitting inquiries regarding the possibility to perform grain shipments (with transshipment or in transit) from Ukraine to Poland/transit through Poland (to be exported through Gdańsk/Gdynia/Świnoujście) via Ukrainian-Polish railroad border crossings. In addition to transportation services, Ukrainian Railways is also interested in temporary storage of grain in Poland.
- Restrictions on trade in goods imposed by international or national authorities in connection with the war in Ukraine entail also a limitation of the operation of terminals in border regions. Due to the flow of goods imported from Russia or transported in transit through Russia, embargoes imposed on some goods, difficulties and insecurity in the transportation business the number of orders received in Q1 was lower. A decrease in revenues as compared to the assumptions made may also be expected in the months to come.
The PKP CARGO Group has been actively searching for new sources of supplies and, using the terminal base and infrastructure, has been preparing service offers for the contractors sector, which has not been serviced so far.
- All supplies of raw materials from Ukraine, including clay and feldspar for ceramic tile manufacturers, are at risk. All manufacturers of ceramic tiles have largely depended on clay from Ukraine for years. Alternative deliveries from Poland, Lower Silesia, are already in place, as well as from Czech Republic and Germany (in place, but to a negligible extent). The suspension of deliveries may result in the Group's loss of revenues.
- Further increases in steel prices will affect the already lower number of completed orders. At the moment there is already a visible lack of offers for materials due to the lack of this raw material, as Ukraine is one of the main suppliers.
- In addition, due to the restrictions introduced, there is a risk of lack of revenues from import of woodchips from Belarus and thus a risk of lack of customs service, customs clearance, freight forwarding and transshipment in Małaszewicze by a PKP CARGO Group company. One of the Group's strategic customers stopped deliveries of shipments of additives and feed materials. Increased shipment volumes were planned for 2022 and the suspension of shipments may result in a loss of the Group's revenues and mass.
- An increase in the number of transit shipments was observed to the seaports of Gdańsk, Gdynia and Świnoujście, as compared to previous months. Additionally, an increase in the amount of goods stored in this location has been noted. In the event of escalation of hostilities, there is a risk of disruption of transshipment at the border crossing with both Ukraine and Belarus.

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 2022 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

On 24 May 2022, as part of the procedure to resolve a collective dispute pending between the Company and the Trade Unions, a protocol was signed that provides for a salary increase to be granted to Company employees as of 1 June 2022. The cost of the employee compensation increases estimated by the Company will total approx. PLN 94 million. The signing the protocol by the Parties suspends the mediations in the collective dispute until November 2022.

Parent Company's Management Board

Dariusz Seliga
President of the Management Board

Marek Olkiewicz
Management Board Member

Maciej Jankiewicz
Management Board Member

Jacek Rutkowski
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 26 May 2022



**For more information on PKP CARGO please contact
The Management Board and Investor Relations Office:**

PKP CARGO S.A.

The Management Board and Investor Relations Office
Grójecka 17
02-021 Warsaw

Tel.: +48 22 391-47-09

e-mail: relacje.inwestorskie@pkpcargo.com