CARGO GROUP'S Consolidated Semi-annual Report for H1

Interim Condensed Consolidated Financial Statements of the PKP CARGO GROUP for the period of 6 months ended 30 June 2022 prepared in accordance with EU IFRS

Table of contents

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

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021	
Revenues from contracts with customers	2,451.5	1,285.2	2,046.0	1,050.0	*Note 2.1*
Consumption of traction electricity and traction fuel	(378.0)	(194.5)	(258.6)	(138.4)	*Note 2.2*
Services of access to infrastructure	(276.8)	(142.3)	(266.1)	(138.6)	
Transport services	(173.4)	(88.0)	(174.2)	(89.9)	
Other services	(244.8)	(136.7)	(176.9)	(91.0)	*Note 2.2*
Employee benefits	(832.8)	(416.7)	(813.7)	(399.3)	*Note 2.2*
Other expenses	(176.1)	(88.0)	(136.3)	(66.6)	*Note 2.2*
Other operating revenue and (expenses)	1.9	0.1	6.6	(3.8)	*Note 2.3*
Operating profit without depreciation (EBITDA)	**371.5**	**219.1**	**226.8**	**122.4**	
Depreciation, amortization and impairment losses	(365.4)	(181.5)	(355.1)	(179.7)	*Note 2.2*
Profit / (loss) on operating activities (EBIT)	**6.1**	**37.6**	**(128.3)**	**(57.3)**	
Financial revenue and (expenses)	(55.8)	(30.7)	(29.2)	(13.6)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	2.8	1.7	2.5	1.1	*Note 5.3*
Profit / (loss) before tax	**(46.9)**	**8.6**	**(155.0)**	**(69.8)**	
Income tax	4.5	(3.4)	25.0	11.1	*Note 3.1*
NET PROFIT / (LOSS)	**(42.4)**	**5.2**	**(130.0)**	**(58.7)**	
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	(9.3)	(3.7)	19.6	22.9	*Note 6.1*
Income tax	1.8	0.7	(3.7)	(4.3)	*Note 3.1*
FX differences resulting from translation of financial statements	15.3	(5.3)	8.6	(2.8)	
Total other comprehensive income subject to reclassification in the financial result	**7.8**	**(8.3)**	**24.5**	**15.8**	
Actuarial profits / (losses) on post-employment benefits	45.4	45.4	36.4	36.4	*Note 5.8*
Income tax	(8.6)	(8.6)	(6.9)	(6.9)	*Note 3.1*
Total other comprehensive income not subject to reclassification in the financial result	**36.8**	**36.8**	**29.5**	**29.5**	
Total other comprehensive income	**44.6**	**28.5**	**54.0**	**45.3**	
TOTAL COMPREHENSIVE INCOME	**2.2**	**33.7**	**(76.0)**	**(13.4)**	
Net profit / (loss) attributable:					
Net profit / (loss) attributable to shareholders of the Parent Company	(42.4)	5.2	(130.0)	(58.7)	
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the Parent Company	2.2	33.7	(76.0)	(13.4)	
Earnings / (losses) per share (PLN per share)					
Weighted average number of ordinary shares	44,786,917	44,786,917	44,786,917	44,786,917	
Basic and diluted earnings / (losses) per share	**(0.95)**	**0.11**	**(2.90)**	**(1.31)**	

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

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30/06/2022	31/12/2021	
ASSETS			
Rolling stock	4,251.6	4,241.6	*Note 5.1*
Other property, plant and equipment	862.4	893.4	*Note 5.1*
Rights-of-use assets	972.4	1,030.7	*Note 5.2*
Investments in entities accounted for under the equity method	36.1	36.7	*Note 5.3*
Trade receivables	6.5	4.2	*Note 5.5*
Lease receivables	8.7	8.5	
Other assets	55.1	40.5	*Note 5.6*
Deferred tax assets	204.6	203.1	*Note 3.1*
Total non-current assets	**6,397.4**	**6,458.7**	
Inventories	172.0	164.6	*Note 5.4*
Trade receivables	724.2	611.7	*Note 5.5*
Lease receivables	0.5	0.6	
Income tax receivables	2.8	4.5	
Other assets	115.6	103.1	*Note 5.6*
Cash and cash equivalents	112.9	254.5	*Note 4.3*
Total current assets	**1,128.0**	**1,139.0**	
Non-current assets classified as held for sale	5.1	15.7	
TOTAL ASSETS	**7,530.5**	**7,613.4**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	674.4	771.7	
Other items of equity	(46.5)	(75.8)	
FX differences resulting from translation of financial statements	157.8	142.5	
Retained earnings / (Accumulated losses)	17.8	(37.1)	
Total equity	**3,042.8**	**3,040.6**	
Debt liabilities	1,901.3	2,090.3	*Note 4.1*
Trade liabilities	5.9	2.3	
Investment liabilities	79.3	111.8	*Note 5.7*
Provisions for employee benefits	456.3	529.1	*Note 5.8*
Other provisions	1.0	7.0	*Note 5.9*
Deferred tax liability	90.8	93.3	*Note 3.1*
Total long-term liabilities	**2,534.6**	**2,833.8**	
Debt liabilities	641.7	473.9	*Note 4.1*
Trade liabilities	679.4	639.0	
Investment liabilities	150.9	221.4	*Note 5.7*
Provisions for employee benefits	168.2	127.3	*Note 5.8*
Other provisions	34.9	23.3	*Note 5.9*
Other liabilities	278.0	254.1	*Note 5.10*
Total short-term liabilities	**1,953.1**	**1,739.0**	
Total liabilities	**4,487.7**	**4,572.8**	
TOTAL EQUITY AND LIABILITIES	**7,530.5**	**7,613.4**	

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity: Profits / (losses) on measurement of equity instruments at fair value	Other items of equity: Actuarial profits / (losses) on post-employment benefits	Other items of equity: Measurement of hedging instruments	FX differences resulting from translation of financial statements	Retained earnings / (Accumulated losses)	Total equity
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	-	-	-	-	-	-	(42.4)	**(42.4)**
Other comprehensive income for the period (net)	-	-	-	36.8	(7.5)	15.3	-	**44.6**
Total comprehensive income	-	-	-	36.8	(7.5)	15.3	(42.4)	**2.2**
Other changes for the period	-	(97.3)	-	-	-	-	97.3	**-**
30/06/2022	**2,239.3**	**674.4**	**(12.9)**	**(5.2)**	**(28.4)**	**157.8**	**17.8**	**3,042.8**
1/01/2021	**2,239.3**	**782.4**	**(12.9)**	**(115.7)**	**(31.6)**	**104.8**	**177.5**	**3,143.8**
Net result for the period	-	-	-	-	-	-	(130.0)	**(130.0)**
Other comprehensive income for the period (net)	-	-	-	29.5	15.9	8.6	-	**54.0**
Total comprehensive income	-	-	-	29.5	15.9	8.6	(130.0)	**(76.0)**
Other changes for the period	-	(21.6)	-	-	-	-	21.6	**-**
30/06/2021	**2,239.3**	**760.8**	**(12.9)**	**(86.2)**	**(15.7)**	**113.4**	**69.1**	**3,067.8**

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

INTERIM CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30/06/2022	6 months ended 30/06/2021	
Cash flows from operating activities			
Profit / (loss) before tax	**(46.9)**	**(155.0)**	
Adjustments			
Depreciation, amortization and impairment losses	365.4	355.1	*Note 2.2*
(Profit) / loss on the sale and liquidation of non-financial non-current assets	(6.3)	(4.1)	
(Profits) / losses on FX differences	3.3	4.7	
(Profits) / losses on interest, dividends	45.6	24.3	
Received / (paid) interest	0.1	0.6	
Received / (paid) income tax	(5.6)	(3.7)	
Movement in working capital	(79.7)	(60.3)	
Other adjustments	44.1	29.1	
Net cash from operating activities	**320.0**	**190.7**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(467.8)	(367.5)	
Proceeds from the sale of non-financial non-current assets	33.6	21.4	
Proceeds from dividends received	2.5	0.6	
Other investment expenditures	-	(27.0)	
Other inflows from investing activities	0.9	0.8	
Net cash from investing activities	**(430.8)**	**(371.7)**	
Cash flows from financing activities			
Payments on lease liabilities	(68.6)	(66.5)	*Note 4.1*
Proceeds from bank loans and borrowings	169.5	189.4	*Note 4.1*
Repayment of bank loans and borrowings	(154.6)	(145.1)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(39.0)	(24.7)	*Note 4.1*
Grants received	63.0	32.0	
Other outflows from financing activities	(2.0)	(1.8)	
Net cash from financing activities	**(31.7)**	**(16.7)**	
Net increase / (decrease) in cash and cash equivalents	(142.5)	(197.7)	
Cash and cash equivalents at the beginning of the reporting period	254.5	306.0	
Impact exerted by FX rate movements on the cash balance in foreign currencies	0.9	0.6	
Cash and cash equivalents as at the end of the reporting period, including:	**112.9**	**108.9**	
Restricted cash	*32.0*	*26.5*	

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

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

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

In H1 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 30 June 2022 are presented in the Management Board Report on the Activity of the PKP CARGO Group for H1 2022, in **Chapters 3.1** and **3.3**, respectively.

Information about the Group

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

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

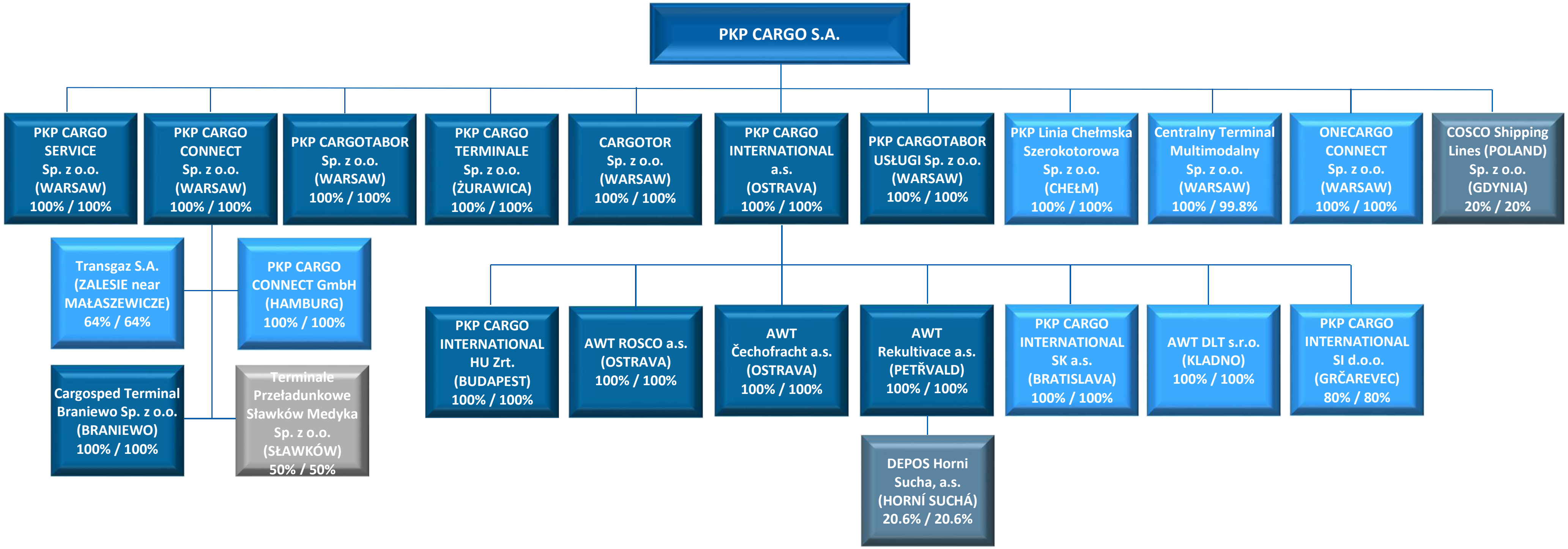
As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 20 subsidiaries. In addition, the Group held shares in 2 associated entities and 1 joint venture.

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 30 June 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 Interim Condensed Consolidated Financial Statements

These Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard no. 34 Interim Financial Reporting as endorsed by the European Union.

These Interim Condensed Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2021 prepared according to EU IFRS. The accounting policy used to prepare these Interim Condensed Consolidated Financial Statements is consistent with the one used to prepare the Consolidated Financial Statements for the for the financial year ended 31 December 2021.

These Interim Condensed Consolidated Financial Statements for the period of 6 months ended 30 June 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 Interim Condensed 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 Interim 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 Interim Condensed Consolidated Financial Statements consist of the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and selected notes.

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

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

The financial data of foreign entities have been translated into the Polish currency for consolidation purposes in the following manner:
a) assets and liabilities items at the exchange rate at the end of the reporting period,
b) items of the statement of profit or loss and other comprehensive income and of the cash flow statement at the average exchange rate in the reporting period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period.

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

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

Currency	Items of the statement of financial position		Items of the statement of profit or loss and other comprehensive income and the cash flow statement	
	30/06/2022	31/12/2021	6 months ended 30/06/2022	6 months ended 30/06/2021
EUR	4.6806	4.5994	4.6427	4.5472
CZK	0.1892	0.1850	0.1884	0.1758

These Interim Condensed Consolidated Financial Statements have been reviewed by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 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 Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 25 August 2022.

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

1.3 Applied International Financial Reporting Standards platform

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

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

Standard / Interpretation	Effective date
Amendments to IFRS 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" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023
Amendments to IAS 12 "Income Tax" – deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

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 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 half of 2022, the PKP CARGO Group noted a declining impact of the COVID-19 pandemic on the activity of companies in the organizational area (both the number of illnesses among employees and the costs incurred by the entities to counter SARS-CoV-2 virus infection decreased). Even though another wave of the pandemic occurred in Q1 2022, neither the transports nor their full logistic support have been disrupted. The declining impact of the pandemic on transportation activity was noticeable in virtually each cargo category. As the time passed, more and more states lifted the restrictions, which remained at a high level in the East Asia Region only. This fact had a positive effect on the possibility and scale of international trade. The only significant exception was a significant decrease in the quantity of container transports from China (as part of the so-called "New Silk Road"), driven directly by the "zero Covid" principle and implementation of very restrictive lockdowns in numerous major cities of the country's industrial regions.

The Group's companies are monitoring the situation in respect to the possible changes in case the pandemic restrictions are reinstated. There is noticeable realistic risk that new dangerous mutations of the virus might appear in the future (at present there are no indications that this threat might materialize). If the restrictions return, the scale of business of cooperating entities may be significantly reduced and, in addition to the obvious costs, such as e.g. extension of the rail car loadingtimes, the decline in production volumes available for shipping will be the main challenge for the PKP CARGO Group.

The war in Ukraine affected numerous aspects of activity of the PKP CARGO Group in H1 2022. Uncertain geopolitical situation globally and consequences of the war in Ukraine have affected and continue to affect both Poland and international trade. They included primarily sudden changes in the stream of cargo coming from the East and the need to take adaptive steps related, among others, to the current sanctions against Russia and Belarus, weaker stream of goods from the New Silk Road (including the inability to transport cargo through Ukraine and attempts to replace the current route through Russia with new land and water routes). Shipping and forwarding companies have been affected by the continuing disruptions in global supply chains. Poland is perceived as a country close to the frontline and therefore it may lose certain elements of commercial exchange or new potential investments.

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

Due to the economic sanctions imposed on Russia and Belarus by the United States and the European Union, among others, as well as wartime activities in Ukraine, the stream of cargo from the East has been reduced. The sanctions covered a wide variety of goods, such as coal, wood, biomass, metals, etc., i.e. the goods that represent a significant majority of existing trade, which had an adverse effect on the terminals located in the North-Eastern Poland (where actions had to be taken to change the scope of services provided). At the same time, the Polish-Ukrainian border area and the terminals in Żurawica and Medyka, have become the natural direction for all deliveries to Ukraine (whose ports were blocked by the Russian federation in the first half of this year). Regular transports required the situation to quiet down partially; more intensive trade could only take place starting in Q2 of this year. Attempts were made to both transport grain and iron ore out of Ukraine, to partially compensate for the loss of shipments from other directions from the East. The problem however is the limited throughput of the terminals, which cannot naturally replace the capacity offered by Ukraine's sea and river transport. The slowdown of containerized freight exchange along the so-called "New Silk Road" may become a major problem, since the country of origin (China) is looking for new, safe transport routes bypassing Russia (especially through Turkey and southern Europe).

The PKP CARGO Group has been monitoring the impact of the war and its potential effects on both freight and broader transportation support activities on an ongoing basis and has taken appropriate adaptation measures. Still, is difficult to precisely predict the ultimate impact of the armed conflict and wartime activities in the territory of Ukraine on the activity of the PKP CARGO Group. Ultimately it will possible to 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).

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 services provided. The armed conflict 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 freight forwarding services on routes leading from Eastern Europe.

An update of the risks accompanying the COVID-19 pandemic 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 6 months ended 30 June 2022, changes to significant values based on professional judgment and estimation related to:

- rolling stock and other property, plant and equipment

As at 30 June 2022, the Group performed impairment tests with respect to two cash-generating units defined at the level of assets of the PKP CARGO INTERNATIONAL Group and PKP CARGOTABOR Sp. z o.o. The impairment tests were carried out because the market value of net assets was persistently lower than their carrying amount, while market rates of return on investments rose, affecting the discount rates used in impairment tests. The tests were performed on cash-generating units by determining their recoverable amount at the level of their value in use.

PKP CARGOTABOR Sp. z o.o.

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:

a) discounted cash flows were developed on the basis of detailed financial projections for the period from H2 2022 to 2026;
b) in the detailed projection period of 2023-2026, the compound annual growth rate (CAGR) of operating revenue will be at 3.6% in real terms,
c) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 6.0% in real terms,
d) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the tested assets owned by PKP CARGOTABOR Sp. z o.o., as at 30 June 2022 the Group recognized no impairment charge for assets owned by PKP CARGOTABOR Sp. z o.o.

A sensitivity analysis was carried out for the key assumptions of impairment test model for such figures as WACC and the future cash flows increase ratio after the detailed projection period. The WACC change by +/- 0.3 p.p. and a +/- 0.3 p.p. change in the level of future cash flows after the period of forecast does not cause the need to recognize an impairment charge for assets owned by the PKP CARGOTABOR Sp. z o.o.

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

1.5 Significant values based on professional judgment and estimates (cont.)

PKP CARGO INTERNATIONAL

Presented below are the key assumptions affecting the estimate of the value in use of the cash-generating unit at the level of the PKP CARGO INTERNATIONAL Group:

a) the cash-generating unit was considered to be all owned by the PKP CARGO INTERNATIONAL Group, used mainly to service customers on the Czech rail market,
b) discounted cash flows were developed on the basis of detailed financial projections for the period from H2 2022 to 2031; in the opinion of the Parent Company's Management Board, it is reasonable to adopt financial projections for more than five years because the property, plant and equipment used by PKP CARGO INTERNATIONAL a.s. have a considerably longer period of economic life;
c) in the detailed projection period of 2023-2031, the compound annual growth rate (CAGR) of operating revenue will be at 3.2% in real terms,
d) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 5.8% in real terms,
e) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Because the recoverable amount determined as a result of the test was not materially different from the carrying amount of the tested non-current assets owned by the PKP CARGO INTERNATIONAL Group, the Group did not revalue the impairment loss for the assets as at 30 June 2022, which as at that date amounted to PLN 116.3 million.

Presented below is the estimated amount of impairment loss as at 30 June 2022 when changing only the following key parameters and keeping the other assumptions on a fixed level:

	PKP CARGO INTERNATIONAL GROUP	
	- 0.3 p.p.	+ 0.3 p.p.
WACC	(49.3)	42.9
Increase after the detailed projection period	27.6	(32.1)

PKP CARGO S.A.

For the Parent Company, the recoverable amount of its non-current assets as at 31 December 2021 was determined based on their fair value less cost to sell. The fair value of the rolling stock and selected properties was determined on the basis of valuations prepared by independent appraisers. For the remaining assets comprising a cash-generating unit at the Parent Company level that are not subject to valuation, the fair value did not differ materially from their carrying amounts. An analysis carried out as at 30 June 2022 showed that, in the period of 6 months of 2022, there were no changes and circumstances that could have material effect on the outcome of the valuation and therefore the previous appraisals could be used to determine the recoverable amounts of these assets as at 30 June 2022 and to confirm that no impairment allowances must be recognized for the Parent Company's assets on that date.

- provisions for employee benefits

As at 30 June 2022, the Group companies performed an actuarial valuation of its provisions for employee benefits mainly in connection with the change of the discount rate and the agreements concluded with the trade unions regarding salary increases. As a result of the raise, the average salary in the Parent Company increased by approx. 10.6%. The discount rate adopted for the valuation of provisions for employee benefits as at 30 June 2022 was 6.9% (3.5% as at 31 December 2021). The update of actuarial assumptions caused a decrease in provisions for employee benefits by PLN 50.4 million, out of which PLN 5 million reduced the cost of employee benefits. The movement in provisions for employee benefits was also affected by the increase in the provision for unused holidays in the amount of PLN 19.7 million. Detailed information on this matter is presented in **Note 5.8** to these Interim Condensed Consolidated Financial Statements.

During the 6 months ended 30 June 2022, no other changes were made to the assumptions adopted by the Parent Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

1.6 Liquidity position of the Group

In the period of 6 months ended 30 June 2022, the Parent Company secured additional financing of PLN 100 million under an overdraft facility. Additionally, cash pooling systems are in place in the PKP CARGO Group, which as at 30 June 2022 comprise 8 Group companies. The cash pool systems, independently of the cash collected by particular participants, offers flexible lines of credit in the form of a current account overdraft facilities. Information on the financing sources available as at 30 June 2022 is presented in **Note 4.1** to these Interim Condensed Consolidated Financial Statements.

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

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

1.6 Liquidity position of the Group (cont.)

The maturities of financial liabilities are presented below.

Maturity of the Group's financial liabilities as at the balance sheet date by maturity date based on contractual undiscounted payments (together with interest payable in the future):

30/06/2022	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	312.7	395.8	1,502.0	686.6	**2,897.1**	**2,543.0**
Cash pool	1.1	-	-	-	**1.1**	**1.1**
Trade liabilities	673.0	6.4	5.9	-	**685.3**	**685.3**
Investment liabilities	89.6	62.9	80.3	-	**232.8**	**230.2**
Total	**1,076.4**	**465.1**	**1,588.2**	**686.6**	**3,816.3**	**3,459.6**

31/12/2021	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	136.9	377.8	1,557.8	760.2	**2,832.7**	**2,564.2**
Cash pool	1.1	-	-	-	**1.1**	**1.1**
Trade liabilities	632.0	7.0	2.3	-	**641.3**	**641.3**
Investment liabilities	173.8	49.7	113.4	-	**336.9**	**333.2**
Total	**943.8**	**434.5**	**1,673.5**	**760.2**	**3,812.0**	**3,539.8**

The table below presents the age structure of trade liabilities, investment liabilities and trade receivables.

Age structure of trade liabilities and investment liabilities

	30/06/2022			31/12/2021		
	Trade liabilities	Investment liabilities	Total	Trade liabilities	Investment liabilities	Total
Non-overdue liabilities	418.9	220.4	639.3	431.8	310.2	742.0
Overdue liabilities						
to 30 days	135.3	7.1	142.4	143.4	15.9	159.3
31 - 90 days	119.0	2.7	121.7	55.2	7.1	62.3
91-180 days	4.3	-	4.3	1.4	-	1.4
181 - 365 days	0.2	-	0.2	1.2	-	1.2
over 365 days	7.6	-	7.6	8.3	-	8.3
Total	**685.3**	**230.2**	**915.5**	**641.3**	**333.2**	**974.5**

Age analysis of trade receivables

	30/06/2022			31/12/2021		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	687.9	(1.1)	686.8	555.3	(1.2)	554.1
Overdue receivables						
to 30 days	23.1	(0.2)	22.9	42.6	(0.2)	42.4
31 - 90 days	7.1	(0.6)	6.5	9.7	(0.8)	8.9
91-180 days	3.6	(1.0)	2.6	6.6	(3.2)	3.4
181 - 365 days	8.7	(3.2)	5.5	1.3	(0.7)	0.6
over 365 days	139.6	(133.2)	6.4	140.6	(134.1)	6.5
Total	**870.0**	**(139.3)**	**730.7**	**756.1**	**(140.2)**	**615.9**

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

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

2.1 Revenues from contracts with customers

Structure of revenues from contracts with customers

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

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

6 months ended 30/06/2022	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	122.1	0.2	533.4	1,252.9	**1,908.6**
Revenue from other transportation activity	0.9	-	0.3	79.8	**81.0**
Revenue from siding and traction services	-	5.5	80.5	82.2	**168.2**
Revenue from transshipment services	-	-	0.5	81.1	**81.6**
Revenue from reclamation services	-	2.4	0.5	51.3	**54.2**
Revenue from sales of goods and materials	-	-	-	82.9	**82.9**
Other revenues	0.6	9.5	5.4	59.5	**75.0**
Total	**123.6**	**17.6**	**620.6**	**1,689.7**	**2,451.5**
Revenue recognition date					
At a point of time	-	-	-	84.1	**84.1**
Over a period	123.6	17.6	620.6	1,605.6	**2,367.4**
Total	**123.6**	**17.6**	**620.6**	**1,689.7**	**2,451.5**

3 months ended 30/06/2022	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	56.9	0.2	263.2	673.6	**993.9**
Revenue from other transportation activity	0.3	-	0.2	42.0	**42.5**
Revenue from siding and traction services	-	2.8	40.0	40.7	**83.5**
Revenue from transshipment services	-	-	0.4	44.9	**45.3**
Revenue from reclamation services	-	1.9	-	33.0	**34.9**
Revenue from sales of goods and materials	-	-	-	46.4	**46.4**
Other revenues	0.3	4.2	2.8	31.4	**38.7**
Total	**57.5**	**9.1**	**306.6**	**912.0**	**1,285.2**
Revenue recognition date					
At a point of time	-	-	-	47.0	**47.0**
Over a period	57.5	9.1	306.6	865.0	**1,238.2**
Total	**57.5**	**9.1**	**306.6**	**912.0**	**1,285.2**

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

2.1 Revenues from contracts with customers (cont.)

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

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

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:

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Poland	1,759.1	914.2	1,412.6	725.5
Czech Republic	323.0	179.6	253.8	134.0
Germany	131.4	67.1	146.2	75.9
Austria	44.3	22.3	39.1	20.7
Slovakia	35.7	19.1	41.0	19.7
Denmark	30.6	13.9	34.6	17.9
Other countries	127.4	69.0	118.7	56.3
Total	**2,451.5**	**1,285.2**	**2,046.0**	**1,050.0**

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

2.1 Revenues from contracts with customers (cont.)

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

	30/06/2022	31/12/2021
Poland	5,438.9	5,461.9
Czech Republic	725.5	762.0
Other countries	7.4	9.2
Total	**6,171.8**	**6,233.1**

Information on key customers

In the period of 6 months ended 30 June 2022 and 30 June 2021, revenues from any single customer of the Group did not exceed 10% of the total revenues from contracts with customers.

Assets from contracts with customers

	6 months ended 30/06/2022	6 months ended 30/06/2021
As at the beginning of the reporting period	**33.9**	**24.2**
Recognition of revenue before the sales document is issued	57.9	38.8
Reclassification to receivables	(33.2)	(24.2)
FX differences from valuation	0.5	-
As at the end of the reporting period	**59.1**	**38.8**

2.2 Operating expenses

Consumption of electricity and traction fuel

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Consumption of traction fuel	(99.1)	(54.6)	(64.1)	(32.7)
Consumption of traction electricity	(278.9)	(139.9)	(194.5)	(105.7)
Total	**(378.0)**	**(194.5)**	**(258.6)**	**(138.4)**

Other services

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Repair and maintenance services for non-current assets	(46.1)	(25.0)	(45.2)	(24.7)
Rent and fees for the use of real properties and rolling stock	(63.7)	(36.5)	(34.8)	(16.8)
Telecommunications services	(3.1)	(1.6)	(3.1)	(1.5)
Legal, consulting and similar services	(5.2)	(2.5)	(4.9)	(2.3)
IT services	(23.4)	(11.6)	(21.6)	(11.0)
Transshipment services	(9.0)	(5.5)	(6.1)	(3.0)
Reclamation services	(55.9)	(34.3)	(25.5)	(12.3)
Traction and shunting services, train drivers	(19.4)	(10.4)	(20.9)	(12.2)
Other services	(19.0)	(9.3)	(14.8)	(7.2)
Total	**(244.8)**	**(136.7)**	**(176.9)**	**(91.0)**

Employee benefits

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Payroll	(629.0)	(321.5)	(619.1)	(312.6)
Social security expenses	(133.0)	(68.2)	(130.0)	(65.6)
Expenses for contributions to the Company Social Benefits Fund	(16.0)	(8.0)	(15.8)	(8.0)
Other employee benefits during employment	(20.8)	(10.4)	(20.6)	(10.1)
Post-employment benefits	(3.0)	(1.1)	(1.7)	(0.9)
Movement in provisions for employee benefits	(31.0)	(7.5)	(26.5)	(2.1)
Total	**(832.8)**	**(416.7)**	**(813.7)**	**(399.3)**

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

2.2 Operating expenses (cont.)

Other expenses

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Consumption of non-traction fuel	(19.0)	(10.2)	(11.8)	(6.1)
Consumption of electricity, gas and water	(29.0)	(9.5)	(22.5)	(7.6)
Consumption of materials	(41.7)	(21.2)	(36.4)	(18.0)
Taxes and charges	(19.4)	(10.0)	(18.9)	(10.1)
Cost of goods and materials sold	(46.4)	(28.1)	(19.6)	(9.8)
Business trips	(13.0)	(6.6)	(13.1)	(6.7)
Other	(7.6)	(2.4)	(14.0)	(8.3)
Total	**(176.1)**	**(88.0)**	**(136.3)**	**(66.6)**

Depreciation, amortization and impairment losses

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Depreciation of rolling stock	(268.3)	(134.4)	(248.9)	(124.9)
Depreciation of other property, plant and equipment	(33.5)	(16.7)	(35.3)	(16.7)
Depreciation of rights-of-use assets	(58.3)	(28.4)	(60.2)	(29.4)
Amortization of intangible assets	(4.0)	(2.0)	(4.3)	(2.3)
(Recognized) / reversed impairment losses:				
Other property, plant and equipment	(1.3)	-	(6.4)	(6.4)
Total	**(365.4)**	**(181.5)**	**(355.1)**	**(179.7)**

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Profit on sales of non-financial non-current assets	8.7	3.6	3.0	-
Reversed impairment losses on trade receivables	1.0	0.4	6.7	1.0
Penalties and compensations	6.7	3.5	5.3	2.9
Reversal of other provisions	1.8	0.9	1.1	(0.2)
Interest on trade and other receivables	1.2	0.6	1.2	0.5
Net result on FX differences on trade receivables and liabilities	1.7	0.8	-	-
Grants	2.5	0.5	0.5	0.3
Other	2.2	1.1	4.0	2.4
Total other operating revenue	**25.8**	**11.4**	**21.8**	**6.9**
Recognized impairment losses on trade receivables	(1.7)	(1.1)	(2.3)	(1.5)
Penalties and compensations	(6.5)	(3.6)	(3.7)	(2.4)
Costs of liquidation of non-current and current assets	(4.8)	0.1	(2.8)	(1.6)
Recognized other provisions	(4.3)	(3.0)	(2.4)	(1.9)
Interest on trade and other payables	(4.6)	(3.1)	(0.2)	(0.1)
Net result on FX differences on trade receivables and liabilities	-	-	(1.8)	(1.6)
Other	(2.0)	(0.6)	(2.0)	(1.6)
Total other operating expenses	**(23.9)**	**(11.3)**	**(15.2)**	**(10.7)**
Other operating revenue and (expenses)	**1.9**	**0.1**	**6.6**	**(3.8)**

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

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Interest income	0.7	0.6	0.6	0.4
Net result on FX differences	-	-	0.7	0.7
Other	0.5	0.5	0.4	-
Total financial revenue	**1.2**	**1.1**	**1.7**	**1.1**
Interest expenses	(45.3)	(25.8)	(24.6)	(11.5)
Other				
Settlement of the discount on provisions for employee benefits	(10.1)	(5.5)	(5.2)	(2.6)
Net result on FX differences	(0.5)	0.3	-	-
Other	(1.1)	(0.8)	(1.1)	(0.6)
Total financial expenses	**(57.0)**	**(31.8)**	**(30.9)**	**(14.7)**
Financial revenue and (expenses)	**(55.8)**	**(30.7)**	**(29.2)**	**(13.6)**

3. Notes on taxation

3.1 Income tax

Income tax recognized in profit or loss

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Current income tax				
Current tax charge	(8.0)	(4.6)	(6.3)	(3.3)
Adjustments recognized in the current year relating to tax from previous years	(0.2)	(0.1)	-	-
Deferred tax				
Deferred income tax of the reporting period	12.7	1.3	31.3	14.4
Income tax recognized in profit or loss	**4.5**	**(3.4)**	**25.0**	**11.1**

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

Deferred income tax recognized in other comprehensive income

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Deferred tax on the measurement of hedging instruments	1.8	0.7	(3.7)	(4.3)
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	(8.6)	(8.6)	(6.9)	(6.9)
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income [1]	(1.9)	0.6	(1.4)	0.1
Deferred income tax recognized in other comprehensive income	**(8.7)**	**(7.3)**	**(12.0)**	**(11.1)**

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

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

3.1 Income tax (cont.)

Balance of deferred tax assets and liabilities

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

	30/06/2022	31/12/2021
Deferred tax assets	204.6	203.1
Deferred tax liabilities	(90.8)	(93.3)
Total	**113.8**	**109.8**

Table of movements in deferred tax before the set-off

6 months ended 30/06/2022	1/01/2022	Recognized in profit or loss	Recognized in other comprehensive income	FX differences from translation of deferred tax balance	30/06/2022
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(118.2)**	23.9	-	(1.7)	**(96.0)**
Rights-of-use assets and lease liabilities	**(12.7)**	(2.0)	-	(0.2)	**(14.9)**
Other provisions and liabilities	**17.7**	(0.1)	-	-	**17.6**
Inventories	**(7.9)**	(0.3)	-	-	**(8.2)**
Lease receivables	**(1.7)**	(0.1)	-	-	**(1.8)**
Trade receivables	**1.2**	(2.5)	-	-	**(1.3)**
Provisions for employee benefits	**124.7**	2.3	(8.6)	-	**118.4**
Other	**17.0**	4.5	1.8	-	**23.3**
Unused tax losses	**89.7**	(13.0)	-	-	**76.7**
Total	**109.8**	**12.7**	**(6.8)**	**(1.9)**	**113.8**

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

Maturity analysis of deferred tax assets from tax losses

Expiration dates of the tax losses to which deferred tax assets were applied as at 30 June 2022

Year	2023	2024	2025	2026	Total
Unused tax losses	27.9	175.7	152.5	46.9	**403.0**

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

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

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

3.1 Income tax (cont.)

Tax loss not recognized in calculation of deferred tax assets

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

	30/06/2022	31/12/2021
PKP CARGO INTERNATIONAL HU Zrt.	9.6	10.3
AWT Čechofracht a.s.	11.7	11.4
PKP CARGOTABOR USŁUGI Sp. z o.o.	0.4	1.2
Total	**21.7**	**22.9**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 30 June 2022:

Year	2022	2023	2024	2025	2026	Total
Unused tax losses	2.8	3.4	11.4	3.8	0.3	**21.7**

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. Liabilities contracted under the signed loan agreements are repaid in PLN and EUR.

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

Items in foreign currencies

30/06/2022	In functional currency	In foreign currency		Total
	PLN	EUR	CZK	
Bank loans and borrowings	970.3	692.2	-	**1,662.5**
Leases	796.8	47.1	36.6	**880.5**
Total	**1,767.1**	**739.3**	**36.6**	**2,543.0**

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**

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

4.1 Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

6 months ended 30/06/2022	Bank loans and borrowings	Leases	Total
1/01/2022	**1,632.9**	**931.3**	**2,564.2**
New liabilities contracted	169.5	1.9	**171.4**
Modifications of existing agreements	-	11.7	**11.7**
Transaction costs	0.9	-	**0.9**
Accrual of interest	25.3	18.8	**44.1**
Payments under debt, including:			
Repayments of the principal	(154.6)	(68.6)	**(223.2)**
Interest paid	(23.5)	(15.5)	**(39.0)**
Transaction costs	(0.9)	-	**(0.9)**
Other	-	(2.2)	**(2.2)**
FX differences recognized in the result	12.2	0.5	**12.7**
FX translation differences	0.7	2.6	**3.3**
30/06/2022	**1,662.5**	**880.5**	**2,543.0**
Long-term	1,182.2	719.1	**1,901.3**
Short-term	480.3	161.4	**641.7**
Total	**1,662.5**	**880.5**	**2,543.0**

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

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

	Presentation in the statement of profit or loss and other comprehensive income	30/06/2022	30/06/2021
Revenues from operating leases	Revenues from contracts with customers	18.8	14.4
Costs of short-term leases	Other services	(39.5)	(19.6)

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

4.1 Reconciliation of debt liabilities (cont.)

Terms and conditions of loan agreements

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.

The Net Debt/EBITDA is the level of financial debt less cash to the generated EBITDA and is calculated excluding the impact of IFRS 16. The maximum permitted level of the Net Debt/EBITDA ratio, depending on the contract, is set within the range of 2.25-4.5. For selected agreements, there is also an obligation to satisfy the Net Debt/EBITDA ratio and total debt ratio calculated on the basis of forecast figures.

In most agreements, the total debt ratio is defined as the ratio of total liabilities (excluding the impact of IFRS 16) to total balance sheet amount (excluding the impact of IFRS 16) and its level cannot exceed 60%.

As at 30 June 2022, the value of Net Debt/EBITDA ratios based on the Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements of the PKP CARGO Group overrun the level of 3.0 stipulated in the loan agreements.

Before the balance sheet date, the Parent Company had obtained from the lenders a one-time waiver of the covenant to maintain the Net Debt/EBITDA ratios at specific levels.

In contracts with selected financing banks, the waiver mentioned above was granted with a proviso that the Net Debt/EBITDA ratio based on PKP CARGO Group's consolidated data must not exceed 5.0.

At the same time, as at 30 June 2022, in the case of agreements with one of the banks, the Parent Company also obtained consent for a temporary change of definitions of total debt, in which the impact of IFRS 16 was excluded from the definition.

The above conditions were satisfied as at 30 June 2022 and therefore under IAS 1 loan liabilities did not have to be reclassified.

In the case of other subsidiaries, the covenants under loan agreements were satisfied as at 30 June 2022.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	30/06/2022	31/12/2021
Overdraft	Bank Polska Kasa Opieki S.A. (1)	9/07/2022	PLN	0.1	0.4
Overdraft	Bank Gospodarstwa Krajowego (2)	20/09/2022	PLN	100.0	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/03/2023	PLN	0.2	100.0
Overdraft	Bank Polska Kasa Opieki S.A. (3)	24/05/2023	PLN	31.8	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A. (4)	27/06/2023	PLN	99.0	-
Leasing facility	PKO Leasing S.A. (5)	18/06/2023	PLN	15.2	15.2
Total				**246.3**	**315.6**

(1) On 11 July 2022, Cargotor Sp. z o.o. executed an annex to the overdraft facility agreement increasing the credit limit amount to PLN 1.6 million and extending the availability period of the facility for additional 12 months, i.e. until 9 July 2023.

(2) On 17 June 2022, the Parent Company executed an annex to the overdraft facility agreement extending the availability period of the facility until 20 September 2022.

(3) On 23 May 2022, the Parent Company executed an annex the overdraft facility agreement extending the availability period of the facility until 24 May 2023.

(4) On 28 June 2022, the Parent Company signed a loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. up to the total maximum amount of PLN 100 million. The subject matter of the loan agreement is financing current activity. The availability period expires and the final repayment date is 27 June 2023.

(5) The availability of the leasing facility was extended automatically for another 12 months, i.e. until 18 June 2023 in connection with the fulfillment of obligations arising under the contract by the Parent Company.

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

4.2 Equity

Share capital

	30/06/2022	31/12/2021
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 30 June 2022 and 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 6 months ended 30 June 2022 and 30 June 2021, there were no movements in the share capital of the Parent Company.

Movement in supplementary capital and retained earnings

On 29 June 2022, the Parent Company's Ordinary Shareholder Meeting adopted a resolution to cover the net loss incurred in 2021 in the amount of PLN 223.3 million:
a) with retained earnings from previous years in the amount of PLN 114.3 million;
b) with reserve capital in the amount of PLN 109.0 million.

In the period of 6 months ended 30 June 2022, changes in the Group's supplementary capital resulted from a resolution of 13 April 2022 adopted by the Ordinary Shareholder Meeting of Cargosped Terminal Braniewo Sp. z o.o. in the matter of the allocation to supplementary capital of the net profit of PLN 2.2 million generated in 2021, and a resolution of 9 June 2022 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of a partial allocation to supplementary capital of the net profit generated in 2021 of PLN 9.5 million

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	30/06/2022	31/12/2021
Cash on hand and on bank accounts	71.2	164.0
Bank deposits up to 3 months	41.7	90.0
Other cash	-	0.5
Total	**112.9**	**254.5**
including restricted cash	*32.0*	*60.6*

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

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

5. Notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Movement in rolling stock and other property, plant and equipment

6 months ended 30/06/2022	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2022	**7,155.4**	**1,014.3**	**468.3**	**96.0**	**45.0**	**83.7**	**1,707.3**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	225.1	**225.1**
Other acquisitions	-	-	-	-	-	139.0	**139.0**
Purchase of leased items	23.3	-	-	-	-	-	**-**
Settlement of fixed assets under construction	342.9	24.3	9.7	1.6	0.3	(378.8)	**(342.9)**
Grant for non-current assets	(51.0)	(17.5)	-	-	-	5.9	**(11.6)**
Sales (including leaseback)	(12.8)	(6.5)	(4.5)	(1.3)	-	-	**(12.3)**
Liquidation	(201.1)	-	(0.9)	-	-	(0.2)	**(1.1)**
Reclassified to assets held for sale	(8.1)	-	-	-	-	-	**-**
FX translation differences	19.3	4.4	1.2	0.9	-	0.4	**6.9**
Other	0.9	-	-	-	-	(1.9)	**(1.9)**
30/06/2022	**7,268.8**	**1,019.0**	**473.8**	**97.2**	**45.3**	**73.2**	**1,708.5**
Accumulated depreciation							
1/01/2022	**(2,726.7)**	**(327.0)**	**(354.6)**	**(84.9)**	**(39.9)**	**-**	**(806.4)**
(Increases) / decreases:							
Depreciation	(268.3)	(17.8)	(13.1)	(1.7)	(0.9)	-	**(33.5)**
Purchase of leased items	(9.0)	-	-	-	-	-	**-**
Sales (including leaseback)	8.6	-	0.4	1.2	-	-	**1.6**
Liquidation	168.4	-	0.9	-	-	-	**0.9**
Reclassified to assets held for sale	5.6	-	-	-	-	-	**-**
FX translation differences	(6.6)	(1.0)	(0.6)	(0.9)	-	-	**(2.5)**
Other	(0.6)	(0.1)	(0.3)	-	-	-	**(0.4)**
30/06/2022	**(2,828.6)**	**(345.9)**	**(367.3)**	**(86.3)**	**(40.8)**	**-**	**(840.3)**
Accumulated impairment							
1/01/2022	**(187.1)**	**(0.9)**	**(1.7)**	**-**	**-**	**(4.9)**	**(7.5)**
(Increases) / decreases:							
Recognition	-	-	-	-	-	(1.3)	**(1.3)**
Utilization	0.6	-	-	-	-	3.0	**3.0**
FX translation differences	(2.1)	-	-	-	-	-	**-**
30/06/2022	**(188.6)**	**(0.9)**	**(1.7)**	**-**	**-**	**(3.2)**	**(5.8)**
Net value							
1/01/2022	**4,241.6**	**686.4**	**112.0**	**11.1**	**5.1**	**78.8**	**893.4**
30/06/2022	**4,251.6**	**672.2**	**104.8**	**10.9**	**4.5**	**70.0**	**862.4**

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

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

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

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

5.2 Rights-of-use assets

Movement in rights-of-use assets

6 months ended 30/06/2022	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**
Increases / (decreases):						
New leases	-	0.5	1.2	0.2	-	**1.9**
Modifications of agreements	-	8.8	-	2.9	-	**11.7**
Return of leased items	(6.5)	(2.2)	-	(0.2)	-	**(8.9)**
Purchase of leased items	(23.3)	-	-	-	-	**(23.3)**
FX translation differences	3.7	6.7	0.4	0.1	-	**10.9**
30/06/2022	**501.4**	**812.9**	**54.6**	**24.5**	**1.4**	**1,394.8**
Accumulated depreciation						
1/01/2022	**(175.2)**	**(166.5)**	**(14.9)**	**(14.3)**	**(0.9)**	**(371.8)**
(Increases) / decreases:						
Depreciation	(21.6)	(30.5)	(3.8)	(2.3)	(0.1)	**(58.3)**
Return of leased items	6.5	0.4	-	0.2	-	**7.1**
Purchase of leased items	9.0	-	-	-	-	**9.0**
Other	(0.2)	-	-	-	-	**(0.2)**
FX translation differences	(1.8)	(6.1)	(0.2)	(0.1)	-	**(8.2)**
30/06/2022	**(183.3)**	**(202.7)**	**(18.9)**	**(16.5)**	**(1.0)**	**(422.4)**
Net value						
1/01/2022	**352.3**	**632.6**	**38.1**	**7.2**	**0.5**	**1,030.7**
30/06/2022	**318.1**	**610.2**	**35.7**	**8.0**	**0.4**	**972.4**

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

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

5.3 Investments in entities accounted for under the equity method

Investments in entities accounted for under the equity method

	Carrying amount	
	30/06/2022	31/12/2021
COSCO Shipping Lines (POLAND) Sp. z o.o.	0.6	0.8
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	21.5	21.2
Transgaz S.A.	7.0	6.4
PKP CARGO CONNECT GmbH	0.7	0.9
PKP CARGO INTERNATIONAL SK a. s.	2.7	2.8
PKP CARGO INTERNATIONAL SI d.o.o.	2.4	3.4
Centralny Terminal Multimodalny Sp. z o.o.	1.2	1.2
Total	**36.1**	**36.7**

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

	6 months ended 30/06/2022	6 months ended 30/06/2021
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	2.8	2.5
Movement in equity on account of dividends	(3.4)	(2.9)
FX differences from translation of financial statements	-	(0.2)
As at the end of the reporting period	**36.1**	**34.4**

5.4 Inventories

Structure of inventories

	30/06/2022	31/12/2021
Strategic inventories	30.3	31.2
Rolling stock during liquidation	30.7	31.0
Other inventories	113.8	109.4
Impairment losses	(2.8)	(7.0)
Net inventories	**172.0**	**164.6**

5.5 Trade receivables

Structure of trade receivables

	30/06/2022	31/12/2021
Trade receivables	870.1	756.1
Impairment loss on receivables	(139.4)	(140.2)
Total	**730.7**	**615.9**
Non-current assets	6.5	4.2
Current assets	724.2	611.7
Total	**730.7**	**615.9**

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

5.6 Other assets

Structure of other assets

	30/06/2022	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	42.1	32.3
Insurance	5.9	6.8
IT services	6.0	11.6
Purchase of transportation benefits	6.3	-
Other costs settled over time	5.4	4.1
Prepayments for purchase of non-financial non-current assets	19.0	8.0
Other	2.6	1.2
Other receivables		
VAT settlements	35.5	30.5
Receivables from the sale of shares	4.8	5.3
Other	14.1	12.0
Intangible assets		
Licenses	15.5	19.3
Other intangible assets	0.3	0.3
Intangible assets under development	7.6	6.6
Total	**170.7**	**143.6**
Non-current assets	55.1	40.5
Current assets	115.6	103.1
Total	**170.7**	**143.6**

5.7 Investment liabilities

Structure of investment liabilities

	30/06/2022	31/12/2021
Investment liabilities related to rolling stock	223.6	298.8
Investment liabilities related to real properties	5.2	19.8
Other	1.4	14.6
Total	**230.2**	**333.2**
Long-term liabilities	79.3	111.8
Short-term liabilities	150.9	221.4
Total	**230.2**	**333.2**

5.8 Provisions for employee benefits

As at 30 June 2022 and 31 December 2021, the actuarial valuation of provisions for employee benefits for the Polish Group companies was based on the following assumptions:

	Valuation as at [%]	
	30/06/2022	31/12/2021
Discount rate	6.9	3.5
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 4.8	up to 3.6
Assumed growth of the price of transportation benefits	2.5	2.5
Assumed average annual growth of the base for calculation of provisions on account of charge for the Company Social Benefits Fund	4.8	4.0
Weighted average employee mobility ratio	2.7 – 8.5	2.6 - 6.5

The value of provisions for employee benefits is significantly affected by the adopted assumptions for discount rate, the assumed salary growth and the expected average employment growth. The sensitivity analysis for changes in the foregoing assumptions may be found below. The analysis was conducted by changing only one variable while leaving the remaining assumptions unchanged.

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

5.8 Provisions for employee benefits (cont.)

Sensitivity analysis of provisions for employee benefits

	30/06/2022	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	251.1	(3.0)	3.1	2.6	(2.6)	(2.4)	2.4
Retirement and disability severance benefits	200.5	(2.4)	2.5	2.1	(2.1)	(1.4)	1.5
Post-mortem benefits	5.6	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	92.5	(2.9)	3.0	2.6	(2.5)	(0.3)	0.3
Transportation benefits	16.1	(0.5)	0.5	0.5	(0.4)	(0.1)	0.1
Total	**565.8**	**(8.9)**	**9.2**	**7.9**	**(7.7)**	**(4.3)**	**4.4**

	31/12/2021	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	259.4	(3.9)	4.1	3.6	(3.5)	(3.1)	3.2
Retirement and disability severance benefits	205.2	(3.2)	3.3	2.9	(2.8)	(1.9)	2.0
Post-mortem benefits	6.7	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	125.5	(4.8)	5.0	4.2	(4.0)	(0.5)	0.5
Transportation benefits	24.0	(0.9)	1.0	0.8	(0.8)	(0.1)	0.1
Total	**620.8**	**(12.9)**	**13.5**	**11.6**	**(11.2)**	**(5.7)**	**5.9**

Movement in provisions for employee benefits

	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2022	**205.2**	**125.5**	**24.0**	**6.7**	**259.4**	**35.6**	**656.4**
Current service cost	3.5	1.1	0.2	0.2	5.8	-	**10.8**
Interest expenses	3.2	2.1	0.4	0.1	4.3	-	**10.1**
Actuarial (profits)/ losses recognized in other comprehensive income	(3.0)	(33.4)	(8.1)	(0.9)	-	-	**(45.4)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	(5.0)	-	**(5.0)**
Recognition of provisions	-	-	-	-	-	27.2	**27.2**
Reversal of provisions	-	-	-	-	-	(2.1)	**(2.1)**
Benefits paid out	(8.4)	(2.8)	(0.4)	(0.5)	(13.5)	(2.2)	**(27.8)**
FX translation differences	-	-	-	-	0.1	0.2	**0.3**
30/06/2022	**200.5**	**92.5**	**16.1**	**5.6**	**251.1**	**58.7**	**624.5**
Long-term provisions	153.5	87.0	15.2	4.7	195.9	-	**456.3**
Short-term provisions	47.0	5.5	0.9	0.9	55.2	58.7	**168.2**
Total	**200.5**	**92.5**	**16.1**	**5.6**	**251.1**	**58.7**	**624.5**

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

5.8 Provisions for employee benefits (cont.)

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

5.9 Other provisions

Structure of other provisions

	30/06/2022	31/12/2021
Provision for land reclamation	7.5	6.8
Other provisions (1)	28.4	23.5
Total	**35.9**	**30.3**
Long-term provisions	1.0	7.0
Short-term provisions	34.9	23.3
Total	**35.9**	**30.3**

(1) The increase in this position by the is mainly due to the recognition by the Parent Company of additional provisions for potential contractual penalties arising from a failure to perform specific transports for a business partner.

5.10 Other liabilities

Structure of other liabilities

	30/06/2022	31/12/2021
Financial liabilities		
Cash pool	1.1	1.1
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	36.9	34.2
Public law liabilities	106.0	109.3
Settlements with employees	101.0	96.2
Received grants	-	0.6
VAT settlements	14.0	5.1
Current income tax liabilities	1.5	0.8
Other settlements	17.5	6.8
Total	**278.0**	**254.1**
Short-term liabilities	278.0	254.1
Total	**278.0**	**254.1**

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

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	30/06/2022	31/12/2021
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	5.6	5.6
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	730.7	615.9
Receivables from the sale of shares	*Note 5.6*	4.8	5.3
Cash and cash equivalents	*Note 4.3*	112.9	254.5
Financial assets excluded from the scope of IFRS 9		9.2	9.1
Total		**863.2**	**890.4**

Financial liabilities by categories and classes	Note	30/06/2022	31/12/2021
Hedging financial instruments			
Bank loans and borrowings	*Note 4.1*	692.1	732.2
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	25.7	33.5
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	970.4	900.7
Trade liabilities		685.3	641.3
Investment liabilities	*Note 5.7*	230.2	333.2
Cash pool	*Note 5.10*	1.1	1.1
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	854.8	897.8
Total		**3,459.6**	**3,539.8**

Impairment losses on trade receivables are presented in **Note 1.6** to these Interim Condensed Consolidated Financial Statements.

Hedge accounting

In the period from 1 January 2022 to 30 June 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 likely cash flow denominated in EUR.

As at 30 June 2022, the Group has established the following hedging instruments:

- investment loans denominated in EUR. The hedged cash flows will be realized until January 2035. As at 30 June 2022, the nominal amount of the hedging instrument was EUR 147.9 million, which is an equivalent of PLN 692.1 million.
- leases denominated in EUR. The hedged cash flows will be realized until October 2026. As at 30 June 2022, the nominal amount of the hedging instrument was EUR 5.5 million, which is an equivalent of PLN 25.7 million.

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

6.1 Financial instruments (cont.)

Fair value hierarchy

As at 30 June 2022 and 31 December 2021, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	30/06/2022		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 that are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because as at 30 June 2022 and 31 December 2021 fair value was not materially different from the value presented in the statement of financial position.

In the period of 6 months ended 30 June 2022 and 30 June 2021, there were no transfers between level 2 and level 3 of the fair value hierarchy.

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

6.1 Financial instruments (cont.)

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

6 months ended 30/06/2022	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)	(1.5)	1.5	0.2	(29.9)	(18.3)	**(48.0)**
FX differences	-	1.8	-	-	(0.6)	**1.2**
Impairment losses / revaluation	-	(0.7)	-	-	-	**(0.7)**
Transaction costs related to loans	-	-	-	0.9	-	**0.9**
Effect of settlement of cash flow hedge accounting	(4.0)	-	-	-	-	**(4.0)**
Profit / (loss) before tax	**(5.5)**	**2.6**	**0.2**	**(29.0)**	**(18.9)**	**(50.6)**
Revaluation	(9.3)	-	-	-	-	**(9.3)**
Other comprehensive income	**(9.3)**	**-**	**-**	**-**	**-**	**(9.3)**

In the period of 6 months ended 30 June 2022, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (4.0) million.
In the financial year ended 30 June 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 (9.0) million and lease liabilities in the amount of PLN (0.3) million, which are recognized under the hedge accounting applied by the Group.

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

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

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

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 6 months ended 30 June 2022 and 30 June 2021, the State Treasury was an upper level parent entity of the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Interim Condensed Consolidated Financial Statements, the Parent Company's Management Board has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the period of 6 months ended 30 June 2022 and 30 June 2021, there were no individual transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope and amount. In the periods covered by these Interim Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: PGE, JSW, ENEA and TAURON. In the period of 6 months ended 30 June 2022, the Group's most important suppliers related to the State Treasury were Orlen Group entities.

Transactions with PKP Group related parties

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

	6 months ended 30/06/2022		30/06/2022	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.1	38.9	0.3	570.3
Subsidiaries/co-subsidiaries – unconsolidated	2.6	10.3	0.6	2.0
Associates	2.4	-	1.9	-
Other PKP Group related parties	12.5	280.1	4.7	199.0

	6 months ended 30/06/2021		31/12/2021	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	36.2	1.3	572.2
Subsidiaries/co-subsidiaries – unconsolidated	3.2	11.2	-	1.7
Associates	0.8	0.1	0.6	-
Other PKP Group related parties	12.7	254.4	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 Interim Condensed Consolidated Financial Statements.

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

7.1 Related party transactions (cont.)

Remunerations of key management personnel

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

Remunerations of Management Board Members	Parent Company		Subsidiaries	
	6 months ended 30/06/2022	6 months ended 30/06/2021	6 months ended 30/06/2022	6 months ended 30/06/2021
Short-term benefits	1.0	2.4	2.5	2.8
Post-employment benefits	0.7	-	0.1	0.1
Termination benefits	-	-	0.1	0.1
Total	**1.7**	**2.4**	**2.7**	**3.0**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	6 months ended 30/06/2022	6 months ended 30/06/2021	6 months ended 30/06/2022	6 months ended 30/06/2021
Short-term benefits	0.6	0.6	0.6	0.1
Total	**0.6**	**0.6**	**0.6**	**0.1**

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	6 months ended 30/06/2022	6 months ended 30/06/2021	6 months ended 30/06/2022	6 months ended 30/06/2021
Short-term benefits	3.2	3.2	8.2	8.5
Post-employment benefits	0.1	-	-	0.2
Termination benefits	0.1	-	-	-
Total	**3.4**	**3.2**	**8.2**	**8.7**

In the period of 6 months ended 30 June 2022 and 30 June 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

	30/06/2022	31/12/2021
Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment	601.9	583.0
Contractual liabilities on account of non-commenced lease contracts	0.2	0.2
Total	**602.1**	**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.

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

7.3 Contingent liabilities

Structure of contingent liabilities

	30/06/2022	31/12/2021
Guarantees issued on the Group's order	111.8	113.0
Other contingent liabilities	131.3	129.1
Total	**243.1**	**242.1**

Guarantees issued on the Group's order

As at 30 June 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, customs guarantees and excise tax guarantees.

Other contingent liabilities

This line item comprises the claims made against the group in court proceedings in the case of which the probability of outflow of cash is assessed as low, and claims in the case of which it is not possible to make a reliable estimate of the payment amount in the future by the Group. 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

The composition of the Parent Company's Supervisory Board changed after the balance sheet date. Detailed information in this respect is provided in **Chapter 4.6** of the Management Board Report on the Activity of the PKP CARGO Group in the first half of 2022.

7.5 Approval of the financial statements

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 25 August 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, 25 August 2022

Interim Condensed Standalone Financial Statements of the PKP CARGO S.A. for the period of 6 months ended 30 June 2022 prepared in accordance with EU IFRS

Table of contents

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

INTERIM STANDALONE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021	
Revenues from contracts with customers	1,809.7	939.4	1,482.9	761.2	*Note 2.1*
Consumption of traction electricity and traction fuel	(342.5)	(175.2)	(234.5)	(126.4)	*Note 2.2*
Services of access to infrastructure	(272.1)	(139.8)	(259.8)	(136.4)	
Other services	(201.0)	(104.4)	(169.0)	(88.8)	*Note 2.2*
Employee benefits	(610.0)	(304.6)	(613.3)	(298.7)	*Note 2.2*
Other expenses	(108.0)	(50.6)	(76.0)	(35.2)	*Note 2.2*
Other operating revenue and (expenses)	5.0	(0.5)	5.1	(2.0)	*Note 2.3*
Operating profit without depreciation (EBITDA)	**281.1**	**164.3**	**135.4**	**73.7**	
Depreciation, amortization and impairment losses	(301.0)	(151.0)	(279.7)	(140.7)	*Note 2.2*
Profit / (loss) on operating activities (EBIT)	**(19.9)**	**13.3**	**(144.3)**	**(67.0)**	
Financial revenue and (expenses)	(25.1)	(3.3)	(7.1)	5.3	*Note 2.4*
Profit / (loss) before tax	**(45.0)**	**10.0**	**(151.4)**	**(61.7)**	
Income tax	9.4	0.6	28.5	12.8	*Note 3.1*
NET PROFIT / (LOSS)	**(35.6)**	**10.6**	**(122.9)**	**(48.9)**	
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	(8.9)	(2.4)	16.6	20.4	*Note 6.1*
Income tax	1.7	0.4	(3.2)	(3.9)	*Note 3.1*
Total other comprehensive income subject to reclassification in the financial result	**(7.2)**	**(2.0)**	**13.4**	**16.5**	
Actuarial profits / (losses) on post-employment benefits	40.3	40.3	34.7	34.7	*Note 5.9*
Income tax	(7.7)	(7.7)	(6.6)	(6.6)	*Note 3.1*
Total other comprehensive income not subject to reclassification in the financial result	**32.6**	**32.6**	**28.1**	**28.1**	
Total other comprehensive income	**25.4**	**30.6**	**41.5**	**44.6**	
TOTAL COMPREHENSIVE INCOME	**(10.2)**	**41.2**	**(81.4)**	**(4.3)**	
Earnings / (losses) per share (PLN per share)					
Weighted average number of ordinary shares	44,786,917	44,786,917	44,786,917	44,786,917	
Basic and diluted earnings / (losses) per share	**(0.80)**	**0.23**	**(2.74)**	**(1.09)**	

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

INTERIM STANDALONE STATEMENT OF FINANCIAL POSITION

	30/06/2022	31/12/2021	
ASSETS			
Rolling stock	3,841.1	3,827.5	*Note 5.1*
Other property, plant and equipment	467.4	481.7	*Note 5.1*
Rights-of-use assets	636.2	666.9	*Note 5.2*
Investments in related parties	840.0	840.0	*Note 5.3*
Lease receivables	22.7	23.4	
Financial assets	4.9	4.9	*Note 5.6*
Other assets	42.1	28.1	*Note 5.7*
Deferred tax assets	162.4	158.7	*Note 3.1*
Total non-current assets	**6,016.8**	**6,031.2**	
Inventories	83.7	87.3	*Note 5.4*
Trade receivables	472.3	380.5	*Note 5.5*
Lease receivables	1.7	1.5	
Income tax receivables	-	1.7	
Other assets	76.7	69.3	*Note 5.7*
Cash and cash equivalents	26.2	141.0	*Note 4.3*
Total current assets	**660.6**	**681.3**	
Non-current assets classified as held for sale	5.0	14.9	
TOTAL ASSETS	**6,682.4**	**6,727.4**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	635.7	744.7	
Other items of equity	(36.9)	(62.3)	
Retained earnings / (Accumulated losses)	(35.6)	(109.0)	
Total equity	**2,802.5**	**2,812.7**	
Debt liabilities	1,698.2	1,872.2	*Note 4.1*
Investment liabilities	78.2	110.1	*Note 5.8*
Provisions for employee benefits	394.5	459.9	*Note 5.9*
Other provisions	0.7	0.7	
Total long-term liabilities	**2,171.6**	**2,442.9**	
Debt liabilities	573.8	393.9	*Note 4.1*
Trade liabilities	514.7	446.1	
Investment liabilities	238.6	297.7	*Note 5.8*
Provisions for employee benefits	132.2	99.9	*Note 5.9*
Other provisions	22.3	17.7	*Note 5.10*
Other financial liabilities	37.2	42.6	*Note 5.11*
Other liabilities	189.5	173.9	*Note 5.12*
Total short-term liabilities	**1,708.3**	**1,471.8**	
Total liabilities	**3,879.9**	**3,914.7**	
TOTAL EQUITY AND LIABILITIES	**6,682.4**	**6,727.4**	

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

INTERIM STANDALONE STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity			Retained earnings / (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**	**744.7**	**(12.9)**	**(22.7)**	**(26.7)**	**(109.0)**	**2,812.7**
Net result for the period	-	-	-	-	-	(35.6)	**(35.6)**
Other comprehensive income for the period (net)	-	-	-	32.6	(7.2)	-	**25.4**
Total comprehensive income	-	-	-	32.6	(7.2)	(35.6)	**(10.2)**
Other changes for the period	-	(109.0)	-	-	-	109.0	**-**
30/06/2022	**2,239.3**	**635.7**	**(12.9)**	**9.9**	**(33.9)**	**(35.6)**	**2,802.5**
1/01/2021	**2,239.3**	**744.7**	**(12.9)**	**(92.6)**	**(34.0)**	**114.3**	**2,958.8**
Net result for the period	-	-	-	-	-	(122.9)	**(122.9)**
Other comprehensive income for the period (net)	-	-	-	28.1	13.4	-	**41.5**
Total comprehensive income	-	-	-	28.1	13.4	(122.9)	**(81.4)**
30/06/2021	**2,239.3**	**744.7**	**(12.9)**	**(64.5)**	**(20.6)**	**(8.6)**	**2,877.4**

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

INTERIM STANDALONE CASH FLOW STATEMENT

	6 months ended 30/06/2022	6 months ended 30/06/2021	
Cash flows from operating activities			
Profit / (loss) before tax	**(45.0)**	**(151.4)**	
Adjustments			
Depreciation, amortization and impairment losses	301.0	279.7	*Note 2.2*
(Profit) / losses on the sale and liquidation of non-financial non-current assets	(7.7)	(3.6)	
(Profits) / losses on FX differences	3.7	0.8	
(Profits) / losses on interest, dividends	15.9	3.2	
Received / (paid) interest	0.3	0.4	
Received / (paid) income tax	1.5	(0.1)	
Movement in working capital	(32.7)	(73.5)	
Other adjustments	40.3	37.3	
Net cash from operating activities	**277.3**	**92.8**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(439.0)	(297.0)	
Proceeds from the sale of non-financial non-current assets	26.3	12.1	
Expenditures on the acquisition of related parties	(0.1)	(33.0)	
Proceeds from dividends received	25.0	8.3	
Other investment expenditures	-	(27.0)	
Other inflows from investing activities	1.1	2.2	
Net cash from investing activities	**(386.7)**	**(334.4)**	
Cash flows from financing activities			
Payments on lease liabilities	(34.4)	(39.8)	*Note 4.1*
Proceeds from bank loans and borrowings	169.3	179.7	*Note 4.1*
Repayment of bank loans and borrowings	(149.3)	(134.3)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(34.4)	(20.1)	*Note 4.1*
Grants received	52.0	29.7	
Inflow / (outflow) as part of cash pool	(6.6)	63.9	
Other outflows from financing activities	(2.0)	(1.8)	
Net cash from financing activities	**(5.4)**	**77.3**	
Net increase / (decrease) in cash and cash equivalents	(114.8)	(164.3)	
Cash and cash equivalents at the beginning of the reporting period	141.0	180.5	
Cash and cash equivalents as at the end of the reporting period, including:	**26.2**	**16.2**	
Restricted cash	*16.0*	*15.6*	

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

NOTES TO THE INTERIM CONDENSED STANDALONE FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Company's business

Information about the Company

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

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

In H1 2022, the Company did not change its name or other identification details.

The Company's financial year is the calendar year.

The Company core business is rail transport of cargo. In addition to rail freight transport services, the Company also provides additional services:
- intermodal services,
- shipping (domestic and international),
- terminals,
- rail sidings and traction,
- rolling stock maintenance and repairs.

The composition of the Company's management and supervisory bodies and the Company's shareholding structure as at 30 June 2022 are presented in the Management Board Report on the Activity of the PKP CARGO Group for H1 2022, in **Chapters 3.1** and **3.3**, respectively.

Information about the Group

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

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

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

The duration of individual Group companies is unlimited.

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

These Interim Condensed Standalone Financial Statements have been prepared in accordance with International Accounting Standard no. 34 Interim Financial Reporting as endorsed by the European Union.

These Interim Condensed Standalone Financial Statements should be read together with the audited Standalone Financial Statements of PKP CARGO S.A. for the year ended 31 December 2021 prepared according to EU IFRS. The accounting policy used to prepare these Interim Condensed Standalone Financial Statements is consistent with the one used to prepare the Standalone Financial Statements of the Company for the for the financial year ended 31 December 2021.

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

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

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

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

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

These Interim Condensed Standalone Financial Statements have been reviewed by a statutory auditor. The line items of the standalone statement of financial position as at 31 December 2021 were audited by a statutory auditor during the audit of the Standalone Financial Statements of PKP CARGO S.A. for the year ended 31 December 2021 prepared according to EU IFRS.

These Interim Condensed Standalone Financial Statements were approved for publication by the Management Board on 25 August 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 Interim Condensed Standalone Financial Statements, the Company applied the following amendments to the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

Standard / Interpretation	Effective date
Amendments to IFRS 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 Company's financial statements.

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

In the opinion of the Management Board, the standards and interpretations mentioned below will not result in any major amendments to the Company'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" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023
Amendments to IAS 12 "Income Tax" – deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

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

1.3 Applied International Financial Reporting Standards platform (cont.)

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

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 Company believes that the approval of the standards mentioned below by the EU will not result in any major changes to the Company'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 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 Company's business

In the first half of 2022, the Company noted a declining impact of the COVID-19 pandemic on its activity in the organizational area (both the number of illnesses among employees and the costs incurred by the entities to counter SARS-CoV-2 virus infection decreased). Even though another wave of the pandemic occurred in Q1 2022, neither the transports nor their full logistic support have been disrupted. The declining impact of the pandemic on transportation activity was noticeable in virtually each cargo category. As the time passed, more and more states lifted the restrictions, which remained at a high level in the East Asia Region only. This fact had a positive effect on the possibility and scale of international trade. The only significant exception was a significant decrease in the quantity of container transports from China (as part of the so-called "New Silk Road"), driven directly by the "zero Covid" principle and implementation of very restrictive lockdowns in numerous major cities of the country's industrial regions.

The Company is monitoring the situation in respect to the possible changes in case the pandemic restrictions are reinstated. There is noticeable realistic risk that new dangerous mutations of the virus might appear in the future (at present there are no indications that this threat might materialize). If the restrictions return, the scale of business of cooperating entities may be significantly reduced and, in addition to the obvious costs, such as e.g. extension of the rail car loadingtimes, the decline in production volumes available for shipping will be the main challenge for the Company.

The war in Ukraine and its social and economic consequences are the key risk factor for the operational and financial performance of PKP CARGO S.A. in the coming quarters. Uncertain geopolitical situation globally and consequences of the war in Ukraine have affected and continue to affect both Poland and international trade. They included primarily sudden changes in the stream of cargo coming from the East and the need to take adaptive steps related, among others, to the current sanctions against Russia and Belarus, weaker stream of goods from the New Silk Road (including the inability to transport cargo through Ukraine and attempts to replace the current route through Russia with new land and water routes). Shipping and forwarding companies have been affected by the continuing disruptions in global supply chains. Poland is perceived as a country close to the frontline and therefore it may lose certain elements of commercial exchange or new potential investments.

Due to the economic sanctions imposed on Russia and Belarus by the United States and the European Union, among others, as well as wartime activities in Ukraine, the stream of cargo from the East has been reduced. The sanctions covered a wide variety of goods, such as coal, wood, biomass, metals, etc., i.e. the goods that represent a significant majority of existing trade, which had an adverse effect on the terminals located in the North-Eastern Poland (where actions had to be taken to change the scope of services provided). At the same time, the Polish-Ukrainian border area and the terminals in Żurawica and Medyka, have become the natural direction for all deliveries to Ukraine (whose ports were blocked by the Russian federation in the first half of this year). Regular transports required the situation to quiet down partially; more intensive trade could only take place starting in Q2 of this year. Attempts were made to both transport grain and iron ore out of Ukraine, to partially compensate for the loss of shipments from other directions from the East. The problem however is the limited throughput of the terminals, which cannot naturally replace the capacity offered by Ukraine's sea and river transport. The slowdown of containerized freight exchange along the so-called "New Silk Road" may become a major problem, since the country of origin (China) is looking for new, safe transport routes bypassing Russia (especially through Turkey and southern Europe).

The Company has been monitoring the impact of the war and its potential effects on both freight and broader transportation support activities on an ongoing basis and has taken appropriate adaptation measures. Still, is difficult to precisely predict the ultimate impact of the armed conflict and wartime activities in the territory of Ukraine on the Company's business. Ultimately it will possible to 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).

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

Currently, the Company does not identify any significant threats to its operating activity. Given the current structure of cargo transports and the scope of activities, a direct effect of the armed conflict in Ukraine may be the loss of a small portion of revenues from services. The armed conflict 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 freight forwarding services on routes leading from Eastern Europe.

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

1.5 Significant values based on professional judgment and estimates

In the period of 6 months ended 30 June 2022, changes to significant values based on professional judgment and estimation concerned the following items:

- investments in related parties

As at 30 June 2022, the Company carried out impairment tests pertaining to investments in PKP CARGOTABOR Sp. z o.o. and PKP CARGO INTERNATIONAL a.s. The impairment tests were carried out given the increase in market rates of return on investments, which affect the discount rates used in impairment tests. The tests were performed on cash-generating units, defined for each of the tested companies separately, by determining their recoverable amount at the value in use level.

PKP CARGOTABOR Sp. z o.o.

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:

a) discounted cash flows were developed on the basis of detailed financial projections for the period from H2 2022 to 2026;
b) in the detailed projection period of 2023-2026, the compound annual growth rate (CAGR) of operating revenue will be at 3.6% in real terms,
c) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 6.0% in real terms,
d) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

PKP CARGO INTERNATIONAL

Presented below are the key assumptions affecting the estimate of the value in use of the cash-generating unit at the level of the PKP CARGO INTERNATIONAL Group:

a) the cash-generating unit was considered to be all owned by the PKP CARGO INTERNATIONAL Group, used mainly to service customers on the Czech rail market,
b) discounted cash flows were developed on the basis of detailed financial projections for the period from H2 2022 to 2031; in the opinion of the Company's Management Board, it is reasonable to adopt financial projections for more than five years because the property, plant and equipment used by PKP CARGO INTERNATIONAL a.s. have a considerably longer period of economic life.
c) in the detailed projection period of 2023-2031, the compound annual growth rate (CAGR) of operating revenue will be at 3.2% in real terms,
d) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 5.8% in real terms,
e) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

As at 30 June 2022, the recoverable amount determined as a result of the tests exceeded the carrying amount of the tested assets, the Company recognized no impairment allowances for shares in PKP CARGOTABOR Sp. z o.o. and PKP CARGO INTERNATIONAL a.s.

A sensitivity analysis was carried out for the key assumptions of impairment test model for such figures as WACC and the future cash flows increase ratio after the detailed projection period. The WACC change by +/- 0.3 p.p. and a +/- 0.3 p.p. change in the level of future cash flows after the period of forecast does not cause the need to recognize an impairment allowance for shares in PKP CARGOTABOR Sp. z o.o. and PKP CARGO INTERNATIONAL a.s.

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

1.5 Significant values based on professional judgment and estimates (cont.)

- provisions for employee benefits

As at 30 June 2022, the Company performed an actuarial valuation of its provisions for employee benefits mainly in connection with the change of the discount rate and the agreement concluded with the trade unions regarding a salary increase for employees coming into effect on 1 June 2022. As a result of the raise, the average salary increased by approx. 10.6%. The discount rate adopted for the valuation of provisions for employee benefits as at 30 June 2022 was 6.9% (3.5% as at 31 December 2021). The update of actuarial assumptions caused a decrease in provisions for employee benefits by PLN 43.0 million, out of which PLN 2.7 million reduced the cost of employee benefits. The movement in provisions for employee benefits was also affected by the increase in the provision for unused holidays in the amount of PLN 13.3 million. Detailed information on this matter is presented in **Note 5.9** to these Interim Standalone Financial Statements.

The Company additionally carried out an analysis of the recoverable amount of its non-current assets as at 31 December 2021 based on their fair value less cost to sell. At that time, the fair value of the rolling stock and selected properties was determined on the basis of valuations prepared by independent appraisers; for the remaining assets comprising the cash-generating unit that were not valuated, the fair value did not differ materially from their carrying amounts. An analysis carried out as at 30 June 2022 showed that, in the period of 6 months of 2022, there were no changes and circumstances that could have material effect on the outcome of the valuation and therefore the previous appraisals could be used to determine the recoverable amounts of these assets as at 30 June 2022 and to confirm that no impairment allowances must be recognized for the Company's assets on that date.

During the 6 months ended 30 June 2022, no changes were made to the assumptions adopted by the Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

1.6 Liquidity position of the Company

In the period of 6 months ended 30 June 2022, the Company secured additional financing of PLN 100 million under an overdraft facility. Additionally, cash pooling systems are in place in the PKP CARGO Group, which as at 30 June 2022 comprise 8 Group companies. The cash pool systems, independently of the cash collected by particular participants, offers flexible lines of credit in the form of a current account overdraft facilities. Information on the financing sources available as at 30 June 2022 is presented in **Note 4.1** to these Standalone Financial Statements. The maturities of financial liabilities are presented below.

Maturity of the Company's financial liabilities as at the balance sheet date by maturity date based on contractual undiscounted payments (together with interest payable in the future)

30/06/2022	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	286.9	342.8	1,350.0	590.7	**2,570.4**	**2,272.0**
Cash pool	37.2	-	-	-	**37.2**	**37.2**
Trade liabilities	512.8	1.9	-	-	**514.7**	**514.7**
Investment liabilities	178.0	62.1	79.2	-	**319.3**	**316.8**
Total	**1,014.9**	**406.8**	**1,429.2**	**590.7**	**3,441.6**	**3,140.7**

31/12/2021	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	108.2	317.8	1,395.3	660.0	**2,481.3**	**2,266.1**
Cash pool	42.6	-	-	-	**42.6**	**42.6**
Trade liabilities	446.0	0.1	-	-	**446.1**	**446.1**
Investment liabilities	250.9	48.9	111.7	-	**411.5**	**407.8**
Total	**847.7**	**366.8**	**1,507.0**	**660.0**	**3,381.5**	**3,162.6**

The table below presents the age structure of trade liabilities, investment liabilities and trade receivables.

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

1.6 Liquidity position of the Company (cont.)

Age structure of trade liabilities and investment liabilities

	30/06/2022			31/12/2021		
	Trade liabilities	Investment liabilities	Total	Trade liabilities	Investment liabilities	Total
Non-overdue liabilities	272.1	278.6	550.7	259.2	354.9	614.1
Overdue liabilities						
to 30 days	125.9	35.6	161.5	130.4	45.9	176.3
31 - 90 days	111.6	2.6	114.2	54.3	7.0	61.3
91-180 days	4.4	-	4.4	1.3	-	1.3
181 - 365 days	-	-	-	0.1	-	0.1
over 365 days	0.7	-	0.7	0.8	-	0.8
Total	**514.7**	**316.8**	**831.5**	**446.1**	**407.8**	**853.9**

Age analysis of trade receivables

	30/06/2022			31/12/2021		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	446.1	(0.7)	445.4	345.5	(0.8)	344.7
Overdue receivables						
to 30 days	9.8	(0.1)	9.7	20.4	(0.1)	20.3
31 - 90 days	4.9	(0.2)	4.7	6.9	(0.6)	6.3
91-180 days	2.2	(0.8)	1.4	5.1	(2.1)	3.0
181 - 365 days	7.8	(2.4)	5.4	0.7	(0.3)	0.4
over 365 days	33.9	(28.2)	5.7	35.9	(30.1)	5.8
Total	**504.7**	**(32.4)**	**472.3**	**414.5**	**(34.0)**	**380.5**

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

2.1 Revenues from contracts with customers

Structure of revenues from contracts with customers

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

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

6 months ended 30/06/2022	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	116.0	166.7	515.8	887.4	**1,685.9**
Revenue from siding and traction services	-	21.6	0.3	8.7	**30.6**
Revenue from sales of materials	-	9.6	-	53.5	**63.1**
Other revenues	-	20.2	2.9	7.0	**30.1**
Total	**116.0**	**218.1**	**519.0**	**956.6**	**1,809.7**
Revenue recognition date					
At a point of time	-	9.6	-	53.5	**63.1**
Over a period	116.0	208.5	519.0	903.1	**1,746.6**
Total	**116.0**	**218.1**	**519.0**	**956.6**	**1,809.7**

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

2.1 Revenues from contracts with customers (cont.)

3 months ended 30/06/2022	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	56.7	90.6	251.1	478.7	**877.1**
Revenue from siding and traction services	-	10.4	0.2	3.4	**14.0**
Revenue from sales of materials	-	4.2	-	27.6	**31.8**
Other revenues	-	10.9	1.5	4.1	**16.5**
Total	**56.7**	**116.1**	**252.8**	**513.8**	**939.4**
Revenue recognition date					
At a point of time	-	4.2	-	27.6	**31.8**
Over a period	56.7	111.9	252.8	486.2	**907.6**
Total	**56.7**	**116.1**	**252.8**	**513.8**	**939.4**

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

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

Geography

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

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the period of 6 months ended 30 June 2022 and 30 June 2021 did not exceed 15% of total revenues from contracts with customers. There is no single geographic area (outside of Poland) which generates more than 8% of revenues from contracts with customers.

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

2.1 Revenues from contracts with customers (cont.)

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

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Poland	1,601.4	832.9	1,268.1	651.9
Germany	103.2	53.2	115.1	57.9
Czech Republic	59.5	29.5	51.5	27.9
Slovakia	12.8	7.8	15.3	6.6
Other countries	32.8	16.0	32.9	16.9
Total	**1,809.7**	**939.4**	**1,482.9**	**761.2**

Information on key customers

In the period of 6 months ended 30 June 2022 and 30 June 2021, there was no group, to which sales exceeded 10% of total revenues from contracts with customers.

Assets from contracts with customers

	6 months ended 30/06/2022	6 months ended 30/06/2021
As at the beginning of the reporting period	**28.2**	**20.0**
Recognition of revenue before the sales document is issued	49.7	34.9
Reclassification to receivables	(26.8)	(19.7)
As at the end of the reporting period	**51.1**	**35.2**

2.2 Operating expenses

Consumption of electricity and traction fuel

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Consumption of traction fuel	(77.8)	(42.6)	(48.2)	(24.9)
Consumption of traction energy	(264.7)	(132.6)	(186.3)	(101.5)
Total	**(342.5)**	**(175.2)**	**(234.5)**	**(126.4)**

Other services

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Repair and maintenance services for non-current assets	(51.4)	(26.9)	(45.9)	(23.7)
Rent and fees for the use of property and rolling stock	(37.4)	(22.7)	(20.7)	(9.7)
Transport services	(57.5)	(27.8)	(48.4)	(26.4)
Telecommunications services	(1.9)	(0.9)	(1.9)	(0.9)
Legal, consulting and similar services	(2.4)	(1.2)	(2.7)	(1.2)
IT services	(21.1)	(10.8)	(19.7)	(10.1)
Transshipment services	(3.7)	(1.7)	(4.1)	(2.5)
Traction and shunting services, train drivers	(21.0)	(10.6)	(21.3)	(12.4)
Other services	(4.6)	(1.8)	(4.3)	(1.9)
Total	**(201.0)**	**(104.4)**	**(169.0)**	**(88.8)**

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

2.2 Operating expenses (cont.)

Employee benefits

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Payroll	(468.1)	(237.6)	(475.9)	(237.2)
Social security expenses	(91.5)	(46.6)	(92.4)	(46.0)
Expenses for contributions to the Company Social Benefits Fund	(13.8)	(6.9)	(13.6)	(6.8)
Other employee benefits during employment	(13.4)	(6.6)	(14.2)	(7.1)
Post-employment benefits	(2.7)	(1.0)	(1.1)	(0.5)
Movement in provisions for employee benefits	(20.5)	(5.9)	(16.1)	(1.1)
Total	**(610.0)**	**(304.6)**	**(613.3)**	**(298.7)**

Other expenses

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Consumption of non-traction fuel	(4.4)	(2.2)	(2.9)	(1.3)
Consumption of electricity, gas and water	(19.9)	(6.6)	(15.8)	(5.3)
Consumption of materials	(22.2)	(11.3)	(21.1)	(10.4)
Taxes and charges	(15.5)	(8.1)	(14.7)	(7.8)
Cost of materials sold	(30.8)	(14.6)	(4.0)	(0.9)
Business trips	(10.2)	(5.1)	(10.5)	(5.3)
Other	(5.0)	(2.7)	(7.0)	(4.2)
Total	**(108.0)**	**(50.6)**	**(76.0)**	**(35.2)**

Depreciation, amortization and impairment losses

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Depreciation of rolling stock	(249.6)	(125.3)	(226.6)	(114.4)
Depreciation of other property, plant and equipment	(13.8)	(6.9)	(15.4)	(7.5)
Depreciation of rights-of-use assets	(33.9)	(17.0)	(33.9)	(16.8)
Amortization of intangible assets	(3.7)	(1.8)	(3.8)	(2.0)
Total	**(301.0)**	**(151.0)**	**(279.7)**	**(140.7)**

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Profit on sales of non-financial non-current assets	7.6	3.5	1.8	0.2
Reversed impairment losses on trade receivables	0.4	0.1	5.0	0.7
Penalties and compensations	5.5	2.9	3.8	1.5
Interest on trade and other receivables	1.1	0.5	0.9	0.4
Net result on FX differences on trade receivables and liabilities	1.8	0.3	-	-
Grants received	2.6	0.6	-	-
Other	2.2	0.9	3.0	1.5
Total other operating revenue	**21.2**	**8.8**	**14.5**	**4.3**
Recognized impairment losses on trade receivables	(1.0)	(0.6)	(1.4)	(1.0)
Penalties and compensations	(5.7)	(3.1)	(3.3)	(2.4)
Interest on trade and other liabilities	(5.5)	(3.5)	(0.2)	(0.1)
Costs of liquidation of non-current and current assets	(1.8)	(0.9)	(2.3)	(1.1)
Recognized other provisions	(1.1)	(0.5)	(0.4)	(0.2)
Net result on FX differences on trade receivables and liabilities	-	-	(0.8)	(0.8)
Other	(1.1)	(0.7)	(1.0)	(0.7)
Total other operating expenses	**(16.2)**	**(9.3)**	**(9.4)**	**(6.3)**
Other operating revenue and (expenses)	**5.0**	**(0.5)**	**5.1**	**(2.0)**

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

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Interest income	0.8	0.4	0.7	0.4
Dividend income	25.8	25.8	15.8	15.8
Other				
Net result on FX differences	-	-	1.3	1.3
Other	0.1	0.1	0.4	-
Total financial revenue	**26.7**	**26.3**	**18.2**	**17.5**
Interest expenses	(41.6)	(24.1)	(20.0)	(9.6)
Other				
Settlement of the discount on provisions for employee benefits	(8.8)	(4.8)	(4.5)	(2.3)
Net result on FX differences	(0.5)	-	-	0.1
Other	(0.9)	(0.7)	(0.8)	(0.4)
Total financial expenses	**(51.8)**	**(29.6)**	**(25.3)**	**(12.2)**
Financial revenue and (expenses)	**(25.1)**	**(3.3)**	**(7.1)**	**5.3**

3. Notes on taxation

3.1 Income tax

Income tax recognized in profit or loss

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Current income tax				
Current tax charge	(0.1)	(0.1)	(0.1)	-
Adjustments recognized in the current year relating to tax from previous years	(0.2)	-	-	-
Deferred tax				
Deferred income tax of the reporting period	9.7	0.7	28.6	12.8
Income tax recognized in profit or loss	**9.4**	**0.6**	**28.5**	**12.8**

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

Deferred income tax captured in other comprehensive income

	6 months ended 30/06/2022	3 months ended 30/06/2022	6 months ended 30/06/2021	3 months ended 30/06/2021
Deferred tax on the measurement of hedging instruments	1.7	0.4	(3.2)	(3.9)
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	(7.7)	(7.7)	(6.6)	(6.6)
Deferred income tax recognized in other comprehensive income	**(6.0)**	**(7.3)**	**(9.8)**	**(10.5)**

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

3.1 Income tax (cont.)

Table of movements in deferred tax before the set-off

6 months ended 30/06/2022	1/01/2022	Recognized in profit or loss	Recognized in other comprehensive income	30/06/2022
Temporary differences relating to deferred tax (liabilities) / assets:				
Non-financial non-current assets	**(53.8)**	17.0	-	**(36.8)**
Rights-of-use assets and lease liabilities	**5.1**	(1.0)	-	**4.1**
Other provisions and liabilities	**13.7**	(0.1)	-	**13.6**
Inventories	**(8.9)**	0.1	-	**(8.8)**
Trade receivables	**(6.6)**	(2.3)	-	**(8.9)**
Provisions for employee benefits	**106.4**	1.4	(7.7)	**100.1**
Other	**17.6**	4.2	1.7	**23.5**
Unused tax losses	**85.2**	(9.6)	-	**75.6**
Total	**158.7**	**9.7**	**(6.0)**	**162.4**

As at 30 June 2022, deferred tax assets on the tax loss refer to losses incurred in 2021 and 2020 and from 1 April to 31 December 2016. Due to the fact that in 2017-2019 the Company did its tax settlements within the framework of a Tax Group, the loss incurred in 2016 can be deducted until the end of 2024, the loss of 2020 and 2021 can be deducted by the end of 2025 and 2026, respectively. In H1 2022, the Company posted a positive tax result and consequently it settled some of the tax losses incurred in previous periods.

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

4. Notes on debt

4.1 Reconciliation of debt liabilities

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

Items in foreign currencies

30/06/2022	In functional currency	In foreign currency		Total
	PLN	EUR	CZK	
Bank loans and borrowings	962.5	657.1	-	**1,619.6**
Leases	632.5	19.8	0.1	**652.4**
Total	**1,595.0**	**676.9**	**0.1**	**2,272.0**

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

4.1 Reconciliation of debt liabilities (cont.)

31/12/2021	In functional currency PLN	In foreign currency EUR	In foreign currency CZK	Total
Bank loans and borrowings	891.8	693.8	-	**1,585.6**
Leases	651.4	29.0	0.1	**680.5**
Total	**1,543.2**	**722.8**	**0.1**	**2,266.1**

Reconciliation of debt liabilities

6 months ended 30/06/2022	Bank loans and borrowings	Leases	Total
1/01/2022	**1,585.6**	**680.5**	**2,266.1**
New liabilities contracted	169.3	0.2	**169.5**
Modifications of existing agreements	-	5.0	**5.0**
Transaction costs	0.9	-	**0.9**
Accrual of interest	24.9	14.0	**38.9**
Payments under debt, including:			
Repayments of the principal	(149.3)	(34.4)	**(183.7)**
Interest paid	(23.1)	(11.3)	**(34.4)**
Transaction costs	(0.9)	-	**(0.9)**
Other	-	(2.1)	**(2.1)**
FX differences recognized in the result	12.2	0.5	**12.7**
30/06/2022	**1,619.6**	**652.4**	**2,272.0**
Long-term	1,148.4	549.8	**1,698.2**
Short-term	471.2	102.6	**573.8**
Total	**1,619.6**	**652.4**	**2,272.0**

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

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

	Presentation in the statement of profit or loss and other comprehensive income	6 months ended 30/06/2022	6 months ended 30/06/2021
Revenues from operating leases	Revenues from contracts with customers	22.3	15.9
Costs of short-term leases	Other services	(11.3)	(4.9)

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

4.1 Reconciliation of debt liabilities (cont.)

Terms and conditions of loan agreements

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

The above ratios are calculated on the basis of data contained in both the Standalone and Consolidated Financial Statements of PKP CARGO.

According to the provisions of the agreements signed by the Company, 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.

The Net Debt/EBITDA is the level of financial debt less cash to the generated EBITDA and is calculated excluding the impact of IFRS 16. The maximum permitted level of the Net Debt/EBITDA ratio, depending on the contract, is set within the range of 3.0-4.5. For selected agreements, there is also an obligation to satisfy the Net Debt/EBITDA ratio and total debt ratio calculated on the basis of forecast figures.

In most agreements, the total debt ratio is defined as the ratio of total liabilities (excluding the impact of IFRS 16) to total balance sheet amount (excluding the impact of IFRS 16) and its level cannot exceed 60%.

As at 30 June 2022, the value of Net Debt/EBITDA ratios based on the Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements of the PKP CARGO Group overrun the level of 3.0 stipulated in the loan agreements.

Before the balance sheet date, the Company had obtained from the lenders a one-time waiver of the covenant to maintain the Net Debt/EBITDA ratios at specific levels.

In contracts with selected financing banks, the waiver mentioned above was granted with a proviso that the Net Debt/EBITDA ratio based on PKP CARGO Group’s consolidated data must not exceed 5.0.

At the same time, as at 30 June 2022, in the case of agreements with one of the banks, the Company also obtained consent for a temporary change of definitions of total debt, in which the impact of IFRS 16 was excluded from the definition.

The above conditions were satisfied as at 30 June 2022 and therefore under IAS 1 loan liabilities did not have to be reclassified.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	30/06/2022	31/12/2021
Overdraft	Bank Gospodarstwa Krajowego (1)	20/09/2022	PLN	100.0	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/03/2023	PLN	0.2	100.0
Overdraft	Bank Polska Kasa Opieki S.A. (2)	24/05/2023	PLN	31.8	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A. (3)	27/06/2023	PLN	99.0	-
Leasing facility	PKO Leasing S.A. (4)	18/06/2023	PLN	15.2	15.2
Total				**246.2**	**315.2**

(1) On 17 June 2022, the Company executed an annex to the overdraft facility agreement extending the availability period of the facility until 20 September 2022.
(2) On 23 May 2022, the Company executed an annex to the overdraft facility agreement extending the availability period of the facility until 24 May 2023.
(3) On 28 June 2022, the Company signed a loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. up to the total maximum amount of PLN 100 million. The subject matter of the loan agreement is financing the Company’s current activity. The availability period expires and the final repayment date is 27 June 2023.
(4) The availability of the leasing facility was extended automatically for another 12 months, i.e. until 18 June 2023 in connection with the fulfillment of obligations arising under the contract.

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

4.2 Equity

Share capital

	30/06/2022	31/12/2021
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 30 June 2022 and 31 December 2021, the share capital consisted of ordinary shares with a par value of PLN 50 each. Fully paid up ordinary shares with the par value of PLN 50 are equivalent to one vote at the shareholder meeting and entail the right to dividend.

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

In the period of 6 months ended 30 June 2022 and 30 June 2021, there were no movements in the Company's share capital.

Movement in supplementary capital and retained earnings

On 29 June 2022, the Company's Ordinary Shareholder Meeting adopted a resolution to cover the net loss incurred in 2021 in the amount of PLN 223.3 million:

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

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	30/06/2022	31/12/2021
Cash on hand and on bank accounts	26.2	71.0
Bank deposits up to 3 months	-	70.0
Total	**26.2**	**141.0**
including restricted cash	*16.0*	*42.8*

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

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

5. Notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Movement in rolling stock and other property, plant and equipment

6 months ended 30/06/2022	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2022	**6,381.3**	**587.7**	**205.7**	**27.5**	**25.1**	**25.6**	**871.6**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	230.2	**230.2**
Purchase of new assets / modernization	-	-	-	-	-	113.5	**113.5**
Settlement of fixed assets under construction	337.7	1.0	-	-	-	(338.7)	**(337.7)**
Grant for non-current assets	(51.0)	-	-	-	-	-	**-**
Sales	(0.1)	(6.4)	-	(0.7)	-	-	**(7.1)**
Liquidation	(156.1)	-	(0.5)	-	-	(0.2)	**(0.7)**
Reclassified to assets held for sale	(8.1)	-	-	-	-	-	**-**
Other	0.8	-	-	-	-	-	**-**
30/06/2022	**6,504.5**	**582.3**	**205.2**	**26.8**	**25.1**	**30.4**	**869.8**
Accumulated depreciation							
1/01/2022	**(2,478.4)**	**(165.1)**	**(172.0)**	**(27.2)**	**(23.2)**	**-**	**(387.5)**
Increases / (decreases):							
Depreciation	(249.6)	(8.6)	(4.8)	(0.1)	(0.3)	-	**(13.8)**
Sales	-	-	-	0.7	-	-	**0.7**
Liquidation	134.4	-	0.5	-	-	-	**0.5**
Reclassified to assets held for sale	5.6	-	-	-	-	-	**-**
Other	(0.6)	-	-	-	-	-	**-**
30/06/2022	**(2,588.6)**	**(173.7)**	**(176.3)**	**(26.6)**	**(23.5)**	**-**	**(400.1)**
Accumulated impairment							
1/01/2022	**(75.4)**	**-**	**-**	**-**	**-**	**(2.4)**	**(2.4)**
Increases / (decreases):							
Utilization	0.6	-	-	-	-	0.1	**0.1**
30/06/2022	**(74.8)**	**-**	**-**	**-**	**-**	**(2.3)**	**(2.3)**
Net value							
1/01/2022	**3,827.5**	**422.6**	**33.7**	**0.3**	**1.9**	**23.2**	**481.7**
30/06/2022	**3,841.1**	**408.6**	**28.9**	**0.2**	**1.6**	**28.1**	**467.4**

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

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

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

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

5.2 Rights-of-use assets

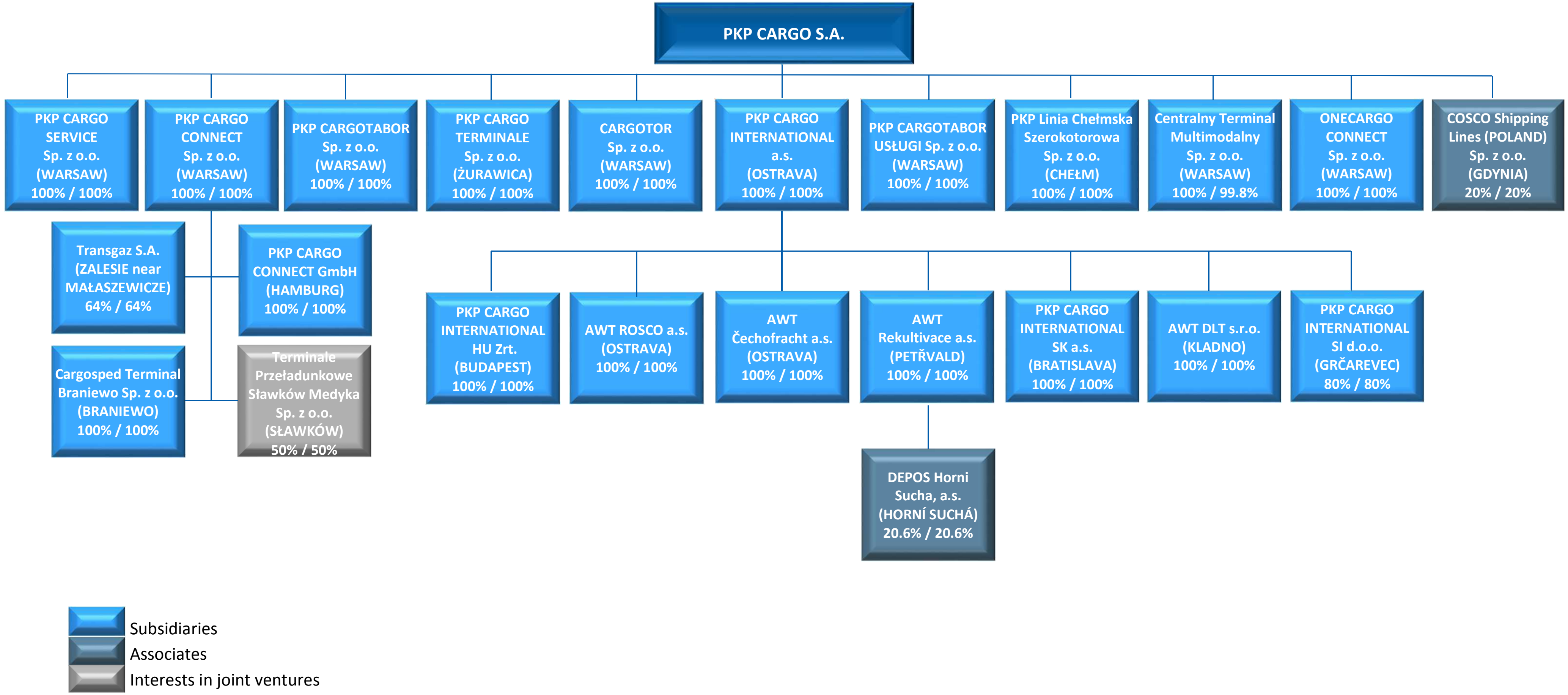
Movement in rights-of-use assets

6 months ended 30/06/2022	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2022	**243.8**	**577.6**	**11.5**	**7.8**	**0.7**	**841.4**
Increases / (decreases):						
New leases	-	0.2	-	-	-	**0.2**
Modifications of agreements	-	3.1	-	1.9	-	**5.0**
Return of leased items	-	(2.1)	-	(0.1)	-	**(2.2)**
30/06/2022	**243.8**	**578.8**	**11.5**	**9.6**	**0.7**	**844.4**
Accumulated depreciation						
1/01/2022	**(48.0)**	**(116.6)**	**(3.5)**	**(6.0)**	**(0.4)**	**(174.5)**
Increases / (decreases):						
Depreciation	(10.6)	(21.3)	(1.0)	(0.9)	(0.1)	**(33.9)**
Return of leased items	-	0.4	-	-	-	**0.4**
Other	(0.2)	-	-	-	-	**(0.2)**
30/06/2022	**(58.8)**	**(137.5)**	**(4.5)**	**(6.9)**	**(0.5)**	**(208.2)**
Net value						
1/01/2022	**195.8**	**461.0**	**8.0**	**1.8**	**0.3**	**666.9**
30/06/2022	**185.0**	**441.3**	**7.0**	**2.7**	**0.2**	**636.2**

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

5.3 Investments in related parties

Detailed information about members of the Group as at 30 June 2022 and 31 December 2021 is as follows:



Changes in the group's structure

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

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

5.3 Investments in related parties (cont.)

List of investments in related parties

	30/06/2022	31/12/2021
CARGOTOR Sp. z o.o.	20.2	20.2
Centralny Terminal Multimodalny Sp. z o.o.	1.5	1.5
COSCO Shipping Lines (Poland) Sp. z o.o.	1.1	1.1
ONECARGO CONNECT Sp. z o.o.	-	-
PKP CARGO CONNECT Sp. z o.o.	123.2	123.2
PKP CARGO INTERNATIONAL a.s.	499.7	499.7
PKP CARGO SERVICE Sp. z o.o.	15.4	15.4
PKP CARGO TERMINALE Sp. z o.o.	51.1	51.1
PKP CARGOTABOR Sp. z o.o.	117.7	117.7
PKP CARGOTABOR USŁUGI Sp. z o.o.	10.1	10.1
PKP Linia Chełmska Szerokotorowa Sp. z o.o.	-	-
Total	**840.0**	**840.0**

5.4 Inventories

Structure of inventories

	30/06/2022	31/12/2021
Strategic inventories	23.3	24.0
Rolling stock during liquidation	30.7	31.0
Other inventories	30.1	34.1
Impairment losses	(0.4)	(1.8)
Net inventories	**83.7**	**87.3**

5.5 Trade receivables

Structure of trade receivables

	30/06/2022	31/12/2021
Trade receivables	504.8	414.5
Impairment loss on receivables	(32.5)	(34.0)
Total	**472.3**	**380.5**
Current assets	472.3	380.5
Total	**472.3**	**380.5**

5.6 Financial assets

Structure of financial assets

	30/06/2022	31/12/2021
Shares in unlisted companies	4.9	4.9
Total	**4.9**	**4.9**
Non-current assets	4.9	4.9
Total	**4.9**	**4.9**

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

5.7 Other assets

Structure of other assets

	30/06/2022	31/12/2021
Non-financial assets		
Costs settled over time		
Prepayments for purchase of electricity	41.1	32.2
Insurance	1.9	4.6
IT services	4.8	10.2
Other costs settled over time	5.9	1.3
Prepayments for purchase of non-financial non-current assets	16.0	5.4
Other	0.7	-
Other receivables		
VAT settlements	18.1	12.3
Receivables on account of transfer of receivables	4.7	5.3
Other	5.8	3.8
Intangible assets		
Licenses	14.2	17.6
Intangible assets under development	5.6	4.7
Total	**118.8**	**97.4**
Non-current assets	42.1	28.1
Current assets	76.7	69.3
Total	**118.8**	**97.4**

5.8 Investment liabilities

Structure of investment liabilities

	30/06/2022	31/12/2021
Investment liabilities related to rolling stock	315.4	393.5
Investment liabilities related to real properties	1.3	8.5
Other	0.1	5.8
Total	**316.8**	**407.8**
Long-term liabilities	78.2	110.1
Short-term liabilities	238.6	297.7
Total	**316.8**	**407.8**

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

5.9 Provisions for employee benefits

As at 30 June 2022 and 31 December 2021, the actuarial valuation of provisions for employee benefits was based on the following main assumptions:

	Valuation as at [%]	
	30/06/2022	31/12/2021
Discount rate	6.9	3.5
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 2.5	up to 2.5
Assumed growth of the price of transportation benefits	2.5	2.5
Assumed average annual growth of the base for calculation of provisions on account of charge for the Company Social Benefits Fund	4.8	4.0
Weighted average employee mobility ratio	up to 2.7	up to 2.5

The value of provisions for employee benefits is significantly affected by the adopted assumptions for discount rate, the assumed salary growth and the expected average employment growth. The sensitivity analysis for changes in the foregoing assumptions may be found below. The analysis was conducted by changing only one variable while leaving the remaining assumptions unchanged.

Sensitivity analysis of provisions for employee benefits

	30/06/2022	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	213.4	(2.5)	2.6	2.5	(2.5)	(2.0)	2.1
Retirement and disability severance pays	174.9	(2.1)	2.1	2.0	(2.0)	(1.3)	1.3
Post-mortem benefits	4.0	(0.1)	0.1	0.1	(0.1)	-	-
Company Social Benefits Fund	84.9	(2.6)	2.7	2.4	(2.3)	(0.3)	0.3
Transportation benefits	15.0	(0.4)	0.5	0.4	(0.4)	(0.1)	0.1
Total	**492.2**	**(7.7)**	**8.0**	**7.4**	**(7.3)**	**(3.7)**	**3.8**

	31/12/2021	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	219.3	(3.3)	3.4	3.5	(3.4)	(2.6)	2.7
Retirement and disability severance pays	178.3	(2.7)	2.8	2.8	(2.7)	(1.7)	1.8
Post-mortem benefits	4.9	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	115.2	(4.3)	4.6	4.1	(3.9)	(0.5)	0.5
Transportation benefits	22.2	(0.8)	0.9	0.8	(0.8)	(0.1)	0.1
Total	**539.9**	**(11.2)**	**11.8**	**11.3**	**(10.9)**	**(5.0)**	**5.2**

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

5.9 Provisions for employee benefits (cont.)

Movement in provisions for employee benefits

	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2022	**178.3**	**115.2**	**22.2**	**4.9**	**219.3**	**19.9**	**559.8**
Current service cost	2.9	0.8	0.2	0.1	4.6	-	**8.6**
Interest expenses	2.7	2.0	0.4	0.1	3.6	-	**8.8**
Actuarial (profits)/ losses recognized in other comprehensive income	(1.7)	(30.5)	(7.4)	(0.7)	-	-	**(40.3)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	(2.7)	-	**(2.7)**
Recognition of provisions	-	-	-	-	-	14.6	**14.6**
Benefits paid out	(7.3)	(2.6)	(0.4)	(0.4)	(11.4)	-	**(22.1)**
30/06/2022	**174.9**	**84.9**	**15.0**	**4.0**	**213.4**	**34.5**	**526.7**
Long-term provisions	131.9	79.7	14.1	3.2	165.6	-	**394.5**
Short-term provisions	43.0	5.2	0.9	0.8	47.8	34.5	**132.2**
Total	**174.9**	**84.9**	**15.0**	**4.0**	**213.4**	**34.5**	**526.7**

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

5.10 Other provisions

Structure of other provisions

	30/06/2022	31/12/2021
Other provisions	23.0	18.4
Total	**23.0**	**18.4**
Long-term provisions	0.7	0.7
Short-term provisions	22.3	17.7
Total	**23.0**	**18.4**

Other provisions

The increase in this position is mainly due to the recognition of additional provisions for potential contractual penalties arising from a failure to perform specific transports for a business partner.

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

5.11 Other financial liabilities

Structure of other financial liabilities

	30/06/2022	31/12/2021
Cash pool	37.2	42.6
Total	**37.2**	**42.6**
Short-term liabilities	37.2	42.6
Total	**37.2**	**42.6**

5.12 Other liabilities

Structure of other liabilities

	30/06/2022	31/12/2021
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	19.0	17.9
Public law liabilities	78.5	83.1
Settlements with employees	71.3	68.7
VAT settlements	8.0	-
Other settlements	12.7	4.2
Total	**189.5**	**173.9**
Short-term liabilities	189.5	173.9
Total	**189.5**	**173.9**

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	30/06/2022	31/12/2021
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	4.9	4.9
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	472.3	380.5
Cash and cash equivalents	*Note 4.3*	26.2	141.0
Receivables from transfer of receivables	*Note 5.7*	4.7	5.3
Financial assets excluded from the scope of IFRS 9		24.4	24.9
Total		**532.5**	**556.6**

Financial liabilities by categories and classes	Note	30/06/2022	31/12/2021
Hedging financial instruments			
Bank loans and borrowings	*Note 4.1*	657.0	693.8
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	962.6	891.8
Trade liabilities		514.7	446.1
Investment liabilities	*Note 5.8*	316.8	407.8
Cash pool	*Note 5.11*	37.2	42.6
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	652.4	680.5
Total		**3,140.7**	**3,162.6**

Impairment losses on trade receivables are presented in **Note 1.6** to these Interim Condensed Standalone Financial Statements.

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

6.1 Financial instruments (cont.)

Hedge accounting

In the period from 1 January 2022 to 30 June 2022, the Company applied cash flow hedge accounting. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly likely cash flow denominated in EUR.

As at 30 June 2022, hedging instruments in the form of investment loans denominated in EUR were established. The hedged cash flows will be realized until January 2035. As at 30 June 2022, the nominal amount of the hedging instrument was EUR 140.4 million, which is an equivalent of PLN 657.0 million.

Fair value hierarchy

As at 30 June 2022 and 31 December 2021, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	30/06/2022		31/12/2021	
	Level 2	**Level 3**	**Level 2**	**Level 3**
Assets				
Investments in equity instruments - shares in unlisted companies	-	4.9	-	4.9

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 that are not carried at fair value as at the balance sheet date, the Company does not disclose fair value because as at 30 June 2022 and 31 December 2021 fair value was not materially different from the value presented in the statement of financial position.

In the period of 6 months ended 30 June 2022 and 30 June 2021, there were no transfers between level 2 and level 3 of the fair value hierarchy.

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

6.1 Financial instruments (cont.)

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

6 months ended 30/06/2022	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)	(0.9)	1.2	0.5	(32.1)	(14.0)	**(45.3)**
FX differences	-	1.8	-	-	(0.4)	**1.4**
Impairment losses / revaluation	-	(0.6)	-	-	-	**(0.6)**
Transaction costs related to loans	-	-	-	(0.9)	-	**(0.9)**
Effect of settlement of cash flow hedge accounting	(3.2)	-	-	-	-	**(3.2)**
Profit / (loss) before tax	**(4.1)**	**2.4**	**0.5**	**(33.0)**	**(14.4)**	**(48.6)**
Revaluation	(8.9)	-	-	-	-	**(8.9)**
Other comprehensive income	**(8.9)**	**-**	**-**	**-**	**-**	**(8.9)**

In the period of 6 months ended 30 June 2022, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (3.2) million. The change in the measurement of hedging financial instruments includes a change in the measurement of bank loans in the amount of PLN (8.9) million, recognized as part of the hedge accounting applied by the Company.

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

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

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

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 6 months ended 30 June 2022 and 30 June 2021, the State Treasury was the Company an upper level parent entity. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Company's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Interim Condensed Standalone Financial Statements, the Management Board has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the period of 6 months ended 30 June 2022 and 30 June 2021, there were no individual transactions effected between the Company and the other parties related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Interim Condensed Standalone Financial Statements, the Company's most important clients among other parties related to the State Treasury were members of the following groups: PGE, JSW, ENEA and Azoty. Orlen Group entities were the Company's most important suppliers related to the State Treasury.

Transactions with PKP Group related parties

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

	6 months ended 30/06/2022		30/06/2022	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.1	31.9	0.3	467.6
Subsidiaries / co-subsidiaries	210.9	285.2	86.6	152.5
Other PKP Group related parties	7.1	261.7	2.9	197.0

	6 months ended 30/06/2021		31/12/2021	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	29.6	0.9	473.6
Subsidiaries / co-subsidiaries	154.0	218.8	70.5	145.6
Other PKP Group related parties	7.8	244.1	1.6	166.4

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.

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

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

In addition to commercial transactions, the Company had cash pooling settlements disclosed in **Note 5.11** of these Standalone Financial Statements.

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

7.1 Related party transactions (cont.)

Loans granted to / received from related parties

In the period of 6 months ended 30 June 2022 and 30 June 2021, the Company did not grant or take any loans from its related parties.

Remunerations of key management personnel

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

Remunerations of Management Board Members	6 months ended 30/06/2022	6 months ended 30/06/2021
Short-term benefits	1.0	2.4
Post-employment benefits	0.7	-
Total	**1.7**	**2.4**

Remunerations of Supervisory Board Members	6 months ended 30/06/2022	6 months ended 30/06/2021
Short-term benefits	0.6	0.6
Total	**0.6**	**0.6**

Remunerations of other members of key management personnel	6 months ended 30/06/2022	6 months ended 30 /06/2021
Short-term benefits	3.2	3.2
Post-employment benefits	0.1	-
Termination benefits	0.1	-
Total	**3.4**	**3.2**

In the period of 6 months ended 30 June 2022 and 30 June 2021, members of key management personnel did not enter into any loan or guarantee transactions with the Company.

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

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

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

	30/06/2022	31/12/2021
Contractual liabilities relating to the purchase of non-financial non-current assets	668.9	756.1
Total	**668.9**	**756.1**

On 9 February 2022 the 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.

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

7.3 Contingent liabilities

Structure of contingent liabilities

	30/06/2022	31/12/2021
Sureties for subsidiaries	-	1.5
Guarantees issued at PKP CARGO S.A.'s request	40.3	50.6
Other contingent liabilities	126.8	120.8
Total	**167.1**	**172.9**

Sureties granted for subsidiaries

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

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

As at 30 June 2022, there were outstanding guarantees issued by banks at the Company's request for commercial business partners. The guarantees comprised mainly performance bonds (worth PLN 26.4 million), payment guarantees (worth PLN 11.4 million) and customs bonds (worth PLN 1.2 million).

As at 31 December 2021 there were outstanding guarantees issued by banks on the Company's order for commercial business partners. The guarantees comprised mainly performance bonds (worth PLN 25.2 million), tender bonds (worth PLN 12.9 million) and payment guarantees (worth PLN 11.2 million).

Other contingent liabilities

This line item comprises the claims made against the Company in court proceedings in the case of which the probability of outflow of cash is assessed as low, and claims in the case of which it is not possible to make a reliable estimate of the payment amount in the future by the Company. 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

The composition of the Company's Supervisory Board changed after the balance sheet date. Detailed information in this respect is provided in **Chapter 4.6** of the Management Board Report on the Activity of the PKP CARGO Group in the first half of 2022.

7.5 Approval of the financial statements

These Interim Condensed Standalone Financial Statements were approved for publication by the Company's Management Board on 25 August 2022.

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, 25 August 2022

Management Board Report on the activity of the PKP CARGO GROUP for H1 2022

LIST OF TABLES

LIST OF FIGURES

1. Introduction

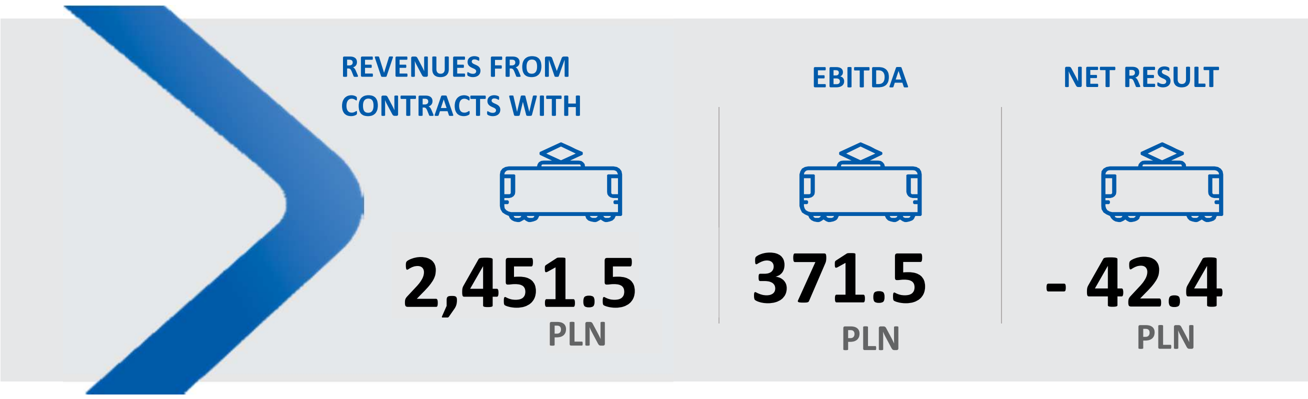
Dear Stakeholders,

Despite the extremely challenging macroeconomic and political environment, the PKP CARGO Group demonstrated better financial and operating performance in the first half of 2022 than in the corresponding period of 2021. The second quarter of the year, which we closed with a profit, was particularly successful for us, even despite the deployment of pay increases negotiated with the trade unions. It was a huge success, because we managed to combine the achievement of our business objectives with an improvement of working conditions for our staff. Both these objectives are equally significant, because in the absence of commitment on the part of our employees, no economic achievements would be possible for the PKP CARGO Group.

In the first half of 2022, the PKP CARGO Group's business was affected predominantly by the war in Ukraine. Russia's aggression adversely affected the economy both in Poland and in other European countries, having exacerbated the already existing energy crisis manifested by increases in the prices of energy carriers, which acted as the main inflationary driver, and this in turn translated into a lower rate of growth in various relevant sectors of the economy. The high energy and fuel prices caused an increase in PKP CARGO's operating expenses, having forced the company and other members of the PKP CARGO Group to renegotiate some of their existing commercial contracts.

PKP CARGO's business was directly affected by the imposition of economic sanctions by the European Union on Russia and Belarus, as they caused some major disturbances in the national and international supply chains and put an obstacle on the flow of merchandise transported from the Eastern direction. From both of these countries, we ceased to transport coal, timber, chemicals and petrochemicals. At the same time, a decrease in the quantum of cargo transported between China and both Poland and the EU was perceptible, because some freight forwarders decided to move their cargo from land to sea due to the war.

Dariusz Seliga, President of the PKP CARGO SA Management Board



2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group

The PKP CARGO Group ("Group") is a rail freight operator in Poland and the European Union ("EU") that has provided comprehensive logistics services for years. The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. Apart from transport activity, the PKP CARGO Group provides complementary services supporting the Group in the area of rail freight, including siding and traction services, terminal services and forwarding services.

The PKP CARGO Group holds licenses for the provision of rail freight services in the following 8 EU countries: Lithuania, Slovakia, Slovenia, Austria, the Czech Republic, Germany, the Netherlands and Poland.

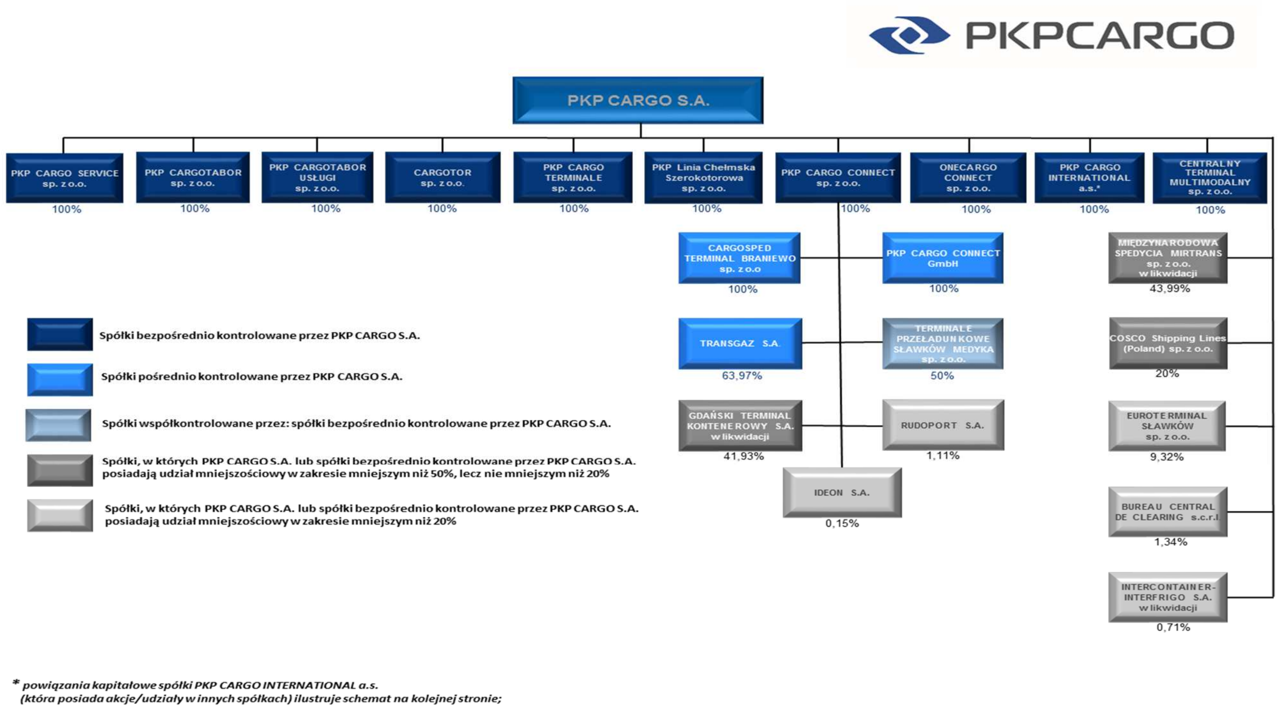
As at 30 June 2022, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A. ("PKP CARGO"):

a) 20 subsidiaries of PKP CARGO, controlled directly or indirectly (by entities controlled by PKP CARGO), including: - 10 subsidiaries controlled directly by PKP CARGO,
   - 10 subsidiaries controlled directly by companies directly controlled by PKP CARGO (and indirectly controlled by PKP CARGO), including 3 companies directly controlled by PKP CARGO CONNECT sp. z o.o. and 7 companies directly controlled by PKP CARGO INTERNATIONAL a.s.;
b) 1 jointly controlled subsidiary (in which a member of the PKP CARGO Group holds a 50% stake in the share capital), specifically:
   1 company under a joint control of PKP CARGO CONNECT sp. z o.o., holding a 50% stake in its share capital (under an indirect joint control of PKP CARGO): TERMINALE PRZEŁADUNKOWE SŁAWKÓW MEDYKA sp. z o.o.

Moreover, as at 30 June 2022, PKP CARGO or PKP CARGO's (direct or indirect) subsidiaries held shares in 9 companies that were not controlled or jointly controlled by PKP CARGO or PKP CARGO's subsidiaries, including:
- 5 companies in which PKP CARGO directly holds a minority stake,
- 3 companies in which PKP CARGO CONNECT sp. z o.o., a company directly controlled by PKP CARGO, holds a minority stake in the share capital in a manner that does not make it possible to exercise control or joint control,
- 1 company related to the PKP CARGO INTERNATIONAL Group in which a company indirectly controlled by PKP CARGO holds a minority stake in the share capital in a manner that does not make it possible to exercise control or joint control.

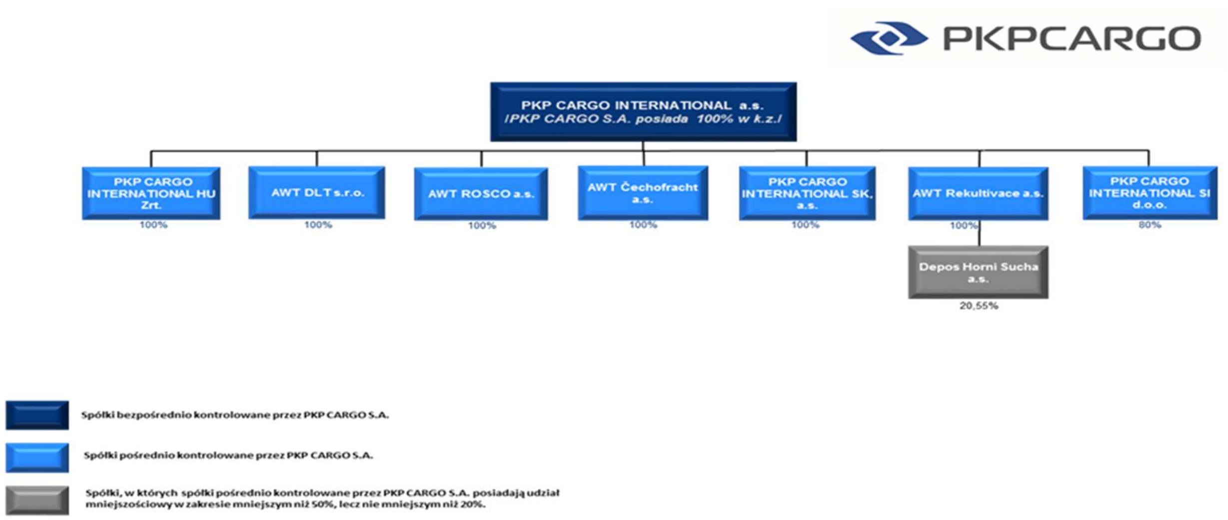
The chart below presents the structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 30 June 2022:

Figure 1. Structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold shares – as at 30 June 2022



Source: Proprietary material

Figure 2. Structure of the PKP CARGO INTERNATIONAL Group and capital links with companies in which members of the PKP CARGO INTERNATIONAL Group hold shares as at 30 June 2022



Source: Proprietary material

During the first half of 2022, the following changes were made to the structure of capital links:

a) acquisition by PKP CARGO S.A. of a 0.17% stake in Centralny Terminal Multimodalny Sp. z o.o. with its registered office in Warsaw. On 11 March 2022, the title was acquired to 50 shares in Centralny Terminal Multimodalny Sp. z o.o. with a total par value of PLN 2,500.00 (accounting for 0.17% of the company's share capital), making PKP CARGO S.A. the sole shareholder (with a 100% stake) of Centralny Terminal Multimodalny Sp. z o.o.

b) liquidation of GDAŃSKI TERMINAL KONTENEROWY S.A. in which a 41.93% stake was held by PKP CARGO CONNECT sp. z o.o., a fully owned subsidiary of PKP CARGO S.A. On 7 June 2022, the District Court for Gdańsk-North, 7th Commercial Division of the National Court Register, issued a decision to delete GDAŃSKI TERMINAL KONTENEROWY S.A. in liquidation from the National Court Register. On 2 July 2022, the entry on the deletion of GDAŃSKI TERMINAL KONTENEROWY S.A. in liquidation made by the District Court for Gdańsk-North in Gdańsk, 7th Commercial Division of the National Court Register, became final non-appealable. As a consequence, GDAŃSKI TERMINAL KONTENEROWY S.A. in liquidation ended its existence.

2.2. Consolidated entities

The Interim Consolidated Financial Statements of the PKP CARGO Group as at 30 June 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 as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o. ("PKP CARGOTABOR USŁUGI")	Collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of this report, the company does not conduct any operating activity.
PKP CARGO TERMINALE Sp. z o.o. ("PKP CARGO TERMINALE") (former CL Medyka-Żurawica and former CL Małaszewicze)	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company also has the ability to offer rail gauge switching services and as the only company on the country's eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o. ("CARGOSPED TERMINAL BRANIEWO")	Transshipment of goods and buying and selling of coal (wholesale, retail).
CARGOTOR Sp. z o.o. ("CARGOTOR")	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o. ("PKP CARGO CONNECT")	Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the Group.
PKP CARGO INTERNATIONAL a.s. ("PKP CARGO INTERNATIONAL") (formerly Advanced World Transport a.s.)	Comprehensive handling of rail freight transport (the Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile"). Rolling stock management in the PKP CARGO INTERNATIONAL Group.

AWT Rosco a.s. ("AWT Rosco")	Cleaning of rail and automobile cisterns.
AWT Čechofracht a.s. ("AWT Čechofracht")	International freight forwarding services.
AWT Rekultivace a.s. ("AWT Rekultivace")	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
PKP CARGO INTERNATIONAL HU Zrt. (formerly: AWT Rail HU Zrt) ("PKP CARGO INTERNATIONAL HU")	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

In addition, the following 7 companies are measured using the equity method as at 30 June 2022 in the PKP CARGO Group's condensed interim consolidated financial statements:

Table 2. Entities accounted for under the equity method

Company name	Core business
Centralny Terminal Multimodalny Sp. z o.o.	As at the delivery date of this report, the company does not conduct any operating activity.
COSCO Shipping Lines (POLAND) Sp. z o.o.	Shipments carried out using the company's own fleet (container ships, bulk carriers, tankers, multi-purpose and specialized ships, including semi-submersible ships) and leased fleet, maintenance and sale of ships and spare parts, provision of warehouse and terminal services (also at Cosco's own terminals).
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	Core lines of business: transshipment operations; storage in storage yards; railway transport; freight forwarding by road; freight forwarding services.
Transgaz S.A.	Transshipment of a broad range of liquefied gases, including: propane, butane, propane-butane, propylene, isobutane, etc., and petrochemicals that require heating, including: paraffins, waxes, slack paraffins, certain oils.
PKP CARGO CONNECT GmbH	An international logistics company providing comprehensive transport, transshipment, warehousing and customs services. Specialization: transport and handling of containers, especially in the port of Hamburg and at railway terminals in Germany.
PKP CARGO INTERNATIONAL SK a.s.	Comprehensive rail transport services in Slovakia.
PKP CARGO INTERNATIONAL Sl d.o.o.	Comprehensive rail transport services in Slovenia.

The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2022 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future.

As at the preparation date of these financial statements, there are no material circumstances indicating any substantial threat to the ability of PKP CARGO S.A. or the PKP CARGO Group to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2022 have been prepared in accordance with the historical cost principle, except for derivatives measured at fair value and investments in equity instruments.

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.

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

Name	Position	Period in office	
		from	**to**

Dariusz Seliga	President of the Management Board	13 April 2022	to date
Marek Olkiewicz	Management Board Member in charge of Operations	3 February 2022	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Maciej Jankiewicz	Management Board Member in charge of Finance	25 April 2022	to date
Jacek Rutkowski	Management Board Member in charge of Commerce	25 April 2022	to date
Władysław Szczepkowski	temporary discharge of duties President of the Management Board	18 October 2021 13 January 2022	13 January 2022 12 April 2022

Source: Proprietary material

SUPERVISORY BOARD

Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy 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 8th 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 4. Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2022 to the delivery date of this report

Name	Position	Period in office	
		from	to
Władysław Szczepkowski	Supervisory Board Chairman Supervisory Board Member	12.07.2022 26.06.2019	to date to date
Andrzej Leszczyński	Supervisory Board Vice-Chairman Supervisory Board Member	12.07.2022 29.06.2022	to date to date
Henryk Grymel	Supervisory Board Member	29.06.2022	to date
Tomasz Pietrek	Supervisory Board Member	29.06.2022	to date
Marek Ryszka	Supervisory Board Member	29.06.2022	to date
Paweł Sosnowski	Supervisory Board Member	26.06.2019	to date
Jarosław Stawiarski	Supervisory Board Member	29.06.2022	to date
Jarosław Ślepaczuk	Supervisory Board Member	29.06.2022	to date
Michał Wnorowski	Supervisory Board Member	29.06.2022	to date
Izabela Wojtyczka	Supervisory Board Member	16.07.2020	to date
Grzegorz Dostatni	Supervisory Board Member	28.07.2022	to date
Krzysztof Mamiński	Supervisory Board Chairman Supervisory Board Member	01.07.2019 26.06.2019	29.06.2022 29.06.2022
Marcin Kowalczyk	Supervisory Board Vice-Chairman Supervisory Board Member	25.01.2021 14.01.2021	29.06.2022 29.06.2022
Krzysztof Czarnota	Supervisory Board Member	26.06.2019	29.06.2022
Zofia Dzik	Supervisory Board Member	26.06.2019	29.06.2022
Dariusz Górski	Supervisory Board Member	26.06.2019	29.06.2022
Jerzy Sośnierz	Supervisory Board Member	26.06.2019	29.06.2022
Tadeusz Stachaczyński	Supervisory Board Member	26.06.2019	29.06.2022
Antoni Duda	Supervisory Board Member	21.08.2020	29.06.2022

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 5. Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2022 to the delivery date of this report

Name	Position	Period in office	
		from	**to**
Jarosław Ślepaczuk	Committee Member	12.07.2022	to date
Michał Wnorowski	Committee Member	12.07.2022	to date
Izabela Wojtyczka	Committee Member	12.07.2022	to date
Dariusz Górski	Committee Chairman Committee Member	01.07.2019	29.06.2022
Zofia Dzik	Committee Member	01.07.2019	29.06.2022
Władysław Szczepkowski	Committee Member	24.08.2020	29.06.2022

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 6. Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2022 to the delivery date of this report

Name	Position	Period in office	
		from	**to**
Izabela Wojtyczka	Committee Chairwoman	12.07.2022	to date
	Committee Member	21.09.2020 12.07.2022	29.06.2022 to date
Paweł Sosnowski	Committee Member	18.10.2021 12.07.2022	29.06.2022 to date
Władysław Szczepkowski	Committee Member	01.07.2019 12.07.2022	29.06.2022 to date
Zofia Dzik	Committee Chairwoman	01.07.2019	29.06.2022

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 7. Composition of the Strategy Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2022 to the delivery date of this report

Name	Position	Period in office	
		from	**to**
Władysław Szczepkowski	Committee Chairman	23.09.2020	29.06.2022
		12.07.2022	to date
	Committee Member	01.07.2019	29.06.2022
		12.07.2022	to date
Henryk Grymel	Committee Member	12.07.2022	to date
Andrzej Leszczyński	Committee Member	12.07.2022	to date
Tomasz Pietrek	Committee Member	12.07.2022	to date
Michał Wnorowski	Committee Member	12.07.2022	to date
Antoni Duda	Committee Member	21.12.2020	29.06.2022
Dariusz Górski	Committee Member	01.07.2019	29.06.2022
Paweł Sosnowski	Committee Member	21.09.2020	29.06.2022

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 8. 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

The shareholder structure of PKP CARGO S.A. as at 30 June 2022 and as at the delivery date of this report is presented in the following table

Table 9. Shareholder structure of PKP CARGO S.A. as at 30 June 2022 and as at the delivery date of this report

Shareholder	Number of shares	% of capital	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]	4,418,443	9.87%	4,418,443	9.87%
Aviva OFE [3]	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	23,245,909	51.90%	23,245,909	51.90%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

1 According to Current Report No. 38/2014 of 24 June 2014.

2 According to Current Report No. 28/2022 of 30 June 2022. According to Current Report No. 18/2022 of 30 May 2022. According to Current Report No. 11/2022 of 23 March 2022.

3 According to Current Report No. 51/2014 of 13 August 2014.

Source: Proprietary material

3.4. Listing of shares held by management and supervisory board members

The holdings of shares in PKP CARGO S.A. or rights to such shares by members of the Company's Management Board from 30 June 2022 to the delivery date of this report were as follows:

Table 10. Stakes in PKP CARGO S.A. 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 30 June 2022	
Dariusz Seliga	**0**
Marek Olkiewicz	**0**
Jacek Rutkowski	**0**
Maciej Jankiewicz	**0**
Zenon Kozendra	**46**

Source: Proprietary material

Table 11. Stakes in PKP CARGO S.A. held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by a Supervisory Board member
as at the delivery date of this report	
Władysław Szczepkowski	**0**
Paweł Sosnowski	**0**
Marek Ryszka	**0**
Andrzej Leszczyński	**0**
Izabela Wojtyczka	**0**
Michał Wnorowski	**0**
Henryk Grymel	**70**
Tomasz Pietrek	**46**
Jarosław Ślepaczuk	**0**
Jarosław Stawiarski	**0**
as at 30 June 2022	
Władysław Szczepkowski	**0**
Paweł Sosnowski	**0**
Marek Ryszka	**0**
Andrzej Leszczyński	**0**
Izabela Wojtyczka	**0**
Michał Wnorowski	**0**
Henryk Grymel	**70**
Tomasz Pietrek	**46**
Jarosław Ślepaczuk	**0**
Jarosław Stawiarski	**0**

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1. Macroeconomic environment

Polish economy

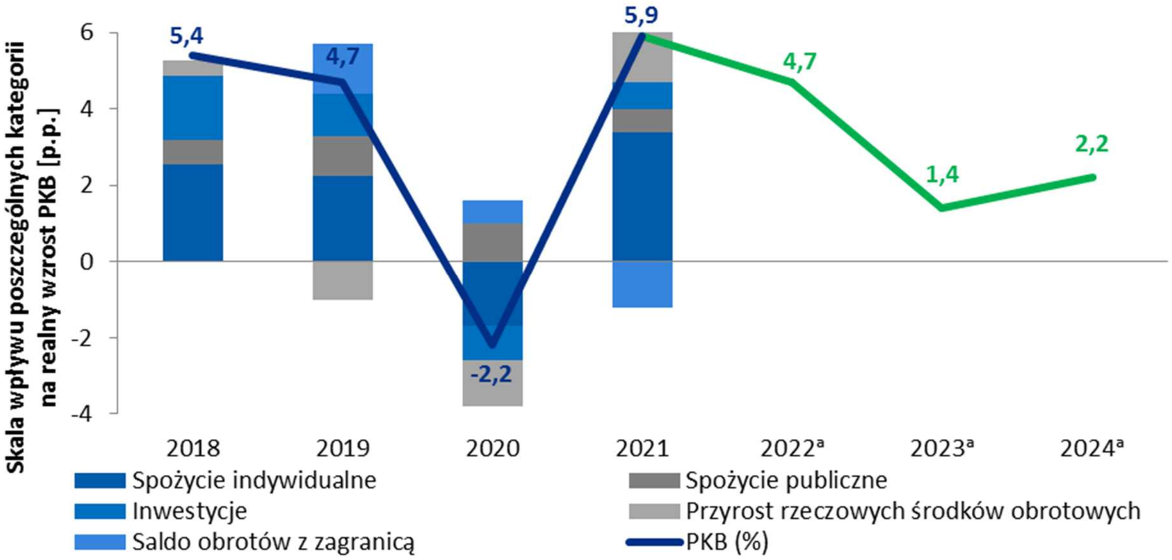
- Increase in sold industrial output in H1 2022 by +13.6% yoy (+18.2% yoy in H1 2021), of which +16.0% yoy in Q1 and +11.3% yoy in Q2 2022;[1]
- In H1 2022, the recovery in Poland's industrial sector continued. Both the sector and the country's economy demonstrated a relatively high degree of resilience to the impact of the COVID-19 pandemic and the war 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 (+45.0%), metal products (+23.2%), machinery and equipment (+23.0%), chemicals and chemical products (+21.5%), coke and refined petroleum products (18.8%), wood products (+17.3%), paper and products made of paper (+14.0%), metals (+13.7%), products from other non-metallic raw materials (+12.0%), rubber and plastic products (+10.0%), furniture (+9.3%) and motor vehicles (+2.1%);[2]
- Economic activity showed signs of growth: in Q1 2022 GDP increased by +8.5% yoy (+7.6% in Q4 2021, +5.9% yoy in 2021), partly due to the hike in industrial output and the significant increase in inventories, followed by a rate of growth of +5.3%

[1] Statistics Poland

[2] Statistics Poland

yoy in Q2 2022, in the light of the deceleration of the domestic economy and the effect of an increasingly higher reference base (+11.3 % yoy in Q2 2021 after a significant decline by -7.9% yoy in Q2 2020 caused by the pandemic)[3]

Figure 3. Real GDP growth rate in Poland in 2018-2021, 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) from July 2022
Source: Proprietary material based on data published by Statistics Poland and the National Bank of Poland.

- Strong increase in inflation in H1 2022: +11.8% yoy (+3.6% yoy in H1 2021). In June 2022, the prices of consumer goods and services increased by +15.5% compared to June 2021 (the largest increase in more than 25 years).[4] The armed conflict in Ukraine and its economic implications in the form of high prices of energy carriers, the depreciation of the Polish currency and problems with supply chains are among the key reasons for the rapid increase in inflation;[5]
- Poor leading indicator of the economic situation in H1 2022 for the industrial processing sector in the form of the Purchasing Managers' Index (PMI) (the average PMI value of 51.2 points indicates a major slowdown in economic activity in Poland's industrial sector). In June 2022, the PMI declined to 44.4 points, meaning that for the second month in a row it was below the 50.0 point threshold marking the technical border between recovery and recession in the industrial processing sector (54.0 points in Q1 2022, 48.4 points in Q2 2022 and 55.1 points in 2021). This was the PMI's lowest value in 25 months, the fourth consecutive decrease since February of this year and also the second largest drop in 2 years;[6]
- Projections: 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 +4.7% yoy, +1.4% yoy and +2.2% yoy in the respective years of this period, coupled with a significant increase in the general level of consumer prices (CPI up by +14.2% yoy in 2022, +12.3% yoy in 2023 and +4.1% yoy in 2024).[7] The global economy remains an important determinant of the rate of growth in Poland's industrial sector. On a global scale, instabilities in the fuel and energy markets are perceptible, exacerbated by the increasing prices on the market and the continuation of hindrances to the smooth operation of global supply chains. The level of output and the rate of growth in the remaining quarters of 2022 will depend largely on how the conflict in Ukraine evolves and on the scale of slowdown in the growth rate of economies strongly intertwined with Poland. Despite all these turbulences, the level of business activity in the industrial sector may be expected to stabilize (albeit at lower levels). It would be a tough call to estimate precisely the consequences of the ongoing armed conflict in Ukraine and the ensuing sanctions on distinct sectors of the economy – the domestic and global economies in 2022 remain affected by a large dose of uncertainty, which is bad for business and translates into a lower value of investment projects in progress.

[3] Statistics Poland, Flash estimate of GDP, 17 August 2022
[4] Statistics Poland, 15 July 2022
[5] National Bank of Poland
[6] Statistics Poland
[7] National Bank of Poland

Due to these problems, economic forecasts predict a decrease in the growth rate of the global and national economies in H2 2022 and beyond. In the coming quarters, the continuation of increases in the prices of consumer goods and services should be expected, manifesting themselves in high values of year-over-year rates due to high commodity prices and the depreciation of the Polish zloty against the main currencies.

Czech economy

- Sold industrial output (adjusted for the calendar effect) in H1 2022 remained at the same level as that of the previous year (down by -0.0002% yoy, preceded by an increase by +6.6% yoy in 2021 and a decrease by -7.2% yoy in 2020). In Q1 and Q2 2022, the following values were recorded: a decrease by -0.4% yoy and an increase by +0.4% yoy, respectively. In Q2 2022, the volume of new orders increased by +9.4% yoy (in Q1: +6.4% yoy), of which domestic orders by +13.1% yoy and foreign orders by +7.7%, mostly in the chemical industry (by +35.1% yoy) and in the production of paper and products made of paper (by +26.5% yoy);
- The improving economic situation remained affected by the ongoing COVID-19 pandemic and the war in Ukraine, which exerted a strong impact on the supply chains of components necessary for the conduct of production operations. The combination of the armed conflict in Ukraine and the growing inflationary pressure translated into greater prices increases (especially of energy carriers and energy), which effectively reduced the rate of growth of the accelerating Czech economy and ushered in the risk of a strong slowdown in the coming quarters;
- In H1 2022, the main sectors of the Czech industry reported increases in coal and lignite mining (+8.2% yoy) and the production of chemicals and chemical products (+3.5% yoy). The key segment of the Czech industry, namely is the production of motor vehicles, reported a decrease in output (-4.3% yoy). Also, a slight decrease was reported in the production of metals and metal products (-2.3% yoy).[8] The increase in output of the coal mining segment was largely due to the greater production of lignite (+20.6% yoy), although the degree of this increase declined due to the shutdown of the penultimate operating hard coal mine in February 2021 (output down by -48.8% yoy).[9] The long-term downward trend in lignite and hard coal output is caused by environmental requirements and rising costs related to the use of fossil fuels. The government intends to phase out lignite mining by 2033 (despite voices advocating an extension of the mining operation period until 2038). The situation in the hard coal mining segment is similar: the cessation of mining operations will take place after 2023 at the earliest (although production may be extended by several years at most, because, due to the current energy crisis related to the war in Ukraine, a continued operation of the last coal mine until 2025 is being considered).[10]
- According to preliminary estimates published by the CZSO, the country's GDP in Q2 2022 improved by +3.6% yoy (after an increase by +4.6% yoy in Q1 2021). This was the fifth consecutive quarter with a positive year-over-year rate of GDP growth. In 2022, the Czech economy remains in an upward trend, yet the repercussions of the war in Ukraine and the increase in commodity prices, among other factors, brought down the rate of this growth significantly. The growth of GDP in the last quarter was favorably affected by total consumption expenditures and gross capital formation. Expenditures related to domestic demand fueled the Czech economy, and a favorable impact of activity in the service sector was also perceptible. However, external demand (and, as a consequence, the volume of foreign trade which the Czech Republic as a relatively small economy depends on heavily) exerted a negative impact. While the country's industrial and construction sectors remained stagnant,[11] the Czech economy recovered from the COVID-19 crisis of 2020 (when the decline in GDP was the largest at -5.8% yoy) and was clearly recovering in 2021, despite persisting supply-side problems.
- GDP forecasts: the Czech economy is slowing down – according to macroeconomic forecasts published by the Czech Ministry of Finance in April 2022, GDP growth rate is estimated at +1.2% yoy in 2022, +3.8% yoy in 2023 and +3.0 yoy in 2024.[12] The forecast published by the CNB (Czech National Bank) in August highlights improved growth prospects for this year (+2.3% yoy) and at the same time lowers expectations of economic growth for the next year (+1.1% yoy, due to the expected strong economic slowdown, especially in European economies), yet predicts a return to the path of robust growth in 2024 (+3.8% yoy, partly due to the low reference base). The economic performance is adversely affected chiefly by the disturbances in supply chains, combined with the problem of the strong increase in the general price level (the CNB predicts an increase in inflation to over 16% this year), exacerbated by the effects of the war in Ukraine (including the

[8] Czech Statistical Office

[9] mpo.cz/cz/energetika/statistika/tuha-paliva/

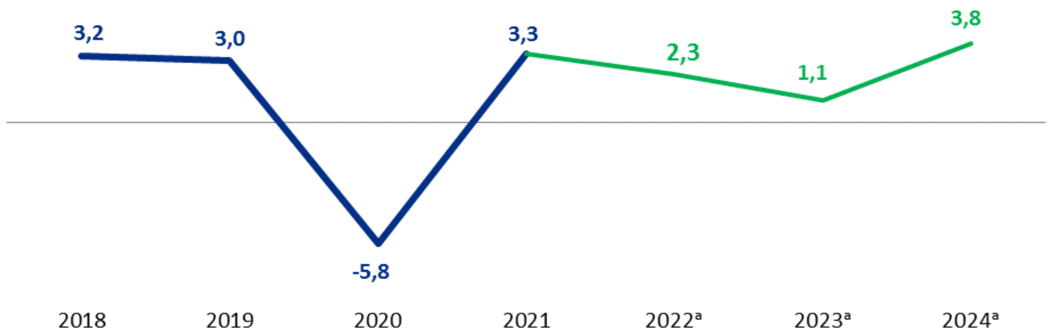
[10] fpg24.pl

[11] Czech Statistical Office

[12] Confederation of Industry and Transport of the Czech Republic

sanctions and Russia's response to them). In aggregate, these factors adversely affect the situation of the Czech economy, effectively slowing down its recovery after the pandemic. The Czech economy faces a potential risk of a major energy crisis, which may spread from the largest economy in the region, i.e. Germany, to the countries of Central and Eastern Europe in the form of a sizeable drop in the rate of growth (due to the complementary nature of the economies in question). The factors that suggest the likelihood of materialization a negative scenario in the second half of this year and the following year are not only are the prices of energy commodities, but also the degree of globalization, or the country's dependence on exports and on the performance of its automotive industry. If the armed conflict in Ukraine ends and the supply chains become successfully restored (coupled with a decline in inflation), demand in the markets and high GDP growth rates may fairly rapidly return (within several quarters).

Figure 4. Real GDP growth rate in the Czech Republic in 2018-2021 and forecasts for 2022-2024 – data adjusted for seasonality



a – Macroeconomic forecasts of the Czech National Bank – August 2022
Source: Proprietary material based on data published by the Czech Statistical Office and the Czech National Bank

- Inflation: reached +11.2% yoy in Q1 2022 and +15.8% in Q2 2022 (+17.2% yoy in June alone), after an increase by 3.8% in 2021.[13]
- Inflation forecasts: according to forecasts published by the Czech Ministry of Finance, inflation in 2022 is expected to reach +16.5% yoy, followed by +9.5% and 2.4% yoy in 2023 and 2024, respectively.[14] The inflation is expected to peak in Q3 and Q4 2022, when it will stand at nearly 20% according to the forecasts. The sources of inflation in the Czech Republic are related to both external factors (disruptions in supply chains and rising prices of energy commodities fueled by the war in Ukraine) and internal factors (problems on the labor market with attracting a sufficient number of qualified employees);
- PMI: in H1, it averaged 54.3 points for the Czech Republic (56.7 points in Q1 2022 and 51.9 points in Q2 2022), compared to 58.9 points in Q2 2022 throughout 2021, still remaining above the 50.0 threshold delineating the technical boundary between recovery and recession in the industrial sector.[15] However, the gradual month-by-month decline in PMI from 59.0 points in January of this year to 49.0 points in June of this year confirms the slowdown of the Czech economy, which is fundamentally oriented towards external markets (chiefly European Union markets, which are currently facing the highest risk of a potential recession). The main reason for the decline in PMI since the beginning of 2022 is the extension of delivery times resulting from major delays along the supply chains and the heavier cost burdens (caused, among other factors, by the general increase in market prices and the higher cost of capital).[16] The outbreak of the armed conflict exacerbated all existing problems due to the strong increase in commodity prices, the need to acquire new supply sources and, as a consequence, the declined volumes of orders and output (due to the emergence of recessionary factors in the economy, including strong inflationary pressures and interest rate hikes).

Industry in Poland

[13] vdb.czso.cz
[14] Czech National Bank
[15] Markit PMI
[16] Markit PMI

In H1 2022, the following significant factors affected the economic situation of selected industries:

Mining industry

- Stronger demand on the domestic coal market in H1 2022 driven by, among other factors: increased purchases of electricity in the Polish economy (relatively 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), increasing coal prices on international markets, consequences of the ongoing conflict in Ukraine and related economic sanctions (preventing imports of coal from Russia);
- Increase in hard coal output in H1 2022 to 27.9 million tons (+0.6% yoy). In Q2 2022, hard coal production totaled 13.6 million tons (+1.0% yoy). This means an increase in output in the first 6 months of the year by only approx. 179 thousand yoy (with a significantly stronger domestic demand for coal due to reduced imports from the east and the relatively small volume of inventories);[17]
- Increase in hard coal sales in H1 2022 to 28.4 million tons (+0.6% yoy). Hard coal sales in H1 of this year turned out to be greater than output by nearly 0.5 million tons, which translated into a reduction in inventories;[18]
- Low volume of hard coal inventories in the mines' storage yards: at the end of H1 2022, it totaled 1.5 million tons (down by -3.9 million tons, or -72.5% yoy);[19]
- Increase in hard coal imports in H1 2022 by +3.0% to 6.4 million tons yoy. The main direction of imports (despite the embargo imposed in April of this year and the absence of coal arrival in June of this year) was Russia (down -32.1% yoy from 3.9 million tons to 2.7 million tons), followed by Australia as the second largest exporter coal to Poland (down -0.2% yoy from 1.154 million tons to 1.152 million tons). Purchases from Russia accounted for 41.9% of the total volume of imported coal. At the same time, significant increases in imports from Kazakhstan, South Africa, the Czech Republic, Mozambique, Norway and Colombia were recorded;[20]
- Increase in coal consumption in the European Union: The International Energy Agency (IEA) predicts that after the increase in coal consumption in the EU countries by +10% yoy in H1 of this year, consumption may increase by approx. +7% yoy throughout 2022 (preceded by an increase by +6% yoy in 2021 caused chiefly by the recovery in the global economy and the increase in gas prices). Coal is the source of approx. 11% of the EU's energy output. The main reasons for the return to energy generation from coal is the ongoing war in Ukraine and the disturbances on the gas market, for which coal serves as a less expensive substitute.[21]
- Increase in coal prices on international markets: The whole international coal market is now in a purchasing frenzy, with global importers fighting for alternatives to Russian energy resources and focusing on activities aimed at the maximum possible diversification of supplies. Producers, focusing on rebuilding their own resource base, are suspending their large-scale decarbonization projects pursued previously. In H1 2022, the average coal price in the ARA ports was USD 265.87 per ton (compared to USD 77.26 per ton in H1 2021), up by +244.1% yoy. Despite the increase in inventories in the ARA ports (an increase in June 2022 above the five-year average for the first time since 2020), the agitated search for coal sources is still in progress, made more difficult by such additional developments as the blocking of supplies from Kazakhstan by Russia and the complete contracting of output for 2022-2023 by Colombia (the increase in inventories in the ARA ports is related to the arrival of previously contracted Russian coal);[22]
- Strong increase in prices on the Polish coal market: according to calculations published by the Industrial Development Agency, in Q2 2022, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 325.58 per ton (+31.9% yoy and +11.7% qoq). PSCMI2 for the heating industry in Q2 2022 reached PLN 443.13 per ton (+50.1% yoy and +22.1% qoq);[23]

[17] Industrial Development Agency (ARP)

[18] Industrial Development Agency (ARP)

[19] Industrial Development Agency (ARP)

[20] Eurostat

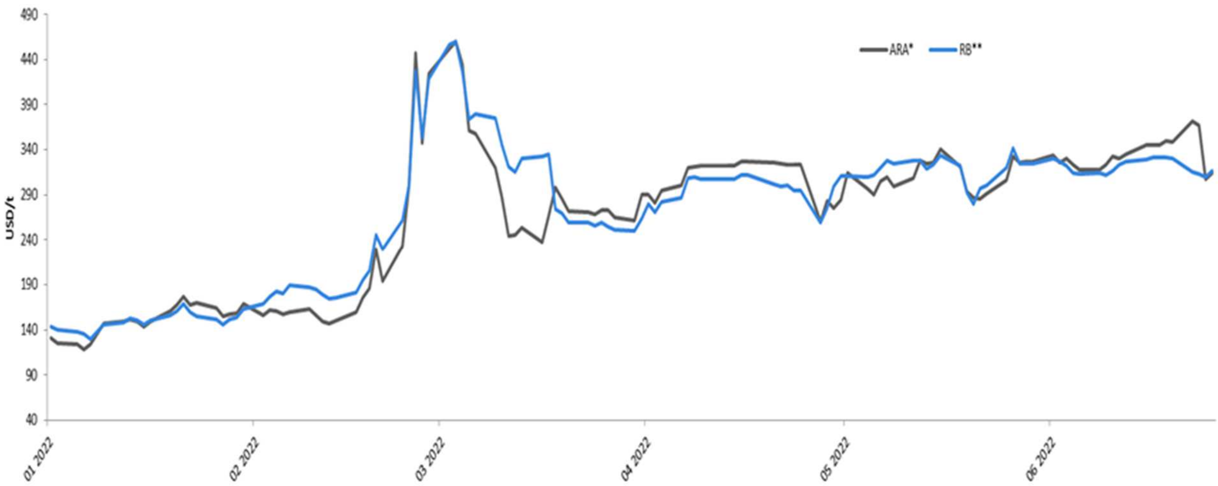
[21] WNP

[22] Industrial Development Agency (ARP), WNP

[23] Industrial Development Agency (ARP)

- Increase in electricity consumption in Poland in H1 2022 by +1.2% yoy to 87.4 TWh;[24]
- Increase in electricity output in H1 2022 by +7.3% yoy to 89.1 TWh. In parallel, the volume of electricity generated by coal-fired commercial power plants decreased by -3.4% yoy and, at the same time, increased for lignite-fired power plants by +11.6% yoy;[25]
- Reversal of the favorable (from the perspective of hard coal producers) trend in the national energy mix in H1 2022 – decrease in the share of hard coal in total energy output to 48.4% (-5.4 p.p. yoy, from 53.8%);[26]
- Ban on the import and transit of coal (and coke) from the Russian Federation and Belarus in force in Poland since April of this year (under the provisions of the Act on Special Solutions to Counteract the Aggression against Ukraine and to Improve National Security). The pan-European Union embargo will come into effect on 10 August 2022.[27]

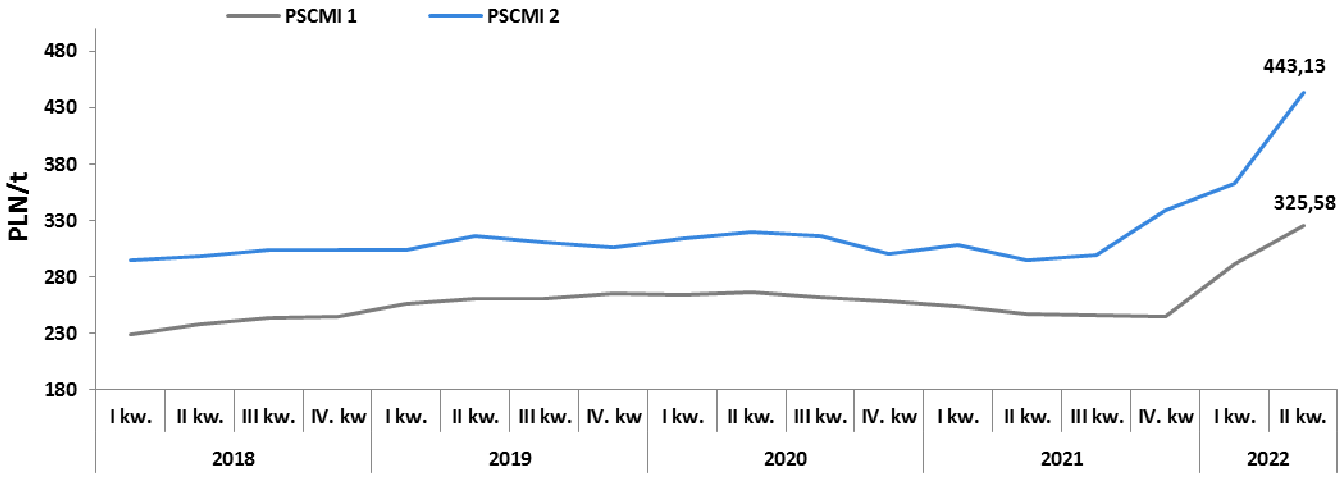
Figure 5. Current and historical values of coal price indices on the European ARA vs. RB** markets*



* ARA – Amsterdam, Rotterdam and Antwerp;
** RB – Richards Bay (South Africa)
Source: Proprietary material based on Virtual New Industry data

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

[24] Polskie Sieci Elektroenergetyczne
[25] Polskie Sieci Elektroenergetyczne
[26] Polskie Sieci Elektroenergetyczne
[27] Puls Biznesu



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

Construction industry

Continuing favorable situation in construction projects despite the gradual weakening of activity in housing construction (due to the growing costs of housing loans caused by interest rate hikes, lower creditworthiness levels and persistently high prices of construction materials), coupled with a moderate rate of growth in infrastructural projects. However, construction performance remains positive (a large number of housing construction projects are still in progress);

- Increase in domestic construction and assembly output in H1 2022 by +12.0% yoy (compared to a decrease by -2.8% yoy in the corresponding period of the previous year and an increase by +23.3% yoy in Q1 of this year).[28] Increased performance was recorded in all sections of construction and assembly output, including by enterprises involved in the construction of buildings (+24.6% yoy), specialist construction works (+5.9% yoy) and construction of civil engineering facilities (+5.9% yoy). The rate of growth in production demonstrated a high degree of volatility in recent months, reflecting the general deceleration trend in the construction market;[29]
- Increase in cement production in Poland in H1 2022 by +8.6% yoy to 9.3 million tons and increase in cement clinker production by +11.1% yoy to 6.8 million tons;[30] The Association of Cement Producers predicts that cement will continue to be made in 12 Polish cement plants in 2022 at a level similar to that of the previous year, that is approx. 19 million tons (compared to 19.3 million tons in 2021), provided that 200-250 thousand tons of hard coal is available to continue production until the end of the year. Annual cement consumption in 2021 (including special technical cement types) totaled 20 million tons, of which almost 600 thousand tons were imported from Belarus and, on a much smaller scale, from Russia. The total annual production capacity of Polish cement plants is 22 million tons;[31]
- On 4 June 2022, a ban on cement imports from Belarus came into force (in 2016-2021, the volume of cement imported from this country increased from 119 thousand tons to 538 thousand tons);[32]

The General Directorate for National Roads and Motorways reported that 99 projects are currently in progress under the government's National Road Construction Program for 2014-2023 (with a total length of 1,327.9 km) along with 15 ring road construction projects under the Program for the Construction of 100 Ring Roads for 2020-2030 (with a total length of 115.6 km). Contracts for the construction of new sections of national roads in 2022 are also gradually being executed (since the beginning of 2022, 11 contracts have been signed for road construction projects with a total length of over 120 km). Moreover, additional projects are at the stage of preparation and tender procedures (including

[28] Statistics Poland

[29] Statistics Poland

[30] Statistics Poland

[31] WNP

[32] Association of Cement Producers

18 projects under the NRCP with a total length of 244 km at the tender stage and 80 projects in preparation under the NRCP with a total length of 1,803.6 km along with 85 ring roads under the PB100 with a total length of 744 km);[33]
The amended Act on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" provides for an increase in the budget of the Kolej Plus program, which calls for an expansion of the country's existing rail network (from PLN 5.6 billion to PLN 11 billion). Owing to the additional funds, it will be possible to execute additional projects (thereby increasing the number of investments from 17 to 34). Under the program, 1,200 km of new routes will be built (including 280 km of new investments and 920 km in revitalization and reconstruction). All work is scheduled for completion by the end of 2028;[34]

- 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). The fifth edition of the program is currently underway. A significant portion of investments intended for execution under this program involve local roads;[35]
- Forecasts for the construction industry: in the subsequent quarters of 2022, a decline in the annual growth rate of construction and assembly output is expected, probably down to 5-10% yoy in Q3 and below that level in Q4 of this year.

Steel industry

- Continued problems on the steel market. The post-pandemic disturbances related to increasing energy prices and production costs coupled with rising inflation were exacerbated by the outbreak of the armed conflict in Ukraine in H1 2022 (which caused the disintegration of steel supply chains from the east and sudden dramatic increases in commodity prices). The industry experienced problems obtaining raw materials and finished products, coupled with the slowdown in the global economy (which translated into declines in product prices and demand, while the relatively high production costs persisted);
- The weaker market demand caused by the persistently high level of inventories (after the feverish purchases caused by the outbreak of the war in Ukraine) means that production plants must reduce their output in order to adapt to the weak demand (in the summer, Chinese and European production plants, including Arcelor Mittal, reduced their output and launched some repair and maintenance work).
- Decrease in global crude steel output: in H1 2022, 949.4 million tons were produced (-5.5% yoy);[36]
- Decline in steel production in the European Union: in H1 2022, production stood at 73.8 million tons (-6.2% yoy);[37]
- Lower steel production in Asia (including Oceania): in H1, production totaled 701.4 million tons (-4.8% yoy), of which China produced 526.9 million tons of steel (-6.5% yoy), with an approximately 55% share in the global market;[38]
- Decrease in steel production in Poland: in H1 2022 down by -0.4% yoy to 4.2 million tons;[39]

- Decrease in the volume of steel products manufactured in Poland: in H1 2022, a decrease was recorded in the production of cold-rolled sheets by -9.3% yoy to 0.9 million tons, hot-rolled bars and rods by -2.8% yoy to 0.7 million tons and rods and flat bars by -1.4% yoy to 1.8 million tons. In turn, the production volume of thin sheets (0.6 million tons) remained unchanged.[40]
- Increase in the volume of production in Poland in H1: hot rolled products by +1.1% yoy to 4.6 million tons and steel pipes by +16.9% yoy to 0.5 million tons;[41]
- Increase in coke production in Poland in H1 2022: by +1.3% yoy to 4.6 million tons;[42]

[33] General Directorate for National Roads and Motorways
[34] WNP, Gazetaprawna.pl
[35] BGK, samorzad.pap.pl
[36] Worldsteel.org
[37] Worldsteel.org
[38] Worldsteel.org
[39] Statistics Poland
[40] Statistics Poland
[41] Statistics Poland
[42] Statistics Poland

- Increase in shipments of steel products from Brazil to Europe in H1 2022 to 909.8 thousand tons, or +710% yoy (Brazil fills in the gap caused by the shortage of Ukrainian and Russian steel in Europe);[43]
- Forecast of demand for steel in the European Union:

  – in 2022, demand for steel will decrease by -1.9% yoy (preceded by an increase by +15.2% in 2021 and a sharp drop by -11% in 2020) and will increase again in 2023 by +5.1% yoy (which means a decrease from 149 million tons in 2021 to 146 million tons in 2022, although for 2023 it is assumed that demand will recover to the 2018 level of 154 million tons);[44]

  – in 2022, the actual consumption of steel (taking into account the balance of inventories that have not been consumed) is expected to increase by +1.8% yoy, followed by +4.3% yoy in 2023 (after an increase by +8.5% yoy in 2021).[45]

Industry in the Czech Republic

In H1 2022, the following were significant factors affecting the situation in the selected industries:

Mining industry

- Decrease in hard coal mined in H1 2022: the volume of hard coal mined was 0.71 million tons (-48.8% yoy), including 0.57 million tons of coking coal (-23.7 % yoy) and 0.14 million tons of thermal coal (-78.4% yoy). The production remained at a similar level as in H2 2021. The year-over-year decline was largely due to the cessation of mining operations by the ÇSA and Darkov mines at the end of February 2021 (at present, ČSM as the only active hard coal mine in the Czech Republic);[46]
- In the whole of 2021, hard coal output in the Czech Republic exceeded 2.2 million tons (1.5 million tons of coking coal and 0.7 million tons of thermal coal), and at the same time, 4.5 million tons were imported last year (with exports at the level of 1.4 million tons);[47]
- In H1 2022, hard coal imports totaled 2.0 million tons (-7.0% yoy), while exports amounted to 0.5 million tons (-23.2% yoy);[48]
- Prolongation of coal mining in ČSM in Stonava (the last hard coal mine in the Czech Republic) in 2022: because of, among other factors, the conflict in Ukraine and the ban on coal imports from that direction, the mine's operation has been extended until the end of 2023.

  The mine, controlled by the state-owned company OKD, confirmed the production plan of 1.3 million tons of coal in 2022, and continued output at the same level in 2023.[49] Practically all the output is to be delivered (owing to large demand) to domestic customers. At the same time, OKD started preparations to exploit new mining areas. If adequate financial investments are made, exploitation will be possible even until 2025 but there has been no information that the scenario of extending the mine's operation will be implemented (appropriate analyses of the scenario were performed, the decision may be made at the beginning of 2023).[50]

[43] WNP (data from Aço Brasil – the country's National Steel Association)
[44] European Steel Association (Eurofer), May 2022
[45] European Steel Association (Eurofer), May 2022
[46] Ministry of Industry and Trade of the Czech Republic
[47] Ministry of Industry and Trade of the Czech Republic
[48] Ministry of Industry and Trade of the Czech Republic
[49] ceskenoviny.cz
[50] wyborcza.pl, dorzeczy.pl

Figure 7. Quarterly hard coal and lignite mining volumes in the Czech Republic in 2018-2022 (in thousands of tons).

Steel industry

- Drop in the coke production in the Czech Republic in H1 2022: up to 1.2 million tons (-3.6 % yoy);[51]
- Liberty Ostrava recorded some very robust performance in 2021, the production was 2.3 million tons of liquid steel, or an increase of +33% yoy (the best result since 2016), and 1.9 million tons of pig iron, which is a growth of +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). Management emphasizes its continued efforts to improve the quality parameters of the company's products and, at the same time, to increase output to over 3 million tons;[52]
- Liberty signed an agreement with Danieli for the installation of two 200-ton hybrid electric arc furnaces in the Liberty Ostrava steel plant. These furnaces allow for choosing quite freely the charged material, from large volumes of hot metal and direct reduced iron to 100% of scrap at the second stage of the project. At the same time, the technology will make it possible to reduce the emissions related to the plant's operation radically.[53]

[51] Ministry of Industry and Trade of the Czech Republic
[52] Liberty Ostrava
[53] WNP

Automotive industry

- Output decline in the automotive sector: in H1 2022, a total of 0.6 million motor vehicles of various types (passenger, trucks, buses and motorcycles) were manufactured in the Czech Republic, which means a decrease by -8.6% yoy compared to the corresponding period of 2021.[54] The main cause of the strong year-over-year decline in output was the limited availability of components used in production processes (mainly microchips but also wire harnesses manufactured in Ukraine) and the resulting forced downtimes.[55] According to AutoSAP's estimates, in 2021, due to the observed supply chain disruptions, automotive manufacturers failed to produce 300 thousand passenger cars, which shows the actual manufacturing capacities of the industry.[56] A still strong increase in demand for the sector's products should be emphasized, suggesting the likelihood of a rapid restoration of production volumes. In Q2 of this year, output remained at the previous year's level (a slight increase by +1.2%), which resulted mainly from the growth in the volume of manufactured passenger cars by +2.0% yoy (which accounted for over 97% of all vehicles produced). At the same time, there was a considerable decline in the production of trucks (by -27.6% yoy).[57]

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 holding an active license issued by the UTK President for the conduct of rail freight operations (as at 1 July 2022).[58] 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.[59]

In H1 2022, rail freight operators transported a total of 125.0 million tons of cargo (+7.0% yoy) and achieved a freight turnover of 30.4 billion tkm (+14.4% yoy).[60] This means that the industry, compared to the H1 2021 performance, achieved an increase in the volume of transported cargo by 8.2 million tons and an increase in freight turnover by 3.8 billion tkm. The rapid improvement in freight turnover compared to freight volume in the market was caused by an increase in the average haul, which in H1 2022 stood at 243 km, up by +16 km, compared to the corresponding period of the previous year.[61] During the first

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[54] AutoSap

[55] Rp.pl

[56] AutoSap

[57] AutoSap

[58] Office of Rail Transport (as at 1 July 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.

[59] Office of Rail Transport

[60] Office of Rail Transport

[61] Office of Rail Transport

six months of 2022, March was the best month both in terms of the freight volume transported by rail (22.85 million tons, or +7.19% year-over-year) and freight turnover (which was 5.5 billion tkm, or +13.9% yoy).

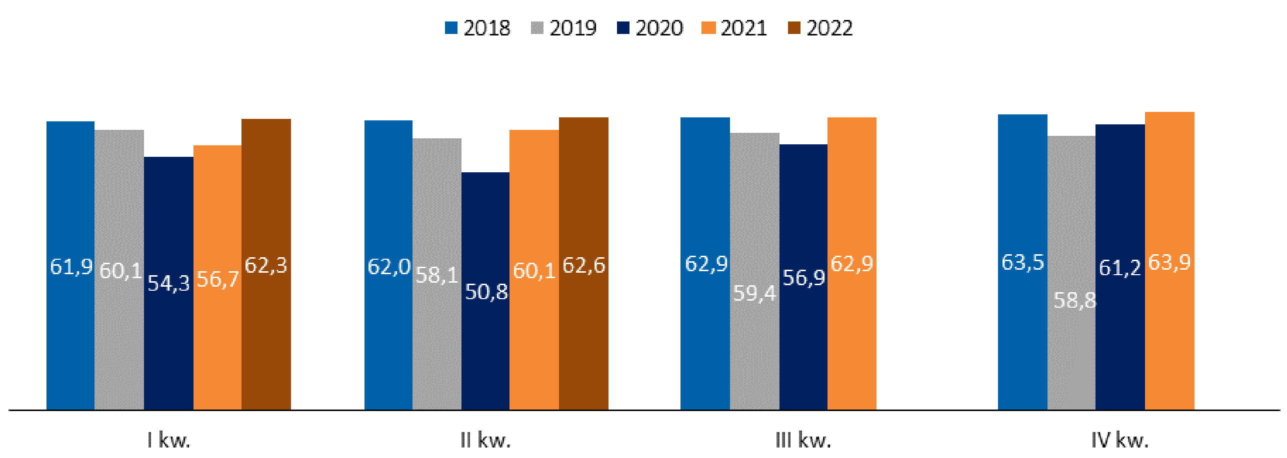
Analyzing H1 2022, it should be stated that the situation in the rail freight market and the domestic industry in H1 2022 is favorable for the economy in spite of the turmoil at the geopolitical level or the continued risk of new variants of COVID-19. Good rail freight results in H1 2022, with so big disturbances in supply chains in international and local markets, show that rail transport is of strategic importance and rail operators were able to reorganize their work quickly and adjust to the prevailing conditions, which allowed them to carry out transports effectively in spite of continuing repair works on the network on PKP Polskie Linie Kolejowe S.A. In H1 2022, the Polish industry recorded good industrial output figures, i.e. +13.6% higher in year-over-year terms (compared to an increase by +18.2% yoy in the corresponding period of 2021),[62] which also translated into an improvement in the situation of the rail transport sector.[63] In a long-term perspective, opportunities should be sought for raising the role of rail transport and its better use for transporting goods necessary for the industry, the building sector or in transports of consumer goods, grain, coal, oil and natural gas.

During the first 5 months of 2022 (data from June are still unavailable), the following changes in rail transport year-over-year performance were recorded in the cargo categories defined by Statistics Poland:[64]

- hard coal (freight volume up by 4.3% yoy to 37.4 million tons),
- aggregates, stone, sand and gravel (freight volume up by 8.5% yoy to 18.6 million tons),
- refined petroleum products (up 13.6% yoy to 7.9 million tons),
- metals and metal products (up 14.6% yoy to 4.8 million tons),
- coke, briquette and gases (up 2.2% yoy to 4.8 million tons),
- chemicals, chemical products (down -2.7% yoy to 4.4 million tons),
- iron ores (down +15.8% yoy to 3.4 million tons).

In aggregate, during the first 5 months of 2022, these cargo categories accounted for 80.5% 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 (+1.5 million tons yoy).

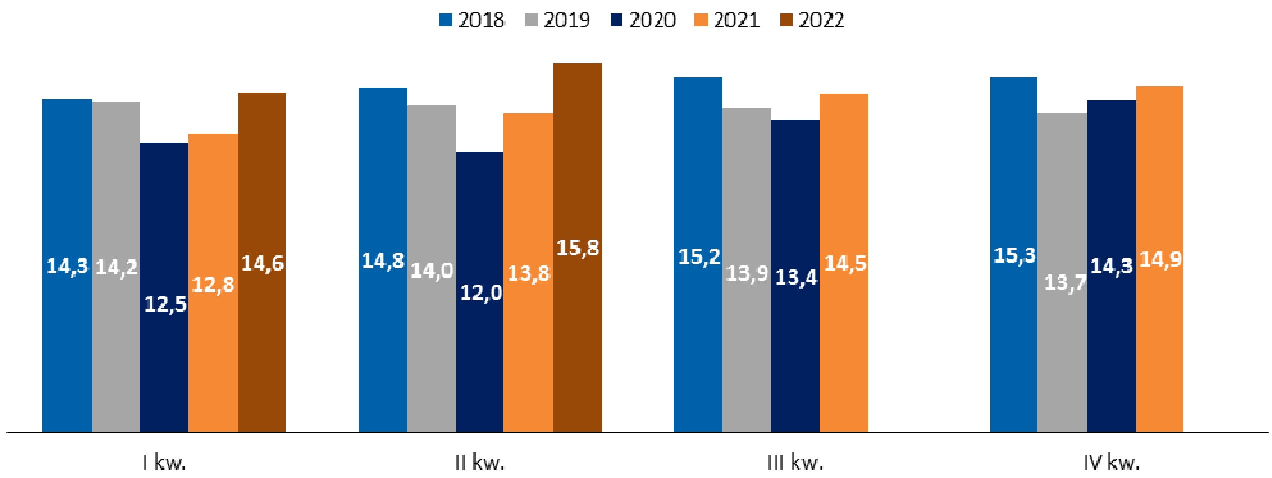
Figure 8. Quarterly rail freight volumes in Poland (million tons) in 2018-2022



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

[62] Statistics Poland,
[63] Office of Rail Transport
[64] Statistics Poland – data for the first 5 months of 2022. Data for June 2022 and the whole Q2/H1 2022 will be available at the end of August 2022.

Figure 9. Rail freight turnover in Poland (billion tkm) broken down by quarter in 2018-2022



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

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

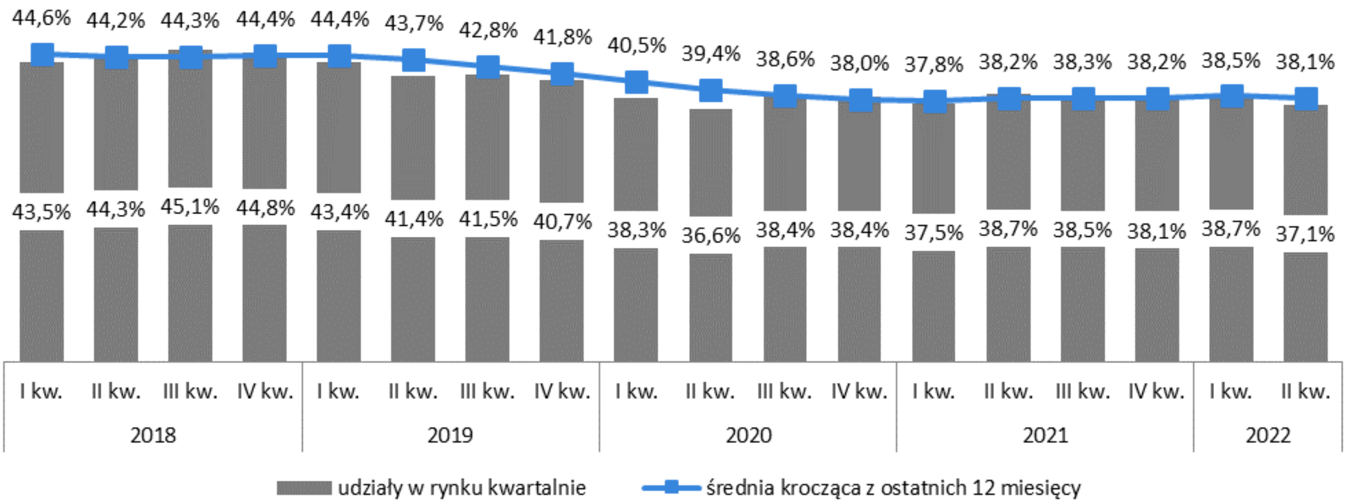
In H1 2022, the rail freight market improved year-over-year in terms of freight volume and freight turnover compared to the corresponding period of the previous year. The PKP CARGO Group's market share in H1 2022 was 37.9% (-0.2 p.p. yoy) in terms of freight volume and 40.5% in terms of freight turnover (-1.3 p.p. yoy).[65] The PKP CARGO Group[66] upheld its position of the undisputed leader in Poland's rail freight market, increasing then, in year-over-year terms, both rail freight volume and freight turnover. For five months, the Group recorded positive rates of growth in the market share in terms of freight volume. Weaker results in this year's June, though, contributed to a reversal of the above trend. Finally, the growth rate of increases of competitors in the market turned out to be a bit higher and the PKP CARGO Group, after 6 months of the year, slightly lost its market share results yoy. The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 36.1% (-0.5 p.p. yoy) and 39.9% (-1.6 p.p. yoy) in H1 2022.[67]

[65] PKP CARGO Group and Office of Rail Transport data

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

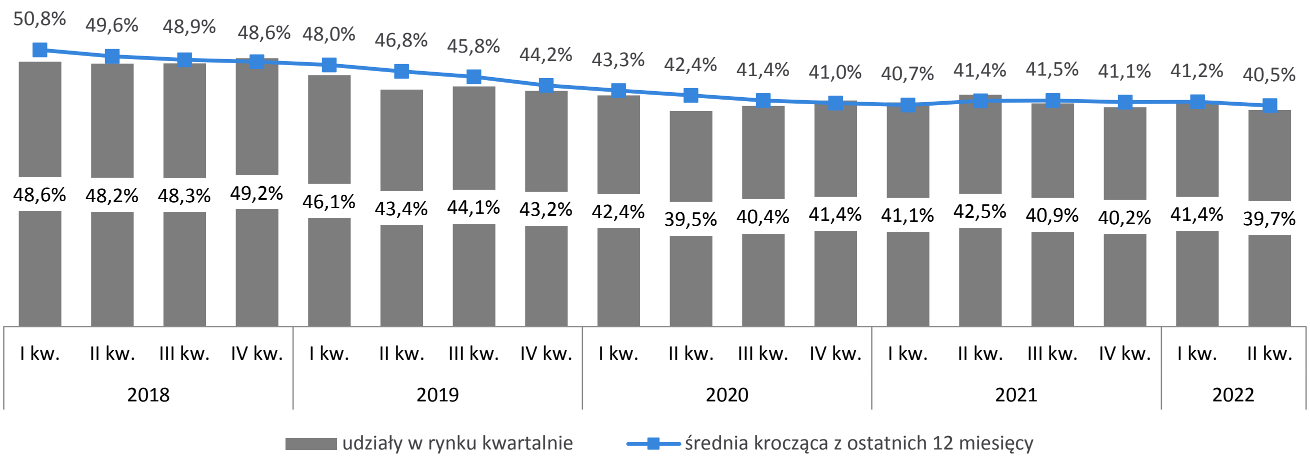
[67] Office of Rail Transport

Figure 10. Share of the PKP CARGO Group in total freight volume in Poland in 2018-2022



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

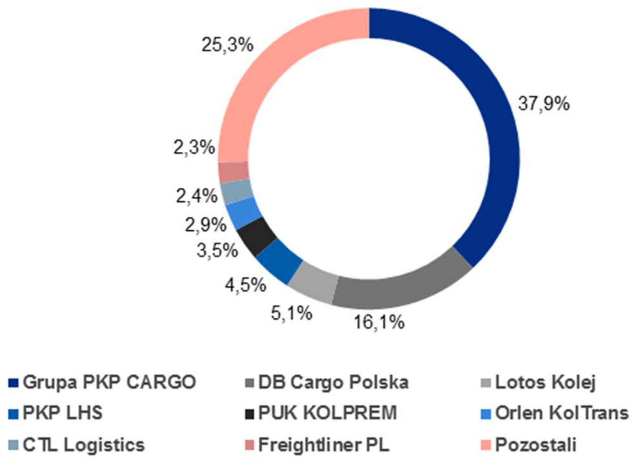
Figure 11. Share of the PKP CARGO Group in total freight turnover in Poland in 2018-2022



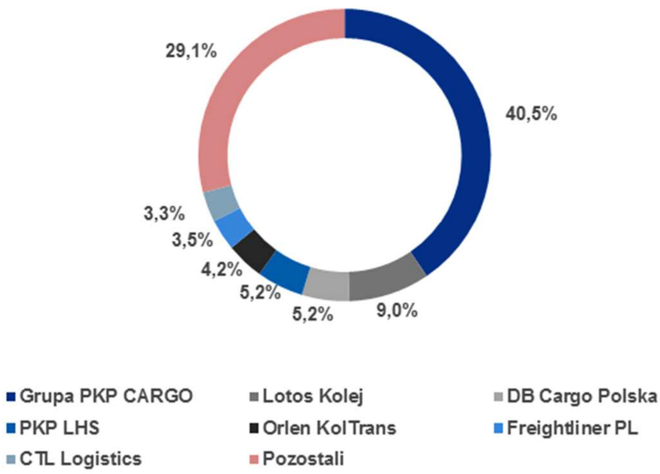
Source: Proprietary material based on the Office of Rail Transport's data

Figure 12. Market shares of the largest rail operators in Poland in H1 2022

By freight volume



By freight turnover



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

The following companies were the main competitors of the PKP CARGO Group on the Polish rail freight market in H1 2022: DB Cargo Polska, Lotos Kolej, PKP LHS, PUK Kolprem, Orlen KolTrans, CTL Logistics and Freightliner PL.

In H1 2022, the PKP CARGO Group's competitors transported a total of 77.6 million tons of freight (+7.3% yoy). In that period, the largest freight volume was transported by DB Cargo Polska companies (20.2 million tons, down -2.4% yoy), Lotos Kolej (6.4 million tons, up +6.2% yoy) and PKP LHS (5.6 million tons, up +24.9% yoy).[68]

At the same time, in H1 2022, freight turnover generated by operators competing with the PKP CARGO Group increased by 17.0% yoy, to 18.1 billion tkm. In the same billing period, the largest completed freight turnover was achieved by the following competing rail operators: Lotos Kolej (2.7 billion tkm, up +3.9% yoy), DB Cargo Polska (1.6 billion tkm, up +12.5% yoy) and PKP LHS (1.6 billion tkm, up +17.5% yoy).[69]

In H1 2022, the average haul of competitive rail operators increased to 233 km (i.e. by 19 km, or +9.0% yoy).[70]

[68] proprietary material based on Office of Rail Transport data

[69] proprietary material based on Office of Rail Transport data

[70] proprietary material based on Office of Rail Transport data

4.2.3. Rail freight transport market in the Czech Republic

In Q1 2022, in the Czech Republic, a total of 135.7 million tons of cargo was transported (+1.5% yoy) and freight turnover stood at 20.4 billion tkm (+3.1% yoy).[71] A year-over-year increase was recorded in freight volumes transported by road and by the other means of transport, while there was a drop of those volumes in rail transport. In terms of completed freight turnover, positive rates of growth were recorded in all branches of the market.

The average haul of cargo increased by 1.6% yoy and reached 150.0 km, with the road transport segment recording an increase in the average haul by 1.4% yoy (to 143.7 km), whereas in rail transport the average haul grew by 3.2% yoy (to 171.9 km).[72]

Table 12. Freight transport market in the Czech Republic in Q1 2022

[71] Ministry of Transport of the Czech Republic, data for Q2 2022 will be available at the turn of Q4 2022 (data excluding air transport)

[72] Ministry of Transport of the Czech Republic, data for Q2 2022 will be available at the turn of Q4 2022 (data excluding air transport)

	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Quantity (million tons)	Change yoy	Change in % yoy	Quantity (billion tkm)	Change yoy	Change in % yoy	Haul (km)	Change yoy	Change in % yoy
Total market	135.7	2.0	1.5%	20.4	0.6	3.1%	150.0	2.4	1.6%
Road transport	109.2	2.3	2.1%	15.7	0.5	3.5%	143.7	1.9	1.4%
Rail transport	23.7	-0.3	-1.4%	4.1	0.1	1.8%	171.9	5.3	3.2%
Other transport branches	2.8	0.1	1.8%	0.6	0.0	3.5%	211.5	3.5	1.7%

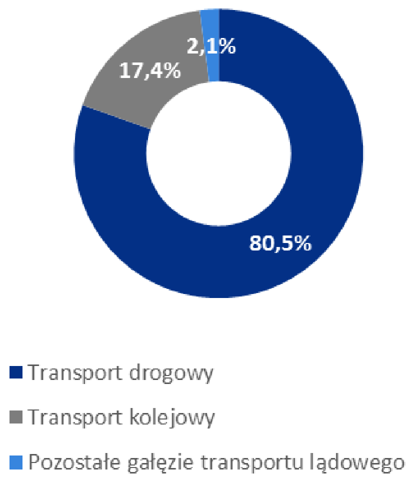
**Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic (data excluding air transport)*

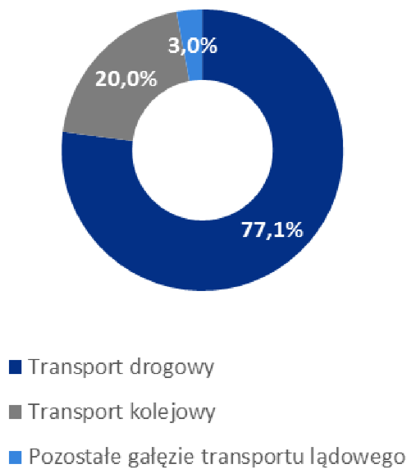
In Q1 2022, rail transport in the Czech Republic recorded a yoy decrease in freight volume to 23.7 million tons (-1.4% yoy) with a concurrent increase in freight turnover to 4.1 billion tkm (1.8% yoy).[73] In the same period, transports of goods by road were up 2.1% in terms of freight volume and up 3.5% in terms of 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 -0.5 p.p. of the market share yoy, with a concurrent decrease in the market share in terms of freight turnover by -0.3 p.p. yoy.[74]

Figure 13. Shares of various modes of transport in the transport market in the Czech Republic in Q1 2022: freight volume (L) and freight turnover (R)

[73] Ministry of Transport of the Czech Republic, data for Q2 2022 will be available at the turn of Q4 2022 (data excluding air transport)

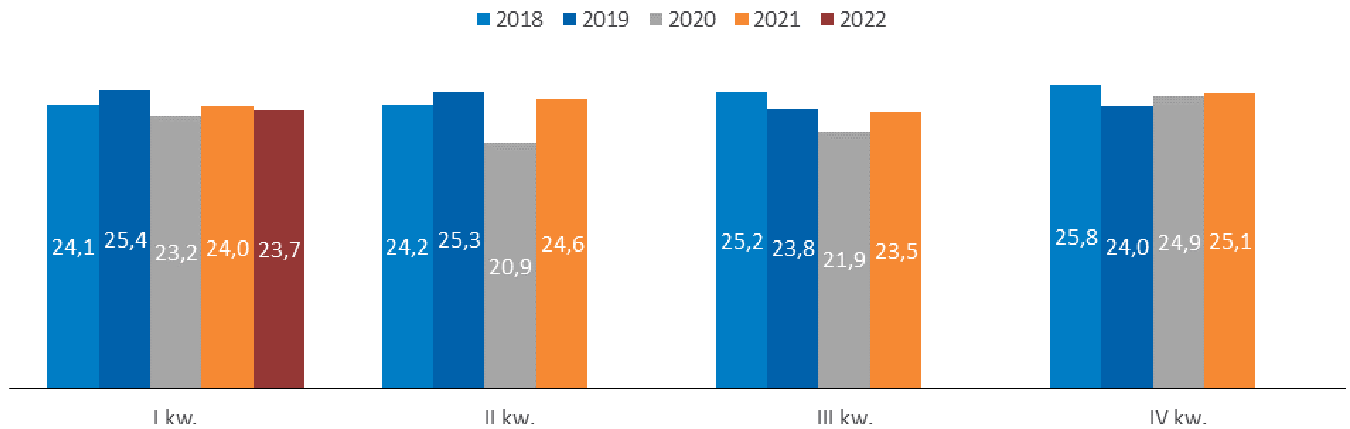
[74] Ministry of Transport of the Czech Republic, data for Q2 2022 will be available at the turn of Q4 2022 (data excluding air transport)





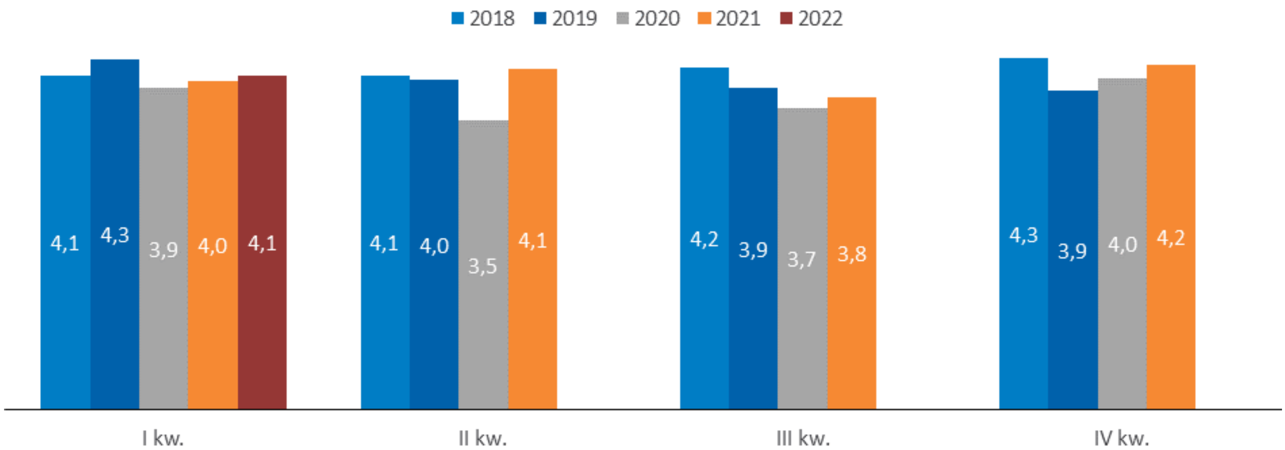
Source: proprietary material based on data from the Ministry of Transport of the Czech Republic; data for Q2 2022 will be available at the turn of Q4 2022 (excluding air transport)

Figure 14. Quarterly rail freight transport in the Czech Republic by freight volume in 2018-2022 (million tons)



Source: proprietary material based on data from the Ministry of Transport of the Czech Republic; data for Q2 2022 will be available at the turn of Q4 2022

Figure 15. Quarterly rail freight transport in the Czech Republic by freight turnover in 2018-2022 (billion tkm)



Source: proprietary material based on data from the Ministry of Transport of the Czech Republic; data for Q2 2022 will be available at the turn of Q4 2022

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), 124 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.[75]

In H1 2022, PKP CARGO International a.s. transported 3.4 million tons of freight (-15.6% yoy) and achieved freight turnover of 0.4 billion tkm (-19.8% yoy).[76] In the same period, the average haul of PKP CARGO International decreased to 129.7 km (-4.9% yoy), chiefly as a result of a rearranged mix of transported freight.[77]

Decreases in the volume of transported freight were recorded predominantly in solid fuels (including hard coal down -21.2% yoy to 1.0 million tons) and liquid fuels (-44.7% yoy to 0.3 million tons) and, to a lesser extent, aggregates and construction materials, chemicals as well as metals and ores.

In the period under analysis, intermodal transport continued to demonstrate a positive rate of growth (+7.4% yoy to 0.8 million).[78]

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 in Europe.

According to SŽDC data on the shares in the rail transport market in terms of gross freight turnover, PKP CARGO International's market share in the Czech market decreased by -1.5 p.p. yoy to 5.3% in H1 2022.[79] However, the company continues to hold the position of the third largest rail operator on the Czech market.[80]

*Figure 16. PKP CARGO International a.s.'s quarterly market shares in total freight volume in the Czech Republic in 2018-2022**

[75] SŽDC (as at 27 July 2022)

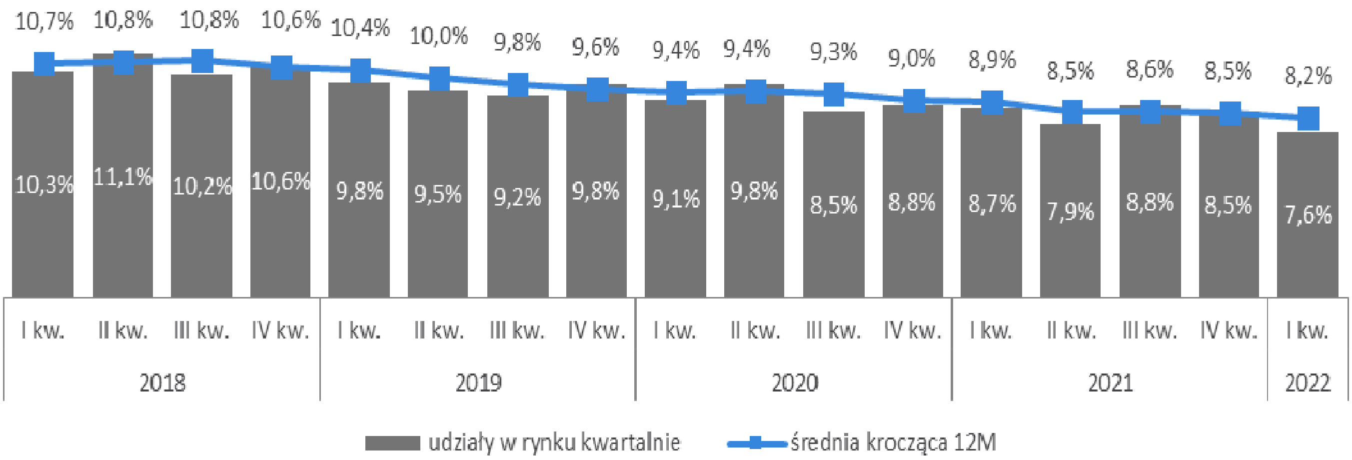
[76] PKP CARGO International's own statistics

[77] PKP CARGO International's own statistics

[78] PKP CARGO International's own statistics

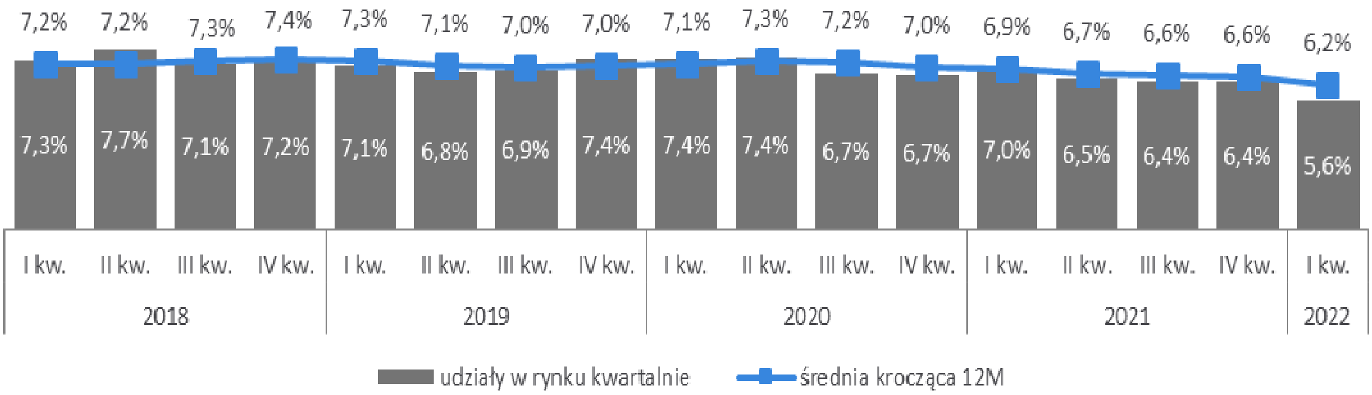
[79] SŽDC

[80] SŽDC



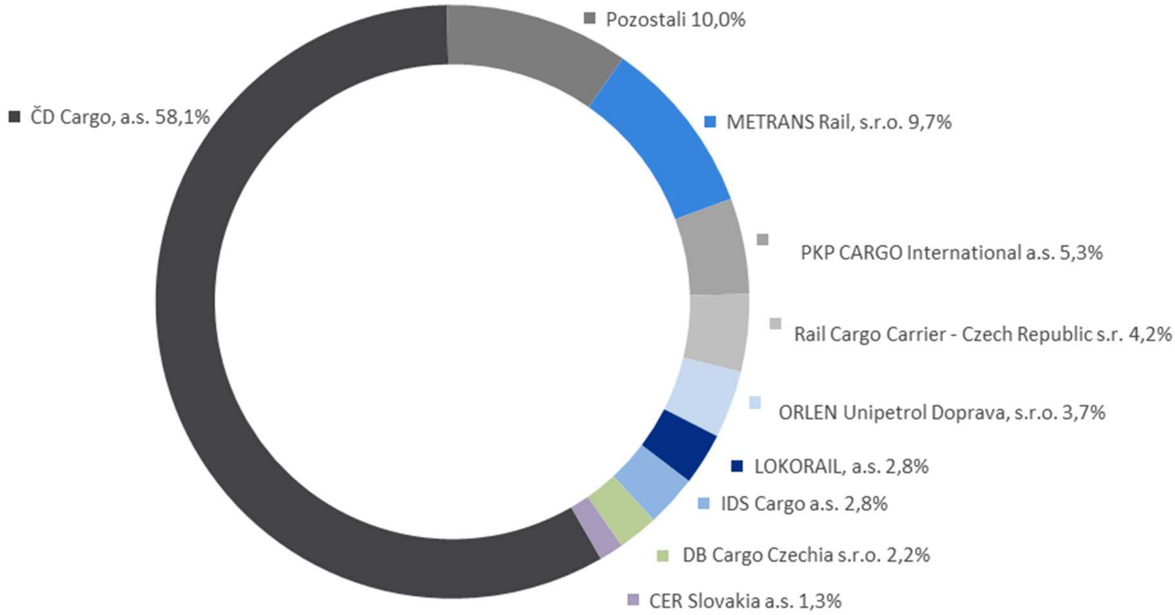
** Data for Q2 2022 will be available at the turn of Q4 2022.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International a.s.

*Figure 17. PKP CARGO International a.s.'s quarterly market shares in terms of freight turnover in the Czech Republic in 2018-2022**



** Data for Q2 2022 will be available at the turn of Q4 2022.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International a.s.

Figure 18. Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in H1 2022 (tkm)



Source: SŽDC (Czech rail infrastructure manager)

In H1 2022, ČD Cargo a.s. remained the leader of the Czech rail freight transport market in terms of gross operational turnover, and its market share was in a rapid upward yoy trend, having increased to 58.1% (+2.9 p.p. yoy).[81] Year-over-year increases in the market share were also recorded by LOKORAIL a.s. (+0.9 p.p. yoy to 2.8%), by Metrans Rail (+0.3 p.p. yoy to 9.7%), thus having solidified its position as the second largest rail freight carrier in the Czech Republic, and slightly by DB Cargo Czechia s.r.o. (+0.03 p.p. yoy to 2.2%).[82] In addition, the list includes a rail operator that was not included in 2021, namely CER Slovakia a.s. (with a share of 1.3%), which may mean that the operator will intensify its operational activity.

In H1 2022, lower market shares were held by PKP CARGO International a.s. (-1.5 p.p. yoy to 5.3%), ORLEN Unipetrol Doprava s.r.o. (-1.4 p.p. yoy to 3.7%, the operator focuses its business on the fuel transport segment) and Rail Cargo Carrier – Czech Republic s.r. (-0.8 p.p. yoy to 4.2%). IDS Cargo a.s. retained its market position at an unchanged level (2.8%). A 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 (-0.6 p.p. yoy to 10.0%).[83]

The list of the largest rail operators on the Czech market in H1 2022 published by SŽDC does not include PKP CARGO S.A. In the period, the following transports performed by PKP CARGO S.A. decreased year-over-year: of hard coal imported from Poland to the Czech Republic, exports of coking coal from the Czech Republic to Wałbrzych and imports from Poland and via Polish ports in transit via Poland to the Czech Republic. Import transports of iron ore from Ukraine were also reduced, which was partly compensated by transports via Polish ports. Lower transports of paper, cement clinker and chemicals were also recorded.

At the same time, in H1 2022, compared to the corresponding period of the previous year, increases were recorded in transports of scrap from Poland to the Czech Republic, slag between Poland, Slovakia and the Czech Republic, calcium flux imported from Poland and intermodal transports in transit between Poland and Italy.[84]

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[81] SŽDC

[82] SŽDC

[83] SŽDC

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

4.2.5. PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group for H1 2021 and H1 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 PKP CARGO Group collaborates with the largest Polish and global groups, including Arcelor Mittal, PKN Orlen, PGNiG, Lafarge, Azoty, JSW, Węglokoks, Enea, PGE, Tauron, Polska Grupa Górnicza and MM KWIDZYN.

Table 13. Freight turnover of the PKP CARGO Group in H1 and Q2 2021 and 2022

Item	H1 2022	H1 2021	Change H1 2022/ H1 2021		H1 2022	H1 2021	Q2 2022	Q2 2021	Change Q2 2022/ Q2 2021	
	(million tkm)			%	percentage of total (%)		(million tkm)			%
Solid fuels[1]	5,240	4,797	443	9.2%	39%	39%	2,419	2,402	17	0.7%
of which hard coal	4,404	3,875	529	13.6%	33%	31%	2,028	1,951	77	3.9%
Aggregates and construction materials[2]	2,603	2,245	358	16.0%	20%	18%	1,437	1,398	39	2.8%
Metals and ores[3]	1,262	1,078	183	17.0%	9%	9%	737	533	204	38.3%
Chemicals[4]	1,097	1,107	-10	-0.9%	8%	9%	552	565	-12	-2.1%
Liquid fuels[5]	417	306	110	36.0%	3%	2%	238	147	91	62.2%
Timber and agricultural produce[6]	435	409	25	6.2%	3%	3%	230	180	50	27.9%
Intermodal transport	2,033	2,238	-205	-9.2%	15%	18%	1,030	1,172	-142	-12.1%
Other[7]	248	258	-10	-4.0%	2%	2%	142	142	-1	-0.4%
Total	**13,335**	**12,439**	**896**	**7.2%**	**100%**	**100%**	**6,785**	**6,538**	**247**	**3.8%**

Source: Proprietary material

Table 14. Freight volume of the PKP CARGO Group in H1 and Q2 2021 and 2022

Item	H1 2022	H1 2021	Change H1 2022/ H1 2021		H1 2022	H1 2021	Q2 2022	Q2 2021	Change Q2 2022/ Q2 2021	
	(million tons)			%	percentage of total (%)		(million tons)			%
Solid fuels[1]	25.5	25.2	0.2	0.9%	50%	52%	11.3	12.5	-1.2	-9.7%
of which hard coal	22.8	22.2	0.6	2.6%	45%	46%	10.0	11.1	-1.0	-9.5%
Aggregates and construction materials[2]	10.0	8.7	1.4	15.7%	20%	18%	5.5	5.3	0.1	2.1%
Metals and ores[3]	3.9	3.6	0.3	7.7%	8%	7%	2.2	1.9	0.3	17.1%
Chemicals[4]	3.0	3.2	-0.2	-6.4%	6%	7%	1.5	1.6	-0.2	-10.1%
Liquid fuels[5]	1.2	0.9	0.4	40.8%	2%	2%	0.7	0.4	0.3	78.4%
Timber and agricultural produce[6]	1.6	1.2	0.4	33.1%	3%	2%	0.9	0.5	0.4	66.7%
Intermodal transport	4.8	4.8	0.0	-0.6%	9%	10%	2.4	2.5	-0.1	-2.9%
Other[7]	0.9	0.9	0.0	-0.8%	2%	2%	0.5	0.5	0.1	14.9%
Total	**51.0**	**48.6**	**2.4**	**4.9%**	**100%**	**100%**	**25.0**	**25.3**	**-0.3**	**-1.0%**

Source: Proprietary material

In H1 2022, the average haul of freight transported by rail by the PKP CARGO Group was 262 km (an increase by +6 km yoy). The average haul increased in Q2 2022 (+12 km yoy).

Table 15. Average haul of the PKP CARGO Group in H1 and Q2 2021 and 2022

Item	H1 2022	H1 2021	Change H1 2022/ H1 2021		Q2 2022	Q2 2021	Change Q2 2022/ Q2 2021	
	(km)			%	*(km)*			%
Solid fuels[1]	206	190	16	8.3%	214	192	22	11.5%
of which hard coal	193	175	19	10.7%	202	176	26	14.8%
Aggregates and construction materials[2]	259	258	1	0.3%	263	262	2	0.6%
Metals and ores[3]	323	297	26	8.6%	331	280	51	18.1%
Chemicals[4]	363	343	20	5.9%	379	348	31	8.9%
Liquid fuels[5]	334	346	-12	-3.4%	324	356	-32	-9.0%
Timber and agricultural produce[6]	274	343	-69	-20.2%	255	332	-77	-23.3%
Intermodal transport	424	464	-40	-8.6%	426	470	-44	-9.5%
Other[7]	273	282	-9	-3.2%	265	305	-41	-13.4%
Total	**262**	**256**	**6**	**2.2%**	**271**	**259**	**12**	**4.8%**

Source: Proprietary material

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

The following were key factors affecting the volume of transport in various cargo categories in H1 2022:

PALIWA STAŁE

- replenishment of reserves in storage facilities of each power plant and increased sales of coal;
- increased coal transports to Ukraine;
- increase in the haul of hard coal by 19 km (11%);
- suspension of hard coal imports via Poland's eastern border (embargo on coal purchases from Russia);
- decrease in the volume of transported coke on domestic and international routes;
- decrease in the volume of coal transported from OKD mines

KRUSZYWA I MATERIAŁY BUDOWLANE

- increased customer demand for construction stone due to replenishment of storage facilities, continuation of road investments and modernization of rail routes and railway stations;
- increase in average haul

METALE I RUDY

- 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;
- growth in average haul by 26 km (+9%)

PALIWA PŁYNNE

- increase in freight volume and change in the supply logistics of the largest client in this segment 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;
- loss of fuel transports by PKP CARGO INTERNATIONAL from the Czech Republic to Germany;
- decline in average haul by 12 km (-3%)

DREWNO I PŁODY ROLNE

- 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;
- growth of grain transports from Ukraine to seaports;
- increase in rapeseed imports via seaports;
- cessation of timber transport services from the Czech Republic;
- decrease in the average haul by 69 km (-20%) caused by the change in the structure of freight routes – increased share of domestic transport and transport from sea ports

PRODUKTY CHEMICZNE

- increase in transport services of hydrocarbons across the eastern border following from the upsurge in demand for natural gas by customers;
- decrease in transport services of nitrogen fertilizers domestically, in exports through seaports and in connection with the suspension of fertilizer exports to Ukraine;
- growth in average haul by 20 km (+6%)

PRZEWOZY INTERMODALNE

- 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 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;
- increased transports of metals and agricultural produce in containers from Ukraine;
- loss of transports by PKP CARGO INTERNATIONAL from the port of Koper, Slovenia, to another rail operator;

POZOSTAŁE

- 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

In its product portfolio, the PKP CARGO Group distinguishes one major product (rail freight) to which other services provided by the Group are assigned, making up a complementary product offering responding to the needs of the domestic and international markets. Apart from transport activity, the PKP CARGO Group provides complementary services supporting the Group in the area of rail freight, including siding and traction services, terminal or forwarding services. The Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the Interim Consolidated Financial Statements of the PKP CARGO Group.

4.4. Headcount

Below, data are presented on the headcount in the PKP CARGO Group and PKP CARGO S.A. in 6M 2022 and 6M 2021. In H1 2022, the PKP CARGO Group recorded a decrease in headcount by 269 persons, including a decrease by 195 persons in PKP CARGO.

Figure 19. Headcount in the Company and the PKP CARGO Group in 6M 2022 and 2021

ZATRUDNIENIE
W **GRUPIE** (OSOBY)
STAN NA:

30/06/2022
20 293

31/12/2021
20 562

ZATRUDNIENIE
W **SPÓŁCE** (OSOBY)
STAN NA:

30/06/2022
14 533

31/12/2021
14 728

ZATRUDNIENIE PRZECIĘTNE
W **GRUPIE** (ETATY)
W OKRESIE:

6 MIESIĘCY 2022
20 337

6 MIESIĘCY 2021
21 470

ZATRUDNIENIE PRZECIĘTNE
W **SPÓŁCE** (ETATY)
W OKRESIE:

6 MIESIĘCY 2022
15 583

6 MIESIĘCY 2021
15 572

STANOWISKA ROBOTNICZE
W **GRUPIE** (OSOBY)
STAN NA:

30/06/2022
15 507

31/12/2021
15 754

STANOWISKA ROBOTNICZE
W **SPÓŁCE** (OSOBY)
STAN NA:

30/06/2022
11 168

31/12/2021
11 339

STANOWISKA NIEROBOTNICZE
W **GRUPIE** (OSOBY)
STAN NA:

30/06/2022
4 786

31/12/2021
4 808

STANOWISKA NIEROBOTNICZE
W **SPÓŁCE** (OSOBY)
STAN NA:

30/06/2022
3 365

31/12/2021
3 389

4.5. PKP CARGO Group's investments

In 6M 2022, the PKP CARGO Group incurred capital expenditures of PLN 378.8 million, down 17.3% 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 (mainly related to real estate leases) were recognized.

The majority of capital expenditures in 6M 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 349.44 million (i.e. 92.22% of capital expenditures). Furthermore, expenditures were incurred on investment construction activity in the amount of PLN 9.3 million, purchases of machinery, equipment, other workshop and office fittings as well as means of transport for PLN 4.8 million, on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 1.7 million, and on right-of-use assets for PLN 13.6 million, including PLN 9.3 million in real estate leases and PLN 4.3 million in other rights, mainly for leases of vehicles.

Table 16. Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in 6M 2022 as compared to 6M 2021 (PLN million)

Item	6M 2022	6M 2021	Change 2022-2021	Change 2022-2021 %
Investment construction activity	9.3	11.2	-1.9	-17.7%
Locomotive upgrades	13.7	97.7	-84.0	-85.9%
Wagon purchases	110.6	114.8	-4.2	-3.7%
Workshop machinery and equipment	3.6	18.3	-14.7	-80.1%
ICT development	1.7	6.3	-4.6	-72.8%
Other	1.2	0.1	1.1	2263.2%
Components in overhaul, including:	225.1	173.3	51.8	29.9%
Repairs and periodic inspections of locomotives	*48.5*	*53.9*	*-5.4*	*-10.0%*
Repairs and periodic inspections of wagons	*176.6*	*119.4*	*57.2*	*47.9%*
Right-of-use assets*	*13.6*	*36.3*	-22.7	-62.5%
Total	**378.8**	**458.0**	**-79.2**	**-17.3%**

Investment construction activity	9.3	11.2	-1.9	-17.7%
Locomotive purchases	0.3	0.0	0.3	-
Locomotive upgrades	13.7	97.7	-84.0	-85.9%
Wagon purchases	110.6	114.8	-4.2	-3.7%
Workshop machinery and equipment	3.6	18.3	-14.7	-80.1%
ICT development	1.7	6.3	-4.6	-72.8%
Other	0.9	0.1	0.8	1743.6%
Components in overhaul, including:	225.1	173.3	51.8	29.9%
Repairs and periodic inspections of locomotives	*48.5*	*53.9*	*-5.4*	*-10.0%*
Repairs and periodic inspections of wagons	*176.6*	*119.4*	*57.2*	*47.9%*
Right-of-use assets*	*13.6*	*36.3*	-22.7	-62.5%
Total	**378.8**	**458.0**	**-79.2**	**-17.3%**

Source: Proprietary material

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

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 the 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. for the 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 the PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Commerce, PKP CARGO S.A. Management Board Member in charge of Finance, and PKP CARGO S.A. Management Board Member in charge of Operations, 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 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 the 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 the 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 the 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.

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 Trade Unions.

APRIL 2022

- On 23 March 2022, the Management Board of PKP CARGO S.A. ("Company") reported that it received from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. with its registered office in Warsaw a notice of reduction by 2% in the number of the Company's shares held by Nationale-Nederlanden Otwarty Fundusz Emerytalny.
- On 12 April 2022, the PKP CARGO S.A. Management Board reported the elapse of the three-month period of secondment of Mr. Władysław Szczepkowski, the Company's Supervisory Board Member, to act temporarily in the capacity of the President of the PKP CARGO S.A. Management Board.
- On 13 April 2022, the Company's Supervisory Board, as a result of the conducted executive recruitment procedure, adopted:

  1) Resolution No. 33/VII/2022 to appoint Mr. Dariusz Seliga to the PKP CARGO S.A. Management Board entrusting him with the function of President of the Management Board for the joint 7th and 8th term office, as of 13 April 2022;

  2) Resolution No. 35/VII/2022 to appoint Mr. Zenon Kozendra to the PKP CARGO S.A. Management Board entrusting him with the function of a Management Board Member – PKP CARGO S.A. Employee Representative 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.
- On 22 April 2022, the Company's Supervisory Board, as a result of the conducted executive recruitment procedure, adopted:

  1) resolution no. 37/VII/2022 to appoint Mr. Jacek Rutkowski to the PKP CARGO S.A. Management Board entrusting him with the function of Management Board Member in charge of Commerce for the joint 7th and 8th term office, as of 25 April 2022;

  2) resolution no. 39/VII/2022 to appoint Mr. Maciej Jankiewicz to the PKP CARGO S.A. Management Board entrusting him with the function of Management Board Member in charge of Finance for the joint 7th and 8th term office, as of 25 April 2022.
- On 27 April 2022, as a result of the negotiations held as part of the collective dispute with the Trade Union Organizations acting as a party to the Collective Bargaining Agreement for Employees of the PKP CARGO S.A. Units, no agreement was reached, and as a consequence, pursuant to the provisions of Article 9 of the Act of 23 May 1991 on Collective Dispute

Resolution (consolidated text: Journal of Laws of 2020, Item 123), a statement of differences of opinion has been drafted, which presents positions of both Parties to the demand raised by the Trade Union Organizations that a salary increase should be implemented as of 1 April 2022. The signing of this statement of differences of opinion terminated the negotiations, whereby the collective dispute moved into the stage of mediation in accordance with the regulations of the Act.

MAY 2022

- On 23 May 2022, the Parent Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Oszczędności S.A. for the maximum amount of up to PLN 100,000,000.00 which amends the loan terms in that it extends the loan availability until 24 May 2023.
- On 24 May 2022, during the mediation meeting held as part of the procedure to resolve a collective dispute for the implementation of a system-based salary raise 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 signing of the protocol suspends the mediations in the collective dispute until November 2022.
- On 30 May 2022, the Management Board of PKP CARGO S.A. reported that it had received from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. with its registered office in Warsaw a notice of reduction by 2% in the number of the Company's shares held by Nationale-Nederlanden Otwarty Fundusz Emerytalny.

JUNE 2022

- On 3 June 2022, an announcement was published regarding convocation of the Company's Ordinary Shareholder Meeting for 29 June 2022 together with the wording of draft resolutions and supporting documentation.
- On 17 June 2022, the Parent Company executed an annex to an overdraft facility agreement with Bank Gospodarstwa Krajowego for the maximum amount of up to PLN 100,000,000.00 extending the loan availability until 20 September 2022.
- On 20 June 2022, the Management Board of PKP CARGO S.A. reported that it had received a proposal from one of the Company's shareholders, namely Aviva Powszechne Towarzystwo Emerytalne Aviva Santander, concerning the candidacy of Mr. Dominik Januszewski to be a PKP CARGO S.A. Supervisory Board Member fulfilling independence criteria.
- On 24 June 2022, the Management Board of PKP CARGO S.A. reported that it had received a motion from the Company's shareholder, Nationale-Nederlanden Otwarty Fundusz Emerytalny represented by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A., concerning the candidacy of Mr. Michał Wnorowski to be a PKP CARGO S.A. Supervisory Board Member fulfilling independence criteria.
- On 29 June 2022, the Management Board of PKP CARGO S.A. reported that it had received a proposal from the Company's shareholder, Otwarty Fundusz Emerytalny PZU "Złota Jesień" represented by Powszechne Towarzystwo Emerytalne PZU SA, concerning the candidacy of Ms. Izabela Wojtyczka for a PKP CARGO S.A. Supervisory Board Member fulfilling independence criteria.
- On 28 June 2022, the Parent Company executed an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. up to the maximum amount of PLN 100,000,000.00 with the availability term until 27 June 2023.
- On 29 June 2022, the Company's Ordinary Shareholder Meeting, acting pursuant to Article 385 § 1 of the Commercial Company Code and § 19 Section 1 of the Company's Articles of Association, appointed the following members fulfilling the independence criteria to the PKP CARGO Supervisory Board for its 8th term of office: Ms. Izabela Wojtyczka and Mr. Michał Wnorowski.
- The Management Board of PKP CARGO S.A. reported that on 29 June 2022 it received a notice from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. with its registered office in Warsaw, acting on behalf of Nationale-Nederlanden Otwarty Fundusz Emerytalny (Nationale-Nederlanden Open-End Pension Fund), that as a result of the sale of a stake in the Company's stock, the Fund decreased its share in the total number of votes in the Company below the 10% threshold.

JULY 2022

- On 7 July 2022, Mr. Jarosław Piotr Stawiarski was appointed to the PKP CARGO S.A. Supervisory Board of the 8th term of office.

- On 12 July 2022, the PKP CARGO S.A. Supervisory Board of the 8th term of office was formed, having elected:
  – Mr. Władysław Szczepkowski to serve as the Supervisory Board Chairman of the 8th term of office;
  – Mr. Andrzej Leszczyński to serve as the Supervisory Board Vice-Chairman of the 8th term of office.
  At the same time, the PKP CARGO S.A. Supervisory Board appointed the Audit Committee of the Supervisory Board of the 8th term of office composed of: Ms. Izabela Wojtyczka; Mr. Michał Wnorowski; Mr. Jarosław Ślepaczuk.
- On 28 July 2022 the PKP CARGO S.A. Management Board received a letter from Polskie Koleje Państwowe S.A., a Company shareholder, submitted in connection with § 19 Sections 2 and 6 of the Company's Articles of Association on the appointment of Mr. Grzegorz Dostatni to the Supervisory Board in its 8th term of office. The appointment of Mr. Grzegorz Dostatni to the Supervisory Board pursuant to the statutory right held by PKP S.A. is consistent with the regulation in § 19 Section 2 of the Company's Articles of Association.
- On 29 July 2022, the subsidiary PKP CARGO Terminale sp. z o.o. entered into an agreement with ZUE S.A. with its registered office in Kraków to carry out an investment project entitled Performance of construction work to carry out an investment project entitled "Construction of a multimodal terminal in Zduńska Wola-Karsznice". The estimated value of the contract is PLN 100 million (gross value of PLN 123 million). Performance deadline: by 31 October 2023. Under the subject of the agreement PKP CARGO Terminale sp. z o.o. will build a cargo transshipment location including tracks and turnouts, the terminal grounds including a parking lot and roads. This contract contemplates the possibility of PKP CARGO Terminale sp. z o.o. paying contractual damages, where failing to perform the foregoing construction work on schedule may cause the company to reimburse EU funds. The other terms and conditions of the contract do not deviate from the standard terms and conditions for construction contracts of this type.
- On 29 July 2022, PKP CARGO Terminale sp. z o.o. entered into an agreement with ECM GROUP POLSKA S.A. with its registered office in Warsaw to render investor supervision services for the construction work under the investment project entitled "Construction of a multimodal terminal in Zduńska Wola-Karsznice". The net value of the contract is PLN 1,050,000.00 (the gross value is PLN 1,291,500.00). This contract will be performed from the date of its execution until the day when the client signs the final post-guarantee acceptance report of this terminal with the construction work contractor. On 28 July 2022, an agreement was signed with Polskie Koleje Państwowe S.A. to lease land in Zduńska Wola - Karsznice for part of plots no. 1/31 and 1/53 with a total area of 116,786 m^2 for PKP CARGO Terminale sp. z o.o. to carry out an investment involving the "Construction of a multimodal terminal in Zduńska Wola-Karsznice". The estimated net value of this land lease contract is PLN 10,791,026.40 (the gross value is PLN 13,272,962.47). The contemplated duration of the lease is 10 years with an option to extend for another period.

AUGUST 2022

- On 17 August 2022, PKP CARGO S.A. and other members of the PKP Group signed an agreement for the management of a subsidiary, as referred to in Article 7 of the Commercial Company Code (hereinafter: PKP Group Charter). The PKP Group Charter specifies, without limitation, the basic objective of the PKP Group Charter, which is to ensure the pursuit of the PKP Group's strategic interests through developing the principles and structures, which will define and set out the PKP Group's Goals and Mission and enable reliable monitoring and evaluation of the steps taken by management boards of PKP Group Members. The PKP Group's Interest is the commonality of the Parties' goals and entails balancing the interests of individual Parties and of the PKP Group. By signing the PKP Group Charter, the Company undertook to cooperate with the PKP Group Members in the Cooperation Areas, which include: internal audit and internal control, strategy, economic analyses, corporate governance, procurement, IT and telecommunications, marketing, promotion, PR activities, finance, accounting, HR management, international cooperation, legal and organizational activities, common market, property management, rail geodetic services, security, training and professional improvement and development of rail personnel. The PKP Group Charter appoints the PKP Group bodies, including the PKP Group Management Board as the executive body and the PKP Group Board as the advisory and consultancy body, with the bodies not replacing the statutory bodies of the Group Members and cooperating with the Parties such that the obligations and rights of the statutory bodies of the PKP Group Members are not infringed.

4.7. Description of key threats and risks

Risks related to the economic and market environment

In 2022, the PKP CARGO Group conducted operating activity in uncertain circumstances, resulting both from the continued COVID-19 pandemic and its impact on global economies and, first of all, from the situation associated with the military conflict in Ukraine and its global repercussions. The factors influence both the Company's international activity (especially in relationships with partners having economic relations with the countries of Eastern Europe and Asia) as well as the rapid changes in the rail freight market in the territory of Poland.

The largest share in the PKP CARGO Group's total freight volume continues to consist of bulk cargo, including hard coal, aggregates and other construction materials, coke, ores and metals, chemicals and chemical products, and liquid fuels. In the period under analysis, the economic situation in the sectors involving the main consumers of above commodities (including power, construction and steel industry) had a direct impact on the demand for transport services and, thereby, on the transport performance and financial results of members of the PKP CARGO Group.

In H1 2022, the volume of industrial output in Poland increased by 13.6% yoy.[85] In 2022, the industrial sector remained relatively resistant to the economic impact of the COVID-19 pandemic and played a stabilizing role in the Polish economy. The data show a picture of good economic situation in the domestic industry, which is already strongly halting. The future evolution of the epidemiological situation and the growth of the Polish and Czech economies will be the key drivers of industrial production growth, and – indirectly – of the scale of the PKP CARGO Group's transport business in the next quarters.

The continuing military conflict in Ukraine, causing a tense geopolitical situation and prolonging period of the COVID-19 pandemic or the acceleration of inflation processes may contribute to a durable loss of global production potential and changes in supply chains. Currently, it is impossible to realistically forecast how the situation in Ukraine will develop, how long the conflict will last or how it will impact the global economy. For Poland, it poses a tangible threat (especially if the hostilities escalate) and may cause a decline in the country's growth rate (decline in investments, depreciation of the Polish currency, etc.) in the coming years. On the flipside, it may provide an impulse for the modernization of the Polish economy (including the acquisition of new technologies) and the entry of Polish companies into global markets, which would increase the economic growth rate in the longer term.

Risk resulting from the macroeconomic and geopolitical situation

Due to their strong integration with global supply chains, Poland and the Czech Republic are exposed to various disturbances in the global economy. Accordingly, the performance of PKP CARGO Group companies depends in this respect and is exposed to the developments on the global markets.

- high degree of uncertainty on financial markets and the absence of prospects for an end to the conflict in Ukraine (including the global effects of the gradually imposed sanctions). A measurable risk is still the unpredictability of the global epidemiological situation and rising inflation, which raises concerns about the risk of recession in many developed countries and major crises in developing countries. China's economic problems, both in the housing sector and due to its "zero COVID" policy, are also an area of elevated risk. Additionally, as inflation increases, so does the cost of capital, which makes it more expensive for commercial undertakings to run a business. Globally, inflation is expected to increase to +6.6% yoy for developed countries and to +9.5% yoy for emerging markets and developing countries;
- the looming energy crisis in Europe creates the likelihood of a turmoil on the European energy market (concerning mainly gas supplies);
- the weakening position of the United States on a global scale and the ongoing trade war between the United States and China pose a threat of another international conflict and the ensuing reorganization of economic links between countries. The armed conflict in Ukraine and the sanctions (including financial ones) imposed on Russia and Belarus will directly affect the economic performance of both parties to the war. The ties between the Russian economy and the Chinese economy keep getting stronger – which helps the sanctioned countries to bypass the global financial system and create a separate circuit independent of the United States. As a consequence, this situation may result in the tightening of cooperation between Russia and China on the one hand (which may potentially be expanded to include other BRICS countries, i.e. India, Brazil and South Africa, and other states interested in establishing cooperation with them); on the other hand, an analogous situation may take place within the group of countries associated with NATO and the United States;

[85] Statistics Poland

- Poland's weaker GDP growth in 2022 resulting from the ongoing armed conflict in Ukraine and, in the longer term, interest rate hikes and high inflation. The decline in the rate of growth may be effectively prevented by the influx of immigrants from Ukraine and the increased defense spending;[86]
- higher prices of production and distribution of goods and services resulting mainly from the increase in the prices of raw materials, including energy commodities, and climate policy, inflation, problems with the availability and prices of raw materials and components affecting production costs and tensions in global supply networks;
- intensification of trade tensions (including those related to geopolitics) and the persistently high level of prices coupled with the limited availability of raw materials and food products important for less affluent economies, which will translate into a reduced exchange of goods between countries and a lower rate of global economic growth;
- ban on imports of many raw materials and goods from Russia and Belarus imposed by the European Union as part of the seven sanction packages related to the invasion against Ukraine. The sanctions include a ban on the imports of iron and steel products, weapons and dual-use products; effective as of 10 August, the imports of coal, cement, tobacco products and wood products will be banned; at the end of the year, the ban will also apply to crude oil;[87]
- divergence in the prices of financial assets and the performance of the real economy, undermining the long-term financial stability and potentially triggering another financial crisis;
- demographic aspects (i.e. the progressive aging of the population) pose additional risk factors for the medium and long-term prospects of global economic growth;
- high costs incurred by societies and economies due to the absence of appropriate coordination of policies, that is, on the one hand, the application of restrictive monetary policy and, at the same time, an expansionary fiscal policy, thereby increasing the actual costs incurred in combatting inflation (as they may be counterproductive, e.g. leading to a concurrent increase in the level of inflation and the cost of capital).[88]

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

- within the next several years, the consumption of steam coal as an energy carrier in Poland and the Czech Republic is expected to decline. The reduction in the volume of hard coal consumption in the economy will result from supply and demand factors alike.[89] The "Program for the hard coal mining industry in Poland" calls for a reduction in the consumption of hard coal in the Polish economy. According to the assumptions of the Program, in 2030 the share of hard coal in the electricity generation mix will range from 37% to 56%, and then will drop to between 11% and 28% in 2040. The EU climate requirements will significantly affect rail carriers, in particular those providing hard coal and lignite transport services;
- high level of CO_2 emission prices affecting the power sector and other industries, such metallurgy and cement production, translating directly into high energy prices due to the specificity of the Polish energy mix and delays in the implementation of the energy transformation process. The increase in the prices of emission allowances results, among other factors, in a lower volume of investment projects and creates the risk of making the domestic economy dependent on energy imports from neighboring countries in the future;[90]
- it is forecasted that after the temporary increase in the significance of coal for the economy caused by the war in Ukraine, the importance of this commodity will decline significantly in the coming years, both in the power, heating and industry sectors (due to the strong pressures from the European Union on the deployment of decarbonization processes);
- the plan to shut down the hard coal mining industry in the Czech Republic assumed that hard coal (mainly coking coal) mining operations will cease by the end of 2022 at the latest, which has been extended until the end of 2023. Currently, analyses are in progress on the possibility of continued mining operations in the coming years. This situation poses a threat to the ability to provide transport services by PKP CARGO Group companies to the Czech Republic (with a large share of the volume of hard coal), but it also creates opportunities for the emergence of new export markets for Polish mines (Poland is the only exporter of coke and coking coal within the EU, while the share of the Czech Republic is minor). As a consequence, the future situation on the common market is very favorable for JSW (the largest producer of coking

[86] National Bank of Poland

[87] biznes.gov.pl

[88] International Monetary Fund

[89] Poland's Energy Policy until 2040, Program for the hard coal mining industry in Poland

[90] strefainwestorow.pl

coal in the EU with an annual output of approx. 11 million tons) and Polska Grupa Górnicza (e.g. the Bielszowice and Halemba mines, where coking coal accounts for approx. 40% of total output);[91]

- as a result of the embargo imposed on the purchases of coal from Russia, problems emerged for freight carriers (as well as for companies intermediating in coal supplies) which specialized in the transport of coal from this direction, including rail operators. Changes in this area have forced companies to secure alternative supply sources and reorganize and diversify into other commodity segments.[92]
- fluctuations in the economic situation also exert a significant impact on the situation on the steel market and the performance of the whole steel sector whose development largely depends on the economic situation on international markets. The largest sector of the economy that depends on steel supplies is the construction sector (which consumes 35% of all steel) and the automotive sector (18% of consumption), making these areas highly exposed to fluctuations in the economic situation, which is currently gradually deteriorating;
- rising prices of commodities, energy carriers and emission allowances – increases in the production costs of steel and steel products incurred by producers (also due to the consequences of the war in Ukraine), high costs of CO2 emission allowances, record-high prices of electricity, gas and coke on commodity exchanges may even lead to a temporary unprofitability of metallurgical production. Another factor is the decrease in domestic production of steel and steel products as Polish steel mills do not have enough capacity to fill in the shortages in imports, e.g. from the east, meaning that the need will emerge to look for sources from more distant places and often from more expensive suppliers;
- low demand and decreasing product prices provide disincentives to production in both Europe and China (which produces half of the world's steel and consumes a similar share, having a huge impact on this market);
- ongoing armed conflict between Russia and Ukraine and the related disruptions in supply chains; for instance, Poland was previously purchasing ferroalloys, iron ore and steel from Russia and Ukraine. Ukraine is slowly rebuilding its exports of ore, including through the Polish port of Świnoujście and the Romanian port of Constanța;[93]
- significant increase in freight prices that increases the costs of steel and steel production in Europe (for commodities and products arriving by sea).
- the liquid fuels and chemicals sector is also dependent on the changes in economic trends (the growth rate of production of chemicals and chemical products is correlated with the GDP growth rate). A risk exists of a decrease in production due to the economic slowdown processes currently taking place, thereby triggering a decrease in demand for the transport of components necessary for the production and transport of end products. The Polish chemical industry is one of the most important sectors of the Polish economy (contributing 12% to the country's GDP). The chemical sector provides other sectors of the economy with a broad range of goods that are essential at every stage of the value chain;
- uncertainty on the markets, threat of a global energy crisis and rising inflation in Europe – these factors may trigger both a reduction in demand for energy carriers (oil market), a shortage of commodities and a sharp increase in prices (especially of gas);
- increases of and fluctuations in commodity prices and unpredictability of prices (including gas and crude oil), which will prompt European countries to look for new sources of supplies;
- uncertainty of gas supplies (especially from the vantage point of large chemical conglomerates, which will be among the first to be affected by the potential consequences of insufficient gas supplies). Half the volume of the natural gas consumed in Poland is used by industry, of which the chemical industry consumes the most. Uncertainty also prevails as to the availability and continuity of energy supplies due to the instability of the current situation;
- the tough situation of fertilizer producers resulting from high gas prices and concerns about the availability of this energy carrier in the autumn and winter seasons as well as rising production costs due to high prices of CO2 emission allowances (currently gas prices account for up to a 90% share in the cost of nitrogen fertilizer production)[94] will affect the volume of agricultural harvest in 2022;
- the expansion of fuel transmission infrastructure in the form of pipelines (including the Boronów-Trzebinia line and the second line from Gdańsk to Płock) and efforts to move away from fossil fuels in the transport sector will reduce demand for rail transport of liquid fuels, although the pace of this change is difficult to estimate;[95]

[91] Wirtualny Nowy Przemysł [Virtual New Industry]

[92] Money.pl, Onet.pl

[93] Edialog.media

[94] Farmer.pl

[95] WNP.pl, Money.pl, BiznesAlert.pl

- energy transformation, required investments in environmentally friendly solutions and strive to reduce fuel transport (resulting, among other factors, from the scheduled ban on the registration of combustion-engine vehicles from 2035, strive for “zero emissions” in the economy).
- investment slowdown related to the suspended inflow of funds from the EU Reconstruction Fund – the National Reconstruction Plan, which were intended to accelerate the economic recovery after the COVID-19 pandemic and rebuild the European economy after the crisis;[96]
- in the coming months, the rate of growth in the construction sector will slow down, caused by the dramatic increase in the cost of capital (including the lower availability of loans), the high prices of energy carriers and construction materials, and the effects of the expected reduction in investment demand on the part of companies (due to the expected decline in economic activity), as well as a slowdown in the housing market. The continuing upward trend in the prices of commodities and materials used in construction may pose a real threat to the contracts signed in terms of their successful performance;
- the ongoing conflict in Ukraine translates not only into a slowdown in investments, but also into an increase in the cost of capital. Moreover, is a significant increase is noticeable in the prices of both energy and various products, materials and commodities on the market. The cut-off of Ukraine and Belarus from the Polish market resulted in limited access to 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. The outbreak of the conflict exacerbated some of the already existing problems in logistics chains and disturbed the pricing mechanisms. A significant general increase in prices on global markets is also perceptible, coupled with the related increase in the cost of capital and the risk of a recession, which may exert a strong impact on the whole construction market (bankruptcy waves, the need to update the value of accumulated inventories, unprofitability of previously signed contracts and the need to abandon construction sites).[97] Moreover, difficulties may be expected for Polish companies previously involved in construction contracts in Ukraine due to the absence of investment opportunities, the inability to recover committed funds and the high degree of uncertainty about the future. A major problem related to the armed conflict in Ukraine is the staffing gap/lack of appropriate personnel (the outflow of workers from Ukraine who, according to information from the construction industry, accounted for approx. 30% of the workforce);[98]
- threat of the unavailability of coal for cement plants necessary to continue production – the inventories gathered by cement plants enable work only during the next few weeks. To date, the cement industry used up 90% of coal from Polish mines for its needs, and 10% came from Russia (the introduction of sanctions resulted in shortages on the market);
- high costs of CO_2 emission allowances and continued increase in costs related to, among other factors, the increase in the general level of prices of commodities and energy carriers – as a consequence, this situation will translate into an increase in the prices of goods on the market. Cement production in Poland contributes to 8% of the country’s GDP;[99]
- due to the significant share of high-emission sources in electricity generation in Poland and the large share of energy in the costs of cement production, a decrease may be expected in the competitiveness of domestic producers, coupled with increases in the prices charged to domestic buyers and elevated costs of investment projects in Poland, thereby adversely affecting the sector’s rate of growth);[100]
- problems related to high and rising prices of energy, commodities and components and problems with their availability, supply fluctuations and changes in the prices of raw materials and components.
- increasing prices of energy and CO_2 emission allowances, a jump in the prices of raw materials (wood, pulp, recycling paper) and problems with their availability, coupled with the increasing prices of freight services, translating into higher prices of end products;
- ban on imports of many raw materials and goods from Belarus (including but not limited to raw wood, lumber and wood products) imposed by the European Union as part of the sanctions related to the country's support of the Russian invasion of Ukraine. In recent years, Belarus has been one of the largest foreign suppliers of timber to Poland.
- the armed conflict in Ukraine is changing global logistics, including transport routes connecting the European Union with Asia. Risk of weakening the transit position of Poland – perilous consequences for intermodal transport through Poland may be caused by senders searching for an alternative route to the “New Silk Road” and bypassing Poland in transit traffic. Based on estimates published by Western forwarders, RailFreight calculated that the decline in the number of containers which passed through Poland to Western Europe in H1 2022 was 14.2% yoy (coupled with a whopping 49.3% yoy decline in the opposite direction).[101] The emergence of new, alternative routes of the New Silk Road may be costly to Poland due to the loss of opportunities to handle the transit of goods from the Far East to Europe;

[96] gov.pl

[97] www.eecpoland.eu

[98] Pulshr.pl

[99] WNP

[100] Polskicement.pl

[101] WNP

- due to supporting the development of intermodal transport and augmenting it by enterprises from the road transport sector, the proper operation of the segment may be threatened due to the shortage of drivers caused by the departure of workforce from Ukraine. Currently, estimates point to a shortage of approx. 150,000 drivers (which may land a heavy blow on the Polish economy and the activity of companies due to the high saturation of this sector with road vehicle transport).[102]
- the armed conflict in Ukraine also affects the logistics of deliveries involving components necessary for the production of automobiles. The growing prices of raw materials, especially palladium supplied in 25-30% from Russia and used for the production of catalysts, translated into shocks on the automotive market. In turn, the subsequent imposition of sanctions prompted companies to suspend deliveries to or from Russia, and often to completely suspend their business in that country. The COVID-19 pandemic also exerted a significant impact on the global automotive industry. In 2020, global car production decreased by -16% yoy and sales decreased by -14% yoy. The European Automobile Manufacturers Association estimates that, due to the lockdowns, more than 2 million vehicles have not been delivered to the market (mainly due to the unavailability of parts – during the pandemic, the priority on the market was to produce laptops and mobile phones necessary for remote work and distance learning). However, the effects of the COVID-19 pandemic still hold back the European automotive industry, which continues to suffer from disruptions to supply chains. In 2021, automotive production in the European Union declined by -5.1% yoy to 13 million vehicles, and the number of registered new cars dropped to 9.7 million.

Risks associated with the rail freight sector

- rapid increase in the number of rail operators providing rail freight services: according to data presented by the Office of Rail Transport (UTK), there are currently 116 rail operators active on the Polish rail freight market holding an active license issued by the UTK President for the conduct of rail freight operations (as at 1 July 2022).[103] Among these companies are also three members of the PKP CARGO Group: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s.[104] In recent years, the competition on the domestic market intensified due to the growing number of players on the market (in 2020, 84 carriers held a license for the provision of rail freight services, in 2021 this number increased to 112).[105] At the same time, 78 out of 112 commercial undertakings reported a positive freight volume (an increase by 25 entities in 2012-2021 and an increase by 3 compared to 2020);
- decrease in the number of locomotives and wagons resulting from the gradual decommissioning of the oldest assets which no longer meet the market requirements and are often very expensive to maintain. Because the replacement of rolling stock is a long and very cost-intensive process, operators try to optimize the structure of their locomotives and wagons. Moreover, the increasing EU requirements for rolling stock (the need to install composite inserts and automatic couplings and to adapt vehicles to new traffic control systems) will force rail operators to obtain EU funds for modernization projects or, in the absence of economic rationale, scrap some of their rolling stock;
- in 2021, headcount in the freight transport sector declined by 3.6% yoy (a decrease for the second consecutive year); the growing share of the oldest age group may lead to painful employment shortages in key positions for freight traffic;[106]
- increasing scale of operations by players competing with the PKP CARGO Group and providing the majority of transport and transport-related services, including whole-train carriage of coal and coke, aggregates and other construction materials, metallurgical products, liquid fuels and chemicals. Some rail operators also become involved in the provision of dispersed transport services (single wagons) and extraordinary transport services (including goods crossing the gauge). Most of them also offer services related to comprehensive forwarding and logistics services (provided independently or in collaboration with external entities as subcontractors) or provide regular operator trains (operators are increasingly interested in the intermodal market).[107] Bearing in mind the intensifying competition on the Polish and Czech markets for rail freight transport, the PKP CARGO Group is involved in initiatives aimed at the continuous improvement of the quality and development of its services (e.g. by way of investments in specialized rolling stock approved for international traffic, involvement in cross-border cooperation with local operators and endeavors to better customize its commercial offering,

[102] portalsamorzadowy.pl

[103] Office of Rail Transport (as at 1 July 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 in the market under an international license, including a PKP CARGO Group member, PKP CARGO International.

[104] Office of Rail Transport

[105] Office of Rail Transport

[106] Office of Rail Transport

[107] Office of Rail Transport

including by the appearance of operator trains) and the provision of comprehensive logistics services to clients from various industries (including by offering transport services using their own vehicles).

Risks in the operations conducted

Risk associated with the rail infrastructure

- in H1 2022, in the area of the PKP network, numerous investment projects were pursued related to the modernization of rail infrastructure under the National Railway Program, and 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 and Szamotuły regions. Major traffic difficulties were also experienced in areas adjacent to border crossings (Zebrzydowice/Petrovice, access to the border crossing in Zawidów and in the Małaszewicze area), which resulted from ongoing modernization works.
- in the next quarter of 2022, an upward trend is expected in rail line capacity limitations resulting from the accumulation of subsequent modernizations to be performed in the final stage of the implementation of the National Railway Program (maintenance of the FIAT siding, closing of access to the Muszyna/Plavec crossing), which will result in an extension of the transport time, the need to open detour routes, an increase in the costs of transport and a deterioration of the quality of services;

Risks related to road transport

- the upward trend of the share of the road transport market continues at the expense of the rail transport market. Road transport plays a key role on the Polish and Czech freight markets, which in recent years has also been capturing the majority of the market's freight volume available for transportation. Despite the increase in the volume of transported freight volume, the data show that road transport is the main beneficiary of these changes.[108] The rapid expansion of the road freight transport market, which absorbs most of the additional volume of freight from the economy, poses a major threat to the development of rail transport;
- the increase in significance of road transport is a consequence of its competitive advantages compared to rail transport, such as in particular: low barriers to entry (including the ease of obtaining means of transport, e.g. through leases) and low fixed costs incurred at the time of starting the business; universal access to infrastructure and gradual development of high-quality roads (motorways and expressways) in Poland and the Czech Republic; low costs of access to road infrastructure in Poland (the road network with toll collection systems is relatively small in relation to the size of the whole road network); the ability to smoothly adjust the volume of transport and thus handle both short and long-distance hauls; the significantly higher average speed of road transport compared to rail transport and the possibility of direct door-to-door deliveries; persistent disproportions in the prices of energy carriers for rail transport (electricity) and road transport (diesel oil), forcing the imposition of regulatory changes to equalize the competitive conditions between rail and road transport;
- unsustainable transport system hindering growth of the volume of loads transported by rail (including the absence of construction of rail lines separating local and long-distance transport and the absence of construction of new lines);

The risk of a high dependence of the client base on a limited number of industries and business entities operating therein.

- a significant portion of the contracts entered into by and between the PKP CARGO Group and its clients are of a long-term nature, which facilitates the management of rolling stock and human resources. The trends observed in the transport market regarding the increase in the scale of transport by some specialized companies and the acquisition of transport

[108] Statistics Poland, Czech Statistical Office

contracts by them from outside their target segment may adversely affect the volume of freight transport services available for acquisition on the competitive market (including by the PKP CARGO Group).

Risks associated with COVID-19

- the continued development of the pandemic and the threat of emergence of new COVID-19 mutations may force the authorities to tighten the previously loosened or lifted restrictions across Europe. Due to their restrictive approach to emerging virus outbreaks, Asian countries may cause strong disturbances to economic trade on a global scale;[109]
- strong variation in the pace of post-pandemic recovery among different countries or groups of countries, potentially resulting in the occurrence of macroeconomic imbalances in the global economy;
- continuous fluctuations in output in various industry segments significant from the perspective of rail transport (e.g. reduced activity in the automotive segment due to, among other factors, lockdowns in numerous economic areas in China and the absence of supplies of components necessary in the automotive industry).
- permanent rearrangements within international supply chains or changes in demand for industrial products on a national and international scale;
- consolidation of changes in consumer behavior caused by the pandemic (e.g. reduced mobility), the result of which may be, for example, a permanent reduction in demand for certain types of services;[110]
- increase in employee illness rates and potential inability to maintain the scale and level of customer service

Risk associated with regulatory changes

H1 2022 brought certain risks related to regulatory changes in the following legal acts, as monitored by PKP CARGO on an ongoing basis:

- draft act on the protection of persons who report breaches of the law, which implements into Polish law the provisions of Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law, the so-called Whistleblower Protection Directive. The Directive requires commercial undertakings to adopt regulations which specify the manner of reporting breaches and lay down the scope of protection of persons who report breaches (the so-called whistleblowers);
- act amending the Act on Competition and Consumer Protection, introducing a new category of entities subject to antimonopoly liability, i.e. commercial undertakings with a decisive impact on another undertaking which committed a breach of the law – Article 6, Article 9 of the act in conjunction with Article 6aa and Article 9a of the draft act.
- act amending the Labor Code and certain other acts aimed at implementing into the Polish legal system:
  – Directive 2019/1152 (EU) 2019/1152 of the European Parliament and of the Council of 20 June 2019 on transparent and predictable working conditions in the European Union (OJ L No. 186 of 11.07.2019, p. 105),
  – Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU (OJ L No. 188 of 12.07.2019, p. 79), providing, among others, for (i) increasing the duration of parental leave, (ii) amending the procedure for terminating fixed-term employment contracts, (iii) extending the scope of information that will have to be provided to the employee as part of the description of employment conditions;
- the act amending the Labor Code and Certain Other Acts, which envisages: (i) the possibility to test for sobriety and presence of substances with effects similar to those of alcohol in the bodies of employees, persons hired under contracts other than the employment relationship and sole trades, for the protection of life and health of employees or other persons, or else the employer's property;
  (ii) regulations on working remotely.

Failure by PKP CARGO S.A. to adjust its internal regulations to the said legal acts would cause non-compliance of the Company's activity with the generally applicable law, and thus might cause certain image-related and financial losses.

[109] International Monetary Fund
[110] National Bank of Poland

Risks arising from cyberattacks

- the war in Ukraine and the support provided to Ukraine by Poland caused an intensification of cyberattacks. The business profile of both the Company and other members of the PKP CARGO Group as well as the need to use the services of the telecommunications, banking and power sectors directly affect the processes related to maintaining business continuity. The degree of IT infrastructure security is high, although it may never provide a 100% guarantee that all cyberthreats will be fended off. Since the outbreak of the war, an increased number of blocked connections has been observed. To this end, network traffic to public URLs geolocated to Russia or Belarus was blocked, which significantly reduced the threats from Russian and Belarusian cybertrolls. Security of network architecture and resources forces the creation of so-called cyclical data backups and archiving them on magnetic carriers (LTO tapes), which significantly reduces the degree of related risks.

Financial risks

Liquidity risk

- in order to minimize the possibility of disruption in cash flows and the risk of losing liquidity, in H1 2022, the Company undertook measures aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the short, medium and long term. Additionally, cash pooling systems are in place in the PKP CARGO Group, which as at 30 June 2022 comprise 8 Group companies. The cash pool systems, independently of the cash collected by particular participants, offers flexible lines of credit in the form of a current account overdraft facilities;
- information on the financing sources available as at 30 June 2022 is presented in Note 4.1 to the Interim Condensed Consolidated Financial Statements for 6 months.

Foreign exchange risk

- In H1 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 short- and long-term loan liabilities. For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that revenues from contracts with customers in EUR are partly balanced out by costs in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position exposed to change of the value in PLN. For this purpose, the Group established hedging relationships between cash flows arising from bank loans and lease liabilities denominated in EUR and future highly probable cash flows from operating activities denominated in EUR.

Interest rate risk

- The PKP CARGO Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. In H1 2022, interest on finance agreements was calculated according to the WIBOR 1M, WIBOR 3M, EURIBOR 3M reference rates plus the finance party's margin.

Credit risk

- The PKP CARGO Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received. In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. As part of its internal policy, the Company makes application of the deferred term of payment conditional on acceptability of the counterparty's condition and positive history of cooperation.
- receivables from business partners are monitored on a regular basis. To reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from its customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes.
- the credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

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

5.1. Rules for preparing the interim financial statements

The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2022 and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2022 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as endorsed by the European Union.

The Interim Condensed Standalone and Consolidated Financial Statements for the 6-month period ended 30 June 2022 have been prepared in Polish zloty (PLN). Polish zloty is the Company's functional and reporting currency. The data in the financial statements are presented in millions of PLN.

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

The audit firm issued reports on its reviews of the Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6-month period ended 30 June 2022 and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6-month period ended 30 June 2020 without qualifications or modifications.

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

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

Table 17. Financial highlights of the PKP CARGO Group

PKP CARGO Group	2022-01-01 2022-06-30	2021-01-01 2021-06-30	2022-01-01 2022-06-30	2021-01-01 2021-06-30
	PLN million		**EUR million**	
Operating revenue	2,477.3	2,067.8	533.6	454.7
Operating profit / (loss)	6.1	(128.3)	1.3	(28.2)
Profit / (loss) before tax	(46.9)	(155.0)	(10.1)	(34.1)
Net profit / (loss)	(42.4)	(130.0)	(9.1)	(28.6)
Total comprehensive income attributable to the owners of the parent company	2.2	(76.0)	0.5	(16.7)
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	(0.95)	(2.90)	(0.20)	(0.64)
Diluted earnings / (losses) per share	(0.95)	(2.90)	(0.20)	(0.64)
Net cash flow from operating activities	320.0	190.7	68.9	41.9
Net cash flow from investing activities	(430.8)	(371.7)	(92.8)	(81.7)
Net cash flow from financing activities	(31.7)	(16.7)	(6.8)	(3.7)
Movement in cash and cash equivalents	(142.5)	(197.7)	(30.7)	(43.5)
	2022-06-30	**2021-12-31**	**2022-06-30**	**2021-12-31**
Non-current assets	6,397.4	6,458.7	1,366.8	1,404.3
Current assets	1,128.0	1,139.0	241.0	247.6

Non-current assets classified as held for sale	5.1	15.7	1.1	3.4
Share capital	2,239.3	2,239.3	478.4	486.9
Equity attributable to the owners of the parent company	3,042.8	3,040.6	650.1	661.1
Non-current liabilities	2,534.6	2,833.8	541.5	616.1
Current liabilities	1,953.1	1,739.0	417.3	378.1

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2022 prepared according to EU IFRS.

Table 18. Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	2022-01-01 2022-06-30	2021-01-01 2021-06-30	2022-01-01 2022-06-30	2021-01-01 2021-06-30
	PLN million		**EUR million**	
Operating revenue	1,830.9	1,497.4	394.4	329.3
Operating profit / (loss)	(19.9)	(144.3)	(4.3)	(31.7)
Profit / (loss) before tax	(45.0)	(151.4)	(9.7)	(33.3)
Net profit / (loss)	(35.6)	(122.9)	(7.7)	(27.0)
Comprehensive income	(10.2)	(81.4)	(2.2)	(17.9)
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	(0.80)	(2.74)	(0.17)	(0.60)
Diluted earnings / (losses) per share	(0.80)	(2.74)	(0.17)	(0.60)
Net cash flow from operating activities	277.3	92.8	59.7	20.4
Net cash flow from investing activities	(386.7)	(334.4)	(83.3)	(73.5)
Net cash flow from financing activities	(5.4)	77.3	(1.1)	17.0
Movement in cash and cash equivalents	(114.8)	(164.3)	(24.7)	(36.1)
	2022-06-30	**2021-12-31**	**2022-06-30**	**2021-12-31**
Non-current assets	6,016.8	6,031.2	1,285.5	1,311.3
Current assets	660.6	681.3	141.1	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	478.4	486.9
Equity	2,802.5	2,812.7	598.7	611.5
Non-current liabilities	2,171.6	2,442.9	464.0	531.1
Current liabilities	1,708.3	1,471.8	365.0	320.0

Source: Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2022, prepared in accordance with EU IFRS.

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group and the Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the period of 6 months ended 30 June 2022:

- exchange rate in effect on the last day of the reporting period:

30 June 2022: EUR 1 = PLN 4.6806,

31 December 2021: EUR 1 = PLN 4.5994,

- the average exchange rate in the period calculated as the arithmetic mean of the FX rates prevailing on the last day of each month in a given period:

1 January – 30 June 2022: EUR 1 = PLN 4.6427,

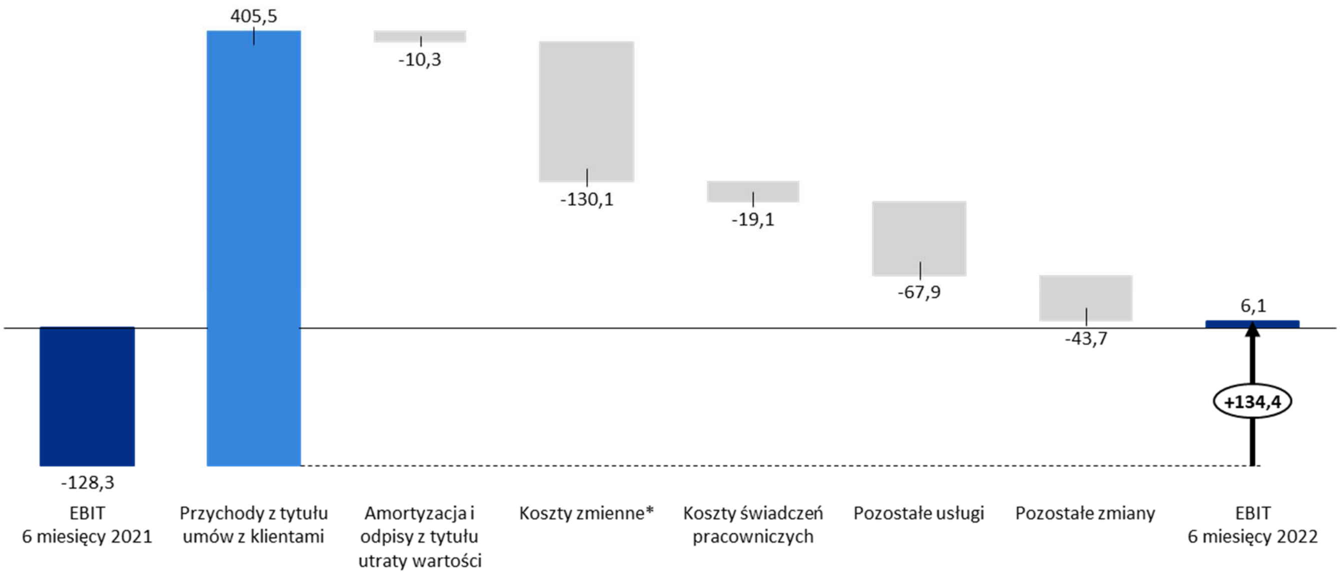
1 January – 30 June 2021: EUR 1 = PLN 4.5472.

5.3.2. Analysis of selected financial highlights of the PKP CARGO Group

Statement of profit or loss of the PKP CARGO Group

During the first 6 months of 2022, EBIT reached PLN 6.1 million, having gone up by PLN 134.4 million compared to the corresponding period of 2021.

Figure 20. EBIT in 6M 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 6 months of 2022 as compared to the first 6 months of 2021:

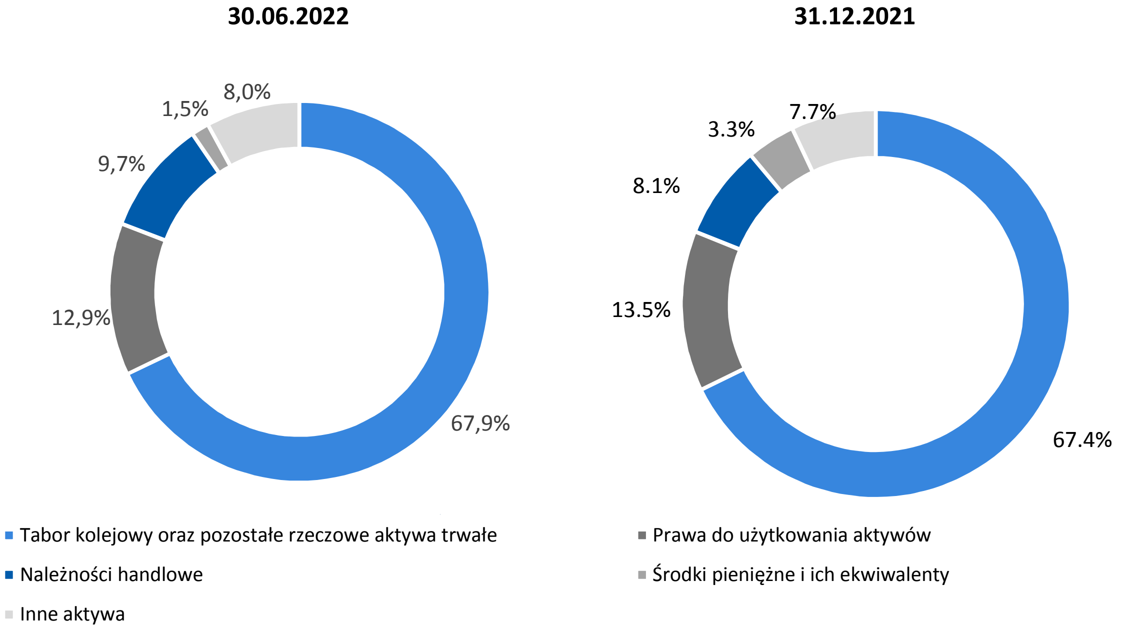
- increase in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services and also sales of goods and materials, revenues from reclamation services and from siding and traction services) as a direct consequence of the greater volume of transport (including in freight volume by 4.9% and freight turnover by 7.2%). At the same time, an increase in freight rates was recorded in the period under analysis. 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 2021;
- increase in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 24.8% 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 the cost of employee benefits, resulting from, among other factors, higher payroll expenses caused by pay rises and the establishment of provisions for employee benefits, with a simultaneous decline in headcount. Detailed information on the change in headcount is presented in section 4.4 "Headcount";
- increase in costs under "other services" by PLN 67.9 million, caused by, among other factors, an increase in rents and fees for the use of real properties and rolling stock, an increase in rents and fees for the use of real estate and rolling stock;
- increase in costs under "other changes" by PLN 43.7 million, caused by, among other factors, an increase in the cost of goods and materials sold and an increase in the consumption of non-traction electricity, gas and water.

Statement of financial position of the PKP CARGO Group

ASSETS

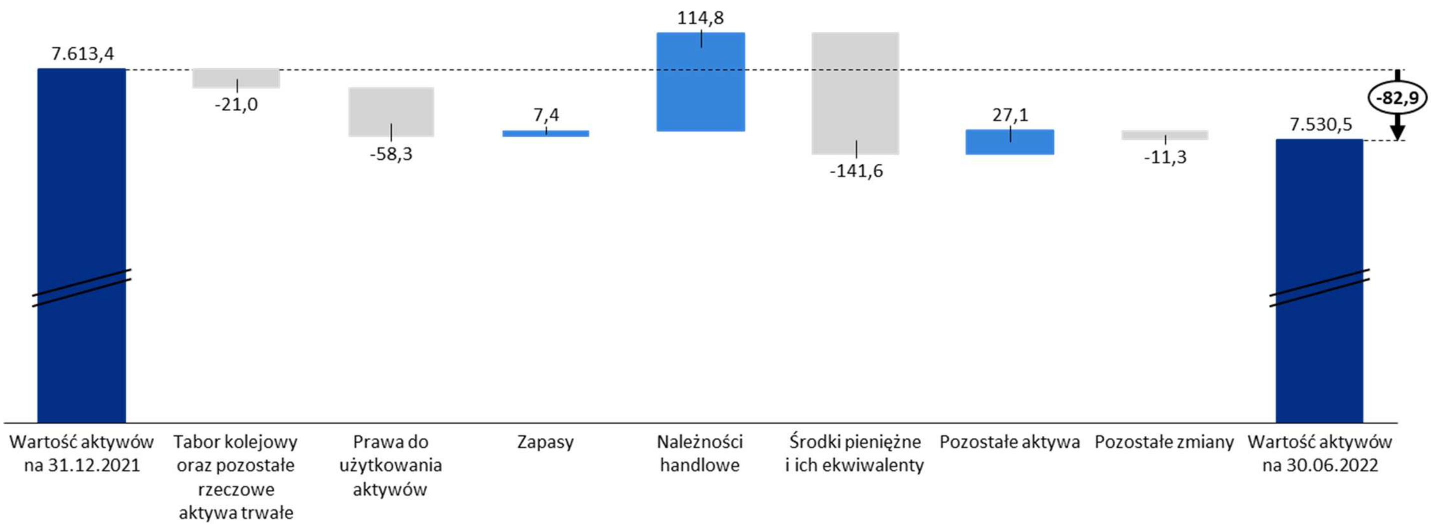
The biggest share in the PKP CARGO Group's asset structure as at 30 June 2022 was held by rolling stock and other property, plant and equipment, which in aggregate accounted for 67.9% of total assets, compared to 67.4% as at 31 December 2021.

Figure 21. Structure of assets – as at 30 June 2022 and 31 December 2021



Source: Proprietary material

Figure 22. Movement in the Group's assets in the first 6 months of 2022 (PLN million)



Source: Proprietary material

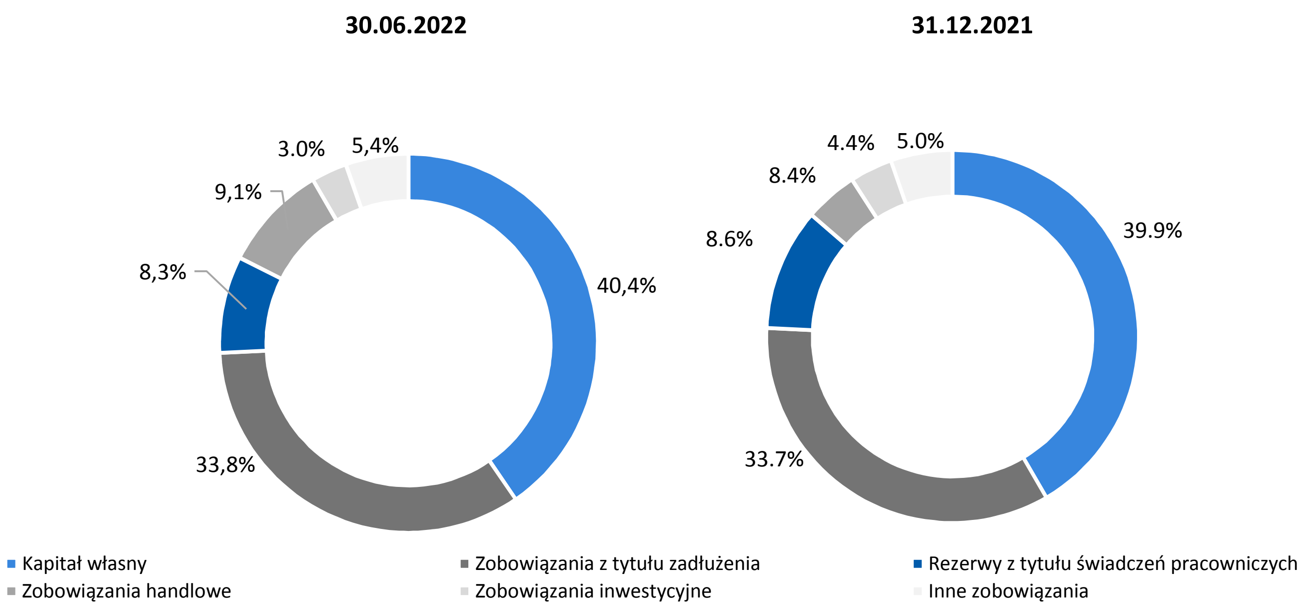
The most significant changes affecting the value of assets as at 30 June 2022 as compared to 31 December 2021 are discussed below:

- decrease in the value of rolling stock and other property, plant and equipment as a consequence of the disposal, in the period of the first 6 months of 2022, of unnecessary rolling stock, depreciation and investments made in property, plant and equipment;
- 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);
- increase in trade receivables caused largely by an increase in revenues from contracts with customers;
- the decrease in cash by PLN 141.6 million resulted predominantly from expenditures related to the acquisition of non-current assets in the amount of PLN 467.8 million, repayment of bank loans and leases along with interest in the amount of PLN 262.2 million, with simultaneous operating revenues of PLN 320.0 million and new loans of PLN 169.5 million;
- the increase in other assets was due mainly to the increase in assets associated with deferred costs by PLN 10.9 million (including prepayments for the purchase of electricity, purchase of employee transportation benefits, IT services) and disbursed advances for the purchase of fixed assets in the amount of PLN 11 million

EQUITY AND LIABILITIES

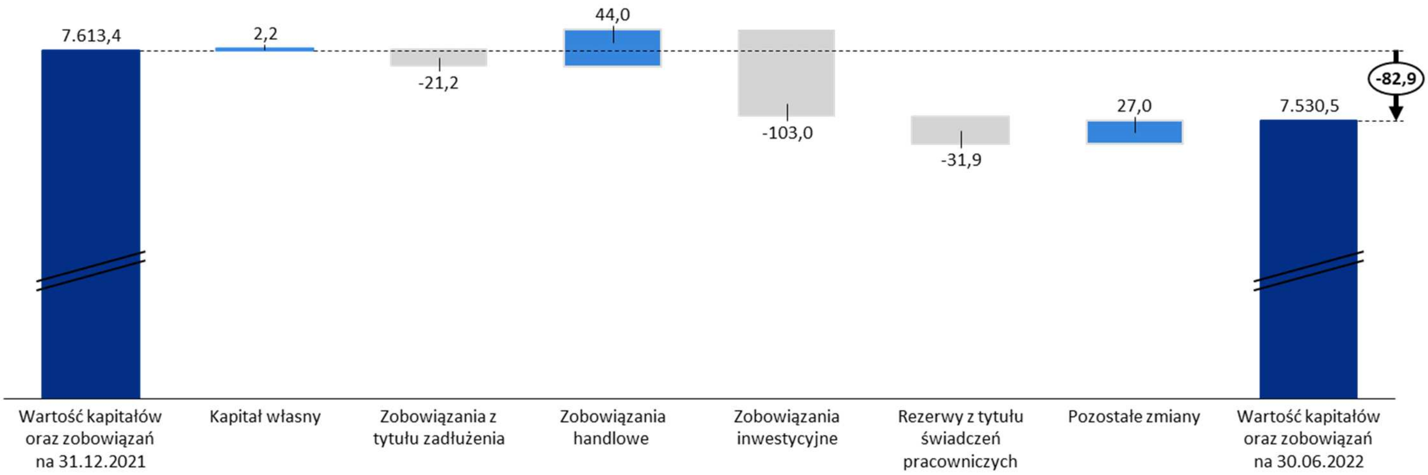
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 30 June 2022 was attributable to equity, which accounted for 40.4% of the sum of equity and liabilities, compared to 39.9% as at 31 December 2021. Debt liabilities accounted for 33.8% of total equity and liabilities, compared to 33.7% as at 31 December 2021.

Figure 23. Structure of the Group's equity and liabilities as at 30 June 2022 and 31 December 2021



Source: Proprietary material

Figure 24. Movement in the Group's equity and liabilities in the first 6 months of 2022 (PLN million)



Source: Proprietary material

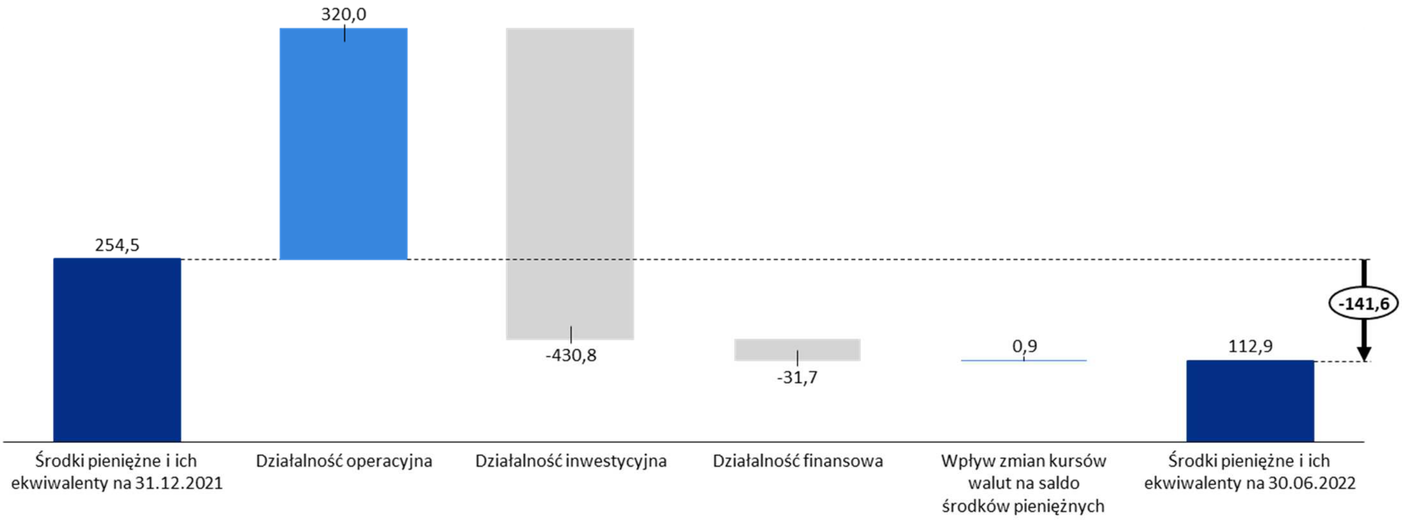
The most significant changes affecting the value of equity and liabilities as at 30 June 2022, as compared to 31 December 2021, are discussed below:

- increase in the value of equity as a consequence of actuarial gains pertaining to employee benefits and foreign exchange gains resulting from the translation of the financial statements of subsidiaries with a negative financial result;
- the decrease in the value of debt liabilities was caused by the repayment of loan and lease liabilities with interest in the amount of PLN 262.2 million, the incurrence of new liabilities in the amount of PLN 171.4 million and modification of existing contracts in the amount of PLN 11.7 million. Detailed information on debt liabilities is presented in Note 4.1 to the Consolidated Financial Statements;
- The increase in trade payables is mainly the result of an increase in overdue payables. Non-overdue trade payables alone decreased by PLN 12.9 million compared to the end of the year. Detailed information on the structure of liabilities is presented in Note 1.6 to the Consolidated Financial Statements;
- the decrease in investment liabilities was caused mainly by a decrease in investment liabilities related to rolling stock by PLN 75.2 million and investment liabilities related to real properties by PLN 14.6 million;
- the decrease in provisions for employee benefits was mainly due to the updating of actuarial provisions in the amount of PLN -50.4 million due to a change in the discount rate and agreements entered into with the trade unions regarding pay rises, with a simultaneous increase in the provision for unused leaves in the amount of PLN 19.7 million

5.3.3. Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 30 June 2022 decreased by PLN 141.6 million compared to 31 December 2021.

Figure 25. Cash flows of the PKP CARGO Group in the first 6 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 46.9 million, depreciation and impairment allowances of PLN 365.4 million and negative cash flows caused by movement in working capital of PLN 79.7 million;
- cash flows from investing activities resulted from capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 467.8 million (including investments into rolling stock), with simultaneous inflows from the sale of non-financial non-current assets of PLN 33.6 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 262.2 million, offset by inflows of PLN 169.5 million from new loans and PLN 63.0 million from new subsidies.

5.3.4. Selected financial and operating ratios of the PKP CARGO Group

The table below presents the PKP CARGO Group's key financial and operating ratios in the first 6 months of 2022 compared to the corresponding period of the previous year.

Table 19. Key financial and operating ratios of the PKP CARGO Group in 6M 2022 as compared to the corresponding period of 2021

Item	6 months of 2022	6 months of 2021	Change	Rate of change
			2022 - 2021	2022 - 2021
EBITDA margin[1]	15.0%	11.0%	4.0	36.7%
Net profit margin[2]	-1.7%	-6.3%	4.6	-
ROA[3]	-1.8%	-2.2%	0.4	-
ROE[4]	-4.5%	-5.3%	0.8	-
Average distance covered per locomotive (km per day)[5]	213.2	210.8	2.4	1.1%
Average gross train tonnage per operating locomotive (tons)[6]	1,517.0	1,463.0	54.0	3.7%
Average running time of train locomotives (hours per day)[7]	14.2	14.5	-0.3	-2.1%
Freight turnover per employee (thousands tkm/employee)[8]	655.7	579.4	76.3	13.2%

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 respective period).
7. Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of the Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
8. Calculated as the ratio of freight turnover to the average headcount (in FTEs) in the Group in the given period.

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

- in 6M 2022, the EBITDA margin slightly improved, chiefly due to the significant increase of operating revenue. Detailed information on the reasons for movement in EBITDA and the net result is presented in section **5.3. Key economic and financial figures of the PKP CARGO Group;**
- improvement in the ROA and ROE ratios, largely due to the better net result in the period under analysis;
- 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 7.2% yoy coupled with a decrease in the average headcount by 5.3% yoy.

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

Situation related to the war in Ukraine

- The armed conflict in Ukraine affects a variety of aspects of the PKP CARGO Group's business, including changes in the flows of goods passing from the eastern direction and the need to take certain adjustment actions resulting from the sanctions imposed on Belarus and Russia.

  Disruptions in the global supply chains of merchandise flowing from the New Silk Road and the imposition of economic sanctions on various cargo categories (such as coal, wood, biomass, metals), which constitute a significant portion of international trade, will also affect current operations in the Group's terminals located in north-eastern Poland.

  .
- A significant consequence to emerge from the slowdown of containerized freight exchange along the New Silk Road will be the intensification by China (as the shipper of goods) of new, safe communication routes, bypassing Russia mainly via Turkey and southern Europe).

Situation related to COVID-19

- The lifting of restrictions by many countries in the following months had a favorable effect on international exchange opportunities. A noticeable exception was the limitations resulting from restrictions on the passage of container transport along the New Silk Road. On an ongoing basis, PKP CARGO Group companies monitor the situation related to the threat of dissemination of another virus mutation, which might affect the scale of business due to a reduction in freight volumes allocated to rail transport.
- 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 H1 2022 being significantly lower than expected.

  Accordingly, there has been an accumulation of the number of employees who, after the state of epidemic is lifted, will have to undergo periodic medical tests over a short period of time. Due to the limited possibilities of administering tests by Railway Occupational Medicine clinics, this would be associated with a risk of their delayed performance.

As at the date of publication of this report, it is estimated that approx. 8 thousand employees did not hold valid periodic examination certificates. If the state of epidemic emergency is lifted within 180 days, it will be necessary to send these employees to overdue examinations. This will significantly increase the costs of preventive occupational health examinations to be charged to the period in which they are posted.

Market for commodities and aggregates

- Significant restrictions in the availability of raw materials and aggregates due to the ongoing war in Ukraine
- Major impact of the economic situation in the steel market and in the metallurgical sector as well as in the liquid fuels and chemicals sectors
- Expansion of fuel transmission infrastructure in the form of pipelines coupled with the trend towards moving away from liquid fuels
- Significant likelihood of a crisis on the energy market

Market for intermodal transport services

- The changes currently taking place in the global transport market (searching for alternative routes), including those related to transport routes connecting the European Union with Asia, may pose a threat to intermodal transport carried out across Poland.

Prices of materials

- The price increases are largely affected by exchange rate fluctuations lasting for months and the high inflation rate
- The significant price increases – often by several dozen percent – are the reason for executing short-term contracts whereunder a fixed price is agreed upon
- A further extension of economic sanctions to include raw materials and aggregates from Russia and Belarus will affect the costs of production, the availability of goods and the rate of economic growth.

Social dialog

- The social dialog and collective dispute conducted during the first quarter with the Trade Union Organizations which are signatories of the Collective Bargaining Agreement with the PKP CARGO S.A. Management Board on the implementation of systemic wage and salary increases in PKP CARGO was completed with the preparation of the "Memorandum concluding the social dialog" on 1 March 2022, in which the Management Board declared its willingness to follow up on the arrangements resulting from the Agreement entered into on 27 August 2021 (regarding the implementation of systemic wage and salary increases from 1 April 2022 – taking into account the financial results generated in 2021 and the current situation of PKP CARGO S.A.).
- The effect of the ongoing dialogue, negotiations and mediations was the signing of the "Memorandum of 24 May 2022" with the trade unions, which provided for wage and salary increases coming into effect on 1 June 2022. By the end of 2022, the estimated cost of these increases will total approx. PLN 94 million. The signing of the agreement means that mediation in a collective dispute will be suspended until November 2022.

5.5. 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.

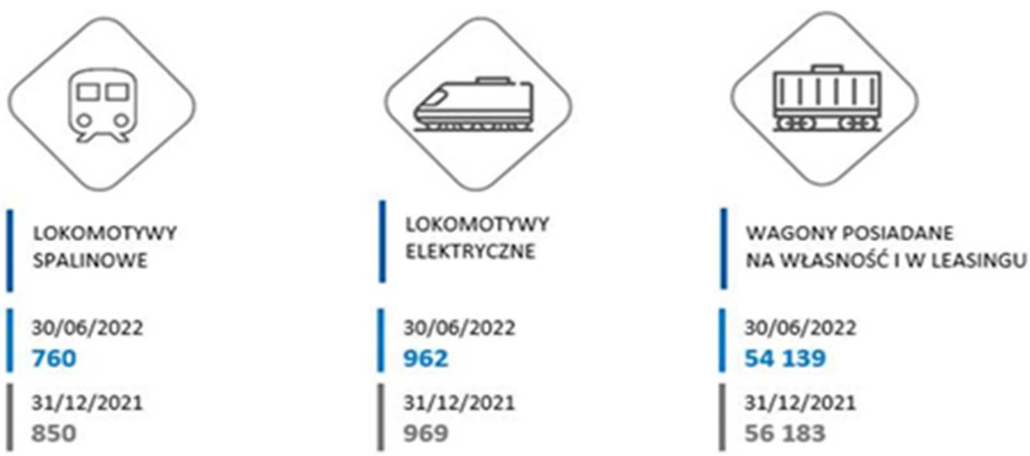
5.6. Information about production assets

5.6.1. Rolling stock

PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization 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. On top of regularly-scheduled activities the points of repair functioning in the PKP CARGO Group's structures conduct ongoing repairs to the rolling stock to fix the defects that appear in the rolling stock during the course of its operation. The quantity of current repairs of the rolling stock depends on the freight turnover.

The PKP CARGO Group production assets include wagons and traction rolling stock the quantity of which changes as a result of sales, purchases and scrapping of rolling stock components. Moreover, the quantity of rolling stock is affected by completed repairs of electric machines and wheel sets for refurbished wagons (periodic repairs combined with the replacement of rims or the replacement of monoblock wheels). Competences related to the repair of the most significant components of the circulation reserve – electric machines and wheel sets – are held by PKP CARGOTABOR, which carries out the full range of repairs of electric machines used in the locomotives operated by the PKP CARGO Group.

Figure 26. Structure of rolling stock used by the PKP CARGO Group as at 30 June 2022 and 31 December 2021



5.6.2. Property

The real properties constituting the PKP CARGO Group's maintenance and repair facilities are for the most part used by the Group under long-term lease and tenancy agreements.

Table 20. Real properties owned and used by the PKP CARGO Group as at 30 June 2022 and 31 December 2021.

Item	30/06/2022	31/12/2021	Change 2022-2021
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,383	1,441	-58

Buildings – owned, leased and rented from other entities [m2]	727,283	728,944	-1,661

The decrease in the size of the land and buildings used (owned, leased and rented from other entities) results from the ongoing verification of the quantum of assets necessary for the Parent Company and its subsidiaries and adjusting it to the scale and profile of conducted activity. In the period under analysis, the greatest impact was exerted by the termination of the operating activity of PKP CARGO International at the Hodonin power plant, the demolition of the PKP CARGO International office building in Karviná-Doly and the termination of the lease of buildings by PKP CARGO, PKP CARGOSERVICE and PKP CARGO CONNECT.

6. Other relevant information and events

6.1. 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.

6.2. Information on transactions with related parties

No entity from the PKP CARGO Group entered in H1 2022 any transactions with related parties on non-market terms.

6.3. 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.

6.4. 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 13 October 2022, the Act of 9 February 2022 amending the Commercial Company Code and Certain Other Acts (Journal of Laws, item 807) will enter into force. 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. Accordingly, it will be necessary to make appropriate changes to the relevant internal regulations of PKP CARGO S.A. and its subsidiaries.

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

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

Management Board

Dariusz Seliga
President of the Management Board

Maciej Jankiewicz
Management Board Member

Marek Olkiewicz
Management Board Member

Jacek Rutkowski
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 25 August 2022

For more information of PKP CARGO
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PKPCARGO