

ANNUAL REPORT FOR 2020



PKP CARGO CAPITAL GROUP
Consolidated Annual Report for 2020



Dear Stakeholders,

When the PKP CARGO Group was moving into 2020, all indications suggested a continued rapid growth of the Polish economy, which provided us with reasons to be optimistic about the outlook of the rail freight industry. Most experts were convinced that, along with the economic recovery, the freight volumes and revenues of rail companies would improve in Q2 2020.



However, these projections were ruthlessly thwarted by the coronavirus pandemic, which brought about the largest economic crisis in Europe after World War II. PKP CARGO S.A. was affected in particular by the consequences of the spring lockdown, when many industrial sectors significantly reduced their output, which translated into their weaker demand for freight services. The effects of the lockdown transpired in particular in the decline in electricity generation by 10%, which caused a direct blow to the PKP CARGO Group, because orders for coal supplies to power sector companies – still accounting for the largest share in the structure of our freight volume – decreased significantly. The economic slowdown also translated into a lower rate of growth in the execution of investment projects, making us revise our forecasts for the transport of aggregates, which form the second largest category in terms of the volume of bulk cargo transported using PKP CARGO S.A.'s trains. Regrettably, the downward trend in metallurgical production persisted. Meanwhile, the anticipated resumption of blast furnace operations at the Sendzimir Steelworks in Kraków did not come to fruition, and other players in the steel industry also decided to limit their production.

These phenomena translated into a major decrease in the freight volume and freight turnover compared to the previous year, which unavoidably found its way to a reflection in the PKP CARGO Group's financial performance: our revenues turned out to be lower by more than 10% and we ended 2020 with a loss in excess of PLN 224 million.

It should be pointed out, however, that the second half of 2020 was much better for the PKP CARGO Group, because market indicators rebounded and PKP CARGO S.A. received state aid in the form of the Anti-Crisis Shield. The financial standing of PKP CARGO S.A. was also supported by the temporary (3-month) reduction of work time by 10%, which enabled the Company to generate savings by cutting down payroll expenses. At the same time, in order to decrease labor costs, our program of incentives for employees who have reached the retirement age was continued, which also contributed to improving the organization and efficiency of work. Let me emphasize that owing to the commitment, discipline and a sense of responsibility among PKP CARGO Group employees, we managed to avoid a high wave of COVID-19 cases. Cases of identified infections were relatively few, and the scope of quarantine

was quite narrow. Accordingly, not even for a moment did we find ourselves under the risk that the epidemic might threaten the continuity of our transportation processes.

Despite a significant decrease in the volume of orders for the transport of bulk cargo, the intermodal transport segment continued to grow throughout most of 2020 along with an expanding group of clients interested in purchasing comprehensive logistics services. For this reason, efforts were intensified on creating a network of operator trains under the “Connect Operator” brand run by PKP CARGO CONNECT sp. z o.o. The network is being expanded gradually, but is already providing quick access from the seaports to Warsaw, Gliwice, Poznań and further towards the terminals located in southern and western Europe. Similar connections are handled from and to Małaszewicze.

In collaboration with our business partners, we are also developing specialized service categories, including the carriage of semi-trailers. Our joint efforts with Lithuanian rail company LTG Cargo look especially promising, because together we are creating a company dedicated to the provision of services in the broadly construed intermodal segment. The pilot train which covered a route from Germany via Poland to Lithuania showed a great potential and opportunities associated with the provision of such freight services.

The PKP CARGO Group’s activity in the logistics segment allowed us to grow our intermodal transport division to approx. 20 percent of our total freight turnover, generating results better than ever before.

The market situation also affected PKP CARGO S.A.’s investment activities. The program of purchasing intermodal platforms was continued, while orders for the modernization and overhaul of rolling stock – wagons and locomotives – were reduced during the year by flexibly aligning the requisition for rolling stock with the situation on the transportation market.

When analyzing the Group’s activity in 2020, consideration should be given to the fact that the Group operates on one of the most competitive rail markets in Europe and to the structure of the Polish economy, which is unfavorable to carriers of bulk cargo. The Management Board believes that a year as difficult as the previous one will not happen again and that, going forward, the PKP CARGO Group will benefit from the forecasted economic growth, thereby improving its operating and financial performance.



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*This document is a translation.
The Polish original should be referred to in matters of interpretation.*

Independent Auditor's Report to the General Meeting and Supervisory Board of PKP CARGO SA

Report on the Audit of the Year-end Consolidated Financial Statements

Opinion

We have audited the year-end consolidated financial statements of the group, where the parent company is PKP CARGO SA ("the Parent Company" or "the Company") ("the Group"), which comprise the consolidated statement of profit or loss and other comprehensive income for the period from 1 January to 31 December 2020, the consolidated statement of financial position as at 31 December 2020, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as notes to the consolidated financial statements including a description of accounting methods and other explanations ("the consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the Group's financial position as at 31 December 2020, as well as of its financial result and cash flows for the year then ended, in accordance with the applicable International Financial Reporting Standards as adopted by the European Union, as well as the adopted accounting methods (policies);
- are consistent, in content and in form, with the applicable laws and regulations and with the Parent Company's Statute.

The present opinion is consistent with the additional report to the Audit Committee, which we issued on the date of this report.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing adopted by the National Council of Certified Auditors as National Standards on Auditing ("NSA") and in compliance with the Act of May, 11 2017 on Certified Auditors, Audit Firms and on Public Supervision ("the Certified Auditors Act" - 2020 Journal of Laws, item 1415) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public interest entities ("Regulation EU" - OJ L 158). Our responsibilities under those standards are further described in the "Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements" section of this report.

We are independent of the Group's companies in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("the IFAC Code") and adopted by resolutions of the National Chamber of Certified Auditors, and with other ethical requirements relevant to the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. During the audit, the engagement partner and the audit firm remained independent of the Parent Company in accordance with the independence requirements laid down in the Certified Auditors Act and Regulation EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in the audit of the consolidated financial statements for the current reporting period. They include the most significant assessed types of risks of material misstatements, including assessed types of risks of material misstatements resulting from fraud. We addressed these matters in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and have summarized our response to these types of risks, and where relevant, presented our key observations relating to those risks. We do not express a separate opinion on these matters.

1. Valuation of rolling stock

Key audit matter

In its consolidated financial statements the Parent Company lists PLN 4.245 million in rolling stock, constituting 56,2% of its assets as at 31 December 2020.

The matter has been classified as a risk of material misstatement due to the high percentage of rolling stock in the Group's assets and the significant effect of management's judgment on the values of assets disclosed in the consolidated financial statements.

In addition, because the market value of the Group's net assets was lower than their carrying amount, the Parent Company tested the assets for impairment. The test showed no impairment.

Disclosures in the consolidated financial statements

The details of the Group's accounting policies on the valuation of property, plant and equipment, including the methods used to perform impairment write downs and calculate depreciation charges, are disclosed in Note 5.1 to the consolidated financial statements.

In the note 5.1 to the consolidated financial statements the Parent Company has made disclosures relating to identified key audit matter and key assumptions of impairment test.

Audit procedures performed in response to the risk

During the audit we performed the following procedures related to the identified risk:

1. We read the accounting policy regarding the determination of depreciation rates, write-downs on fixed assets, and for rolling stock - determining the residual value of these assets,
2. We verified whether there were changes in the approach to estimates of write-downs on fixed assets, determination of depreciation rates and calculation of the residual value of rolling stock compared to the previous year; we obtained relevant documentation that was analysed,
3. We conducted analytical credibility procedures for completeness and accuracy and the presence of depreciation,
4. We have analysed individual items of the rolling stock in terms of the need to make an additional write-off of the rolling stock value
5. We verified the impairment test of the assets of the Company and the PKP Cargo International Group, critically assessing the process of impairment testing, correctness of identification of the cash generating centre, key test assumptions, mathematical test accuracy, the applied discount rates, analysis of test sensitivity to key input factors of the model,
6. We assessed the correctness and completeness of required disclosures in the financial statements,
7. We assessed the impact of events after the balance sheet date on the estimates made as at the balance sheet day.

2. Provisions for employee benefits

Key audit matter

In its consolidated financial statements as at 31 December 2020 the Parent Company presents provisions for employee benefits in the amount of PLN 800,6 million, which constitutes 10,6% of its total liabilities and equity.

The provisions have been classified as a key audit area due to their significant effect on the consolidated financial statements.

Disclosures in the consolidated financial statements

The accounting policies relating to provisions for employee benefits are presented in note 5.8 of the consolidated financial statements.

The Parent Company has made disclosures relating to provisions for employee benefits in Note 5.8 to the consolidated financial statements.

Audit procedures performed in response to the risk

In connection with the identified risk, we applied, among others, the following audit procedures:

1. We analysed the process of calculating estimates of provisions for employee benefits,
2. We verified whether there have been unjustified changes in the approach to provision estimates compared to the previous year,
3. We conducted analyses of reports on the actuarial valuation of provisions for employee benefits,
4. We conducted an assessment of the competence of the company preparing the actuarial valuation report,
5. We analysed the basic assumptions adopted for the valuation of provisions, including the discount rate,
6. We conducted an analysis of the impact of deviations of basic assumptions (discount rate, wage increases, employment growth) on the value of provisions.
7. We analysed the use of short-term provisions in 2020, compared to their estimates as at 31 December 2019.

3. Contingent liabilities

Key audit matter

In its consolidated financial statements the Parent Company presents other contingent liabilities relating to court proceedings associated with claims against the Group entities, where the probability of an outflow of funds is assessed as low, and claims where it is not possible to make a reliable estimate of the amount to be paid by the Company in the future, with a total value of 114.9 million PLN as at 31 December 2020.

The above contingent liabilities have been classified as a key audit area due to the difficulties in assessing their future outcome and their significant effect on the financial statements.

Disclosures in the consolidated financial statements

The accounting policies relating to contingent liabilities, are presented in note 7.3 of the consolidated financial statements.

The Parent Company has made disclosures relating to contingent liabilities in Note 7.3 to the consolidated financial statements.

Audit procedures performed in response to the risk

Our audit procedures included:

1. Identification of the Group's internal control regarding the qualification of contingent liabilities,
 2. Familiarizing ourselves with the current state of litigation and court cases,
 3. Assessment of the correctness of qualification of disputes and court claims to contingent liabilities, by obtaining direct answers and positions of the Group's legal advisors with regard to assessing the risk of the disputes having an outcome unfavourable for the Group,
 4. Review of audit documentation in other areas in terms of identifying events, contracts, commitments that may be contingent items,
 5. Assessment of whether disclosures in the financial statements comply with the provisions of IAS 37 "Provisions, contingent liabilities and contingent assets".
-

Responsibilities of the Parent Company's Management and Supervisory Board for the Consolidated Financial Statements

The Parent Company's Management is responsible for the preparation of the consolidated financial statements that give a true and fair view of the Group's financial position and financial result in accordance with International Financial Reporting Standards as adopted by the European Union, the adopted accounting methods (policies), the applicable binding regulations and the Statute. The Parent Company's Management is also responsible for such internal controls as it considers necessary to ensure that the consolidated financial statements are free from material misstatements resulting from fraud or error.

In preparing the consolidated financial statements the Parent Company's Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, any matters related to going concern and using the going concern basis of accounting, except in situations where the Management intends to either liquidate the Group or discontinue its operations, or has no realistic alternative but to do so.

The Parent Company's Management and members of the Parent Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" - 2021 Journal of Laws, item 217 with subsequent amendments). Members of the Parent Company's Supervisory Board are responsible for overseeing the financial reporting process.

Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with NSA will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in the aggregate, could influence the economic decisions of users made on the basis of these consolidated financial statements.

The concept of materiality is applied by the auditor at the planning stage and when performing the audit and evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, as well as when formulating the auditor's opinion. In view of the above, all of the opinions and statements contained in the auditor's report are expressed subject to the qualitative and quantitative level of materiality set in accordance with the applicable standards on auditing and the auditor's professional judgement.

The scope of the audit does not include an assurance regarding the Group's future profitability, or regarding the effectiveness of the Parent Company's Management in the handling of the Group's affairs now or in the future.

Throughout an audit in accordance with NSA, we exercise professional judgement and maintain professional scepticism, as well as:

- identify and assess the risks of a material misstatement of the consolidated financial statements resulting from fraud or error, design and perform audit procedures in response to such risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or override of internal controls;
- obtain an understanding of the internal controls relevant to the audit in order to plan our audit procedures, but not to express an opinion on the effectiveness of the Group's internal controls;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the estimates and related disclosures made by the Parent Company's Management;
- conclude on the appropriateness of the Parent Company Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and contents of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit and remain solely responsible for our audit opinion.

We provide the Parent Company's Supervisory Board with information about, among others, the planned scope and timing of the audit and significant audit findings, including any significant weaknesses of internal controls that we identify during our audit.

We provide the Parent Company's Supervisory Board with a statement that we have complied with the relevant ethical requirements relating to independence, and that we will communicate to them all relationships and other matters that may reasonably be considered to constitute a threat to our independence, and where applicable, inform them of the related safety measures.

From the matters communicated to the Parent Company's Supervisory Board we determined those matters that were of the most significance to the audit of the consolidated financial statements for the current reporting period and were therefore chosen as key audit matters. We describe these matters in our auditor's report, unless law or regulations prohibit their public disclosure or when, in exceptional cases, we find that a given matter should not be presented in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such information.

Other Information, Including Report on Activities

Other information comprises the joint report on the activities of the Company and the Group for the financial year ended 31 December 2020 (“the Report on Activities”) along with the Statement of Compliance with Rules of Corporate Governance and Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act, which constitute separate sections of the Report on Activities.

Responsibilities of the Parent Company’s Management and Supervisory Board

The Parent Company’s Management is responsible for the preparation of Other Information in accordance with binding regulations.

The Parent Company’s Management and members of its Supervisory Board are required to ensure that the Report on Activities along with its separate sections as well as Report on Non-financial Information meets the requirements of the Accounting Act.

Responsibilities of the Auditor

Our opinion on the consolidated financial statements does not cover Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we find a material misstatement of the Other Information, we are required to state this fact in our auditor’s report. In accordance with the requirements of the Certified Auditors Act, it is also our responsibility to issue an opinion whether the Report on Activities has been prepared in accordance with binding regulations, and whether it is consistent with the information presented in the financial statements. Moreover, we are required to report if the Company has prepared a Report on Non-financial Information, and to issue an opinion on whether the Company has included all of the required information in the Statement of Compliance with the Rules of Corporate Governance.

We received the Report on Activities prior to the issue of the present auditor’s report, whereas the Annual Report will be available after this date. In the event that we find a material misstatement in the Annual Report, we are required to communicate this to the Parent Company’s Supervisory Board.

Opinion on the Report on Activities

Based on the work we have performed during the audit, in our opinion the Report on Activities:

- has been prepared in accordance with Article 49 of the Accounting Act and par. 70 of the Minister’s of Finance Decree of 29 March 2018 on the current and periodic information reported by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (the “Current Information Decree” - 2018 Journal of Laws, item 757);
- is consistent with the information presented in the consolidated financial statements.

Furthermore, based on our knowledge obtained during the audit about the Parent Company and the Group and its environment we have identified no material misstatements in the Report on Activities.

Opinion on the Statement of Compliance with Rules of Corporate Governance

In our opinion, the Group’s Statement of Compliance with Rules of Corporate Governance contains all of the information specified in paragraph 70 section 6 par. 5 of the Current Information Decree. In addition, in our opinion, the information indicated in paragraph 70 section 6 point 5 letters c-f, h and letter i of the Decree, contained in the Statement of Compliance with Rules of Corporate Governance is consistent with the applicable regulations and with the information contained in the financial statements.

Report on Non-financial Information

In accordance with the requirements of the Certified Auditors Act we confirm that the Group has prepared the Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act as a separate section of the Report on Activities.

We have performed no assurance work on the Report on Non-financial Information and, accordingly, do not express any assurance thereon.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the consolidated financial statements prepared in a standard electronic reporting format with the requirements of the regulation on technical standards on the specification of a single electronic reporting format

In connection with our audit of the consolidated financial statements we were engaged to perform a reasonable assurance engagement to express an opinion on whether the consolidated financial statements of the Group prepared for the financial year ended 31 December 2020 in a standard electronic reporting format and contained in the file entitled ESEF_pkpcargosa-2020-12-31.zip (“consolidated financial statements in the ESEF format”) have been marked up in accordance with the requirements specified in the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format and other Commission delegated regulations (EU) on updating the taxonomy to be used for the purposes of the standard electronic reporting format, together referred to as the “ESEF Regulation” and meet the technical requirements on the specification of a single electronic reporting format set out in those regulations.

Identification of the Applicable Criteria and Subject Matter

The consolidated financial statements in the ESEF format have been prepared by the Company’s Management in order to meet the markup requirements and the technical requirements on the specification of a single electronic reporting format set out in the ESEF Regulation.

The subject matter of the assurance engagement is the consistency of the consolidated financial statements in the ESEF format with the requirements of the ESEF Regulation and, in our view, the requirements set out in those regulations constitute appropriate criteria for our opinion.

Responsibilities of the Company’s Management and Supervisory Board

The Management is responsible for the preparation of the consolidated financial statements in the ESEF format in accordance with the markup requirements and technical requirements on the specification of a single electronic reporting format set out in the ESEF Regulation. This responsibility includes the selection and application of appropriate XBRL markups, using the taxonomy referred to in the regulations.

The Management is also responsible for designing, implementing and maintaining an internal control system to ensure that the consolidated financial statements prepared in the ESEF format are free from material incompliance with the ESEF requirements.

Members of the Company’s Supervisory Board are responsible for overseeing the financial reporting process, which includes the preparation of financial statements in compliance with the format arising out of binding legal regulations.

Responsibilities of the Auditor

Our objective was to express an opinion, based on the reasonable assurance engagement, on whether the consolidated financial statements in the ESEF format have been marked up in accordance with the requirements of the ESEF Regulation and are consistent with the technical standards on the specification of a single electronic reporting format set out in those regulations.

We performed the engagement in accordance with National Standard on Assurance Engagements Other than Audits and Reviews 3000 (Amended) in the wording of International Standard on Assurance Engagements 3000 (Revised) - “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” (hereinafter: “NSAE 3000 (A)”).

The standard requires us to plan and perform our procedures to obtain reasonable assurance that the consolidated financial statements in the ESEF format have been prepared in accordance with the applicable criteria.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement performed in accordance with NSAE 3000 (A) will always detect an existing material misstatement.

Procedures are selected based on the auditor's judgement, including the auditor's assessment of the risk of material misstatements resulting from fraud or error. In assessing such risk, the auditor considers the internal control relevant to the preparation of the consolidated financial statements in the ESEF format, in order to plan procedures that will allow the auditor to obtain sufficient and appropriate evidence. The internal control system is not assessed for the purpose of expressing an opinion on the effectiveness of its operation.

Summary of Work Performed

Our planned and performed procedures included:

- obtaining an understanding of the process of preparing the consolidated financial statements in the ESEF format, including the Company's process of selecting and applying the XBRL markups and ensuring compliance with the ESEF Regulation, as well as an understanding of the internal control system relevant to that process;
- agreeing the marked up information contained in the consolidated financial statements in the ESEF format with the audited consolidated financial statements;
- with the use of specialized IT tools, assessing compliance with the technical standards on the specification of a single electronic reporting format, including the application of the XHTML format;
- assessing the completeness of marking up the information in the consolidated financial statements in the ESEF format with XBRL markups;
- evaluating whether the applied XBRL markups from the taxonomy specified in the ESEF Regulation have been applied correctly and whether taxonomy extensions have been created in situations when no suitable elements have been identified in the core taxonomy specified in the ESEF Regulation;
- evaluating the correctness of embedding the created taxonomy markups in the core taxonomy specified in the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the assurance engagement.

Ethical Standards, Including Independence

While performing the engagement the auditor and the audit firm complied with independence and other ethical standards set out in the IESBA Code. The IESBA Code is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct. We have also complied with other independence and ethical requirements applicable to such assurance engagements in Poland.

Quality Control Standards

The audit firm applies national quality control standards in the wording of the International Standard on Quality Control 1 - "Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements" adopted by resolution of the National Council of Certified Auditors (hereinafter: "ISQC").

In accordance with the requirements of ISQC, the audit firm maintains a comprehensive system of quality control that includes documentation of the policies and procedures relevant to compliance with ethical requirements, professional standards and the applicable legal and regulatory requirements.

Opinion

As the auditor's opinion has been formulated based on the matters described above, the opinion should be read in consideration of those matters.

In our opinion, the consolidated financial statements in the ESEF format have been prepared, in all material respects, in accordance with the requirements of the ESEF Regulation.

Declaration on the Provision of Non-audit Services

To the best of our knowledge and belief we declare that any non-audit services we have provided to the companies of the Group are consistent with the law and the regulations binding in Poland, and that we have not provided any non-audit services prohibited by virtue of Article 5 par. 1 of Regulation EU and Article 136 of the of the Certified Auditors Act.

The non-audit services we have provided to the Parent Company and its subsidiaries in the audited period are listed in note 8.10.1 of the Reports on Activities.

Appointment of the Auditor

We were first appointed as auditors of the Group's consolidated financial statements in a resolution passed by the Parent Company's Ordinary General Meeting on 30 June 2016 and again in a resolution passed on 26 June 2019. We have audited the Group's consolidated financial statements continually since the financial year ended 31 December 2016, i.e. for 5 consecutive years.

The engagement partner on the audit resulting in this independent auditor's report is Marcin Krupa.

**BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw
entered on the list of audit firms in number 3355**

represented by the engagement partner

Marcin Krupa
Certified Auditor No. 11142

Dr. André Helin
Managing Partner of the General Partner
Certified Auditor No. 90004

Warsaw, 31 March 2021

Consolidated Financial Statements of **PKP CARGO CAPITAL GROUP** for the financial year ended 31 December 2020

prepared in accordance with IFRS EU



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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2020	2019	
Revenues from contracts with customers	4,075.6	4,781.6	<i>Note 2.1</i>
Consumption of traction electricity and traction fuel	(492.7)	(583.8)	<i>Note 2.2</i>
Services of access to infrastructure	(517.3)	(572.6)	
Transport services	(340.5)	(363.3)	
Other services	(365.8)	(408.6)	<i>Note 2.2</i>
Employee benefits	(1,638.1)	(1,737.3)	<i>Note 2.2</i>
Other expenses	(264.6)	(292.8)	<i>Note 2.2</i>
Other operating revenue and (expenses)	123.6	36.7	<i>Note 2.3</i>
Operating profit without depreciation (EBITDA)	580.2	859.9	
Depreciation, amortization and impairment losses	(766.6)	(716.5)	<i>Note 2.2</i>
Profit/(loss) on operating activities (EBIT)	(186.4)	143.4	
Financial revenue and (expenses)	(82.2)	(71.6)	<i>Note 2.4</i>
Share in the profit/(loss) of entities accounted for under the equity method	1.7	1.7	<i>Note 5.3</i>
Profit/ (loss) before tax	(266.9)	73.5	
Income tax	42.6	(37.5)	<i>Note 3.1</i>
NET PROFIT/ (LOSS)	(224.3)	36.0	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	(50.8)	9.9	
Income tax	9.7	(1.9)	<i>Note 3.1</i>
FX differences resulting from translation of financial statements	27.3	1.7	
Total other comprehensive income subject to reclassification in the financial result	(13.8)	9.7	
Actuarial profits/ (losses) on post-employment benefits	(50.2)	(52.2)	<i>Note 5.8</i>
Income tax	9.5	10.0	<i>Note 3.1</i>
Measurement of equity instruments at fair value	(0.7)	0.7	<i>Note 6.1</i>
Total other comprehensive income not subject to reclassification in the financial result	(41.4)	(41.5)	
Total other comprehensive income	(55.2)	(31.8)	
TOTAL COMPREHENSIVE INCOME	(279.5)	4.2	
Net profit/ (loss) attributable:			
Net profit/(loss) attributable to shareholders of the Parent Company	(224.3)	36.0	
Total other comprehensive income attributable:			
Total other comprehensive income attributable to shareholders of the Parent Company	(279.5)	4.2	
Earnings/ (losses) per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings/ (losses) per share	(5.01)	0.80	

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2020	31/12/2019	
ASSETS			
Rolling stock	4,245.0	4,329.6	<i>Note 5.1</i>
Other property, plant and equipment	875.6	872.4	<i>Note 5.1</i>
Rights-of-use assets	1,008.6	1,078.8	<i>Note 5.2</i>
Investments in entities accounted for under the equity method	42.0	40.4	<i>Note 5.3</i>
Trade receivables	3.0	3.0	<i>Note 5.5</i>
Lease receivables	10.3	10.9	
Other assets	35.1	55.0	<i>Note 5.6</i>
Deferred tax assets	177.8	113.7	<i>Note 3.1</i>
Total non-current assets	6,397.4	6,503.8	
Inventories	165.8	161.0	<i>Note 5.4</i>
Trade receivables	585.8	591.3	<i>Note 5.5</i>
Lease receivables	0.7	0.7	
Income tax receivables	2.9	51.4	
Other assets	88.1	132.7	<i>Note 5.6</i>
Cash and cash equivalents	306.0	550.4	<i>Note 4.4</i>
Total current assets	1,149.3	1,487.5	
Non-current assets classified as held for sale	12.7	-	
TOTAL ASSETS	7,559.4	7,991.3	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	<i>Note 4.2</i>
Supplementary capital	782.4	781.4	
Other items of equity	(160.2)	(77.7)	
FX differences resulting from translation of financial statements	104.8	77.5	
Retained earnings	177.5	402.8	
Total equity	3,143.8	3,423.3	
Debt liabilities	2,101.8	2,201.4	<i>Note 4.1</i>
Trade liabilities	1.5	2.7	
Investment liabilities	145.5	157.0	<i>Note 5.7</i>
Provisions for employee benefits	684.3	657.1	<i>Note 5.8</i>
Other provisions	5.7	5.4	<i>Note 5.9</i>
Deferred tax liability	90.7	92.3	<i>Note 3.1</i>
Total long-term liabilities	3,029.5	3,115.9	
Debt liabilities	478.5	421.3	<i>Note 4.1</i>
Trade liabilities	347.5	412.2	
Investment liabilities	133.5	181.5	<i>Note 5.7</i>
Provisions for employee benefits	116.3	127.1	<i>Note 5.8</i>
Other provisions	24.1	45.6	<i>Note 5.9</i>
Other liabilities	286.2	264.4	<i>Note 5.10</i>
Total short-term liabilities	1,386.1	1,452.1	
Total liabilities	4,415.6	4,568.0	
TOTAL EQUITY AND LIABILITIES	7,559.4	7,991.3	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity			FX differences resulting from translation of financial statements	Retained earnings	Total equity
			Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits/ (losses) on post-employment benefits	Measurement of hedging instruments			
1/01/2020	2,239.3	781.4	(12.2)	(75.0)	9.5	77.5	402.8	3,423.3
Net result for the financial year	-	-	-	-	-	-	(224.3)	(224.3)
Other comprehensive income for the financial year (net)	-	-	(0.7)	(40.7)	(41.1)	27.3	-	(55.2)
Total comprehensive income	-	-	(0.7)	(40.7)	(41.1)	27.3	(224.3)	(279.5)
Other changes for the financial year	-	1.0	-	-	-	-	(1.0)	-
31/12/2020	2,239.3	782.4	(12.9)	(115.7)	(31.6)	104.8	177.5	3,143.8
1/01/2019 (audited)	2,239.3	628.2	(12.9)	(32.8)	1.5	75.8	584.4	3,483.5
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	-	2.8	2.8
1/01/2019 (restated)	2,239.3	628.2	(12.9)	(32.8)	1.5	75.8	587.2	3,486.3
Net result for the financial year	-	-	-	-	-	-	36.0	36.0
Other comprehensive income for the financial year (net)	-	-	0.7	(42.2)	8.0	1.7	-	(31.8)
Total comprehensive income	-	-	0.7	(42.2)	8.0	1.7	36.0	4.2
Dividends	-	-	-	-	-	-	(67.2)	(67.2)
Other changes for the financial year	-	153.2	-	-	-	-	(153.2)	-
31/12/2019	2,239.3	781.4	(12.2)	(75.0)	9.5	77.5	402.8	3,423.3

Note 4.2

CONSOLIDATED CASH FLOW STATEMENT

	2020	2019
Cash flows from operating activities		
Profit / (loss) before tax	(266.9)	73.5
Adjustments		
Depreciation, amortization and impairment losses	766.6	716.5
(Profits)/ losses on the sale and liquidation of non-financial non-current assets	(8.9)	(6.3)
(Profits)/ losses on FX differences	13.9	(0.3)
(Profits)/ losses on interest, dividends	54.4	53.7
Received / (paid) interest	2.0	1.7
Received / (paid) income tax	42.9	(53.1)
Movement in working capital	12.4	70.8
Other adjustments	(63.3)	(50.0)
Net cash from operating activities	553.1	806.5
Cash flows from investing activities		
Expenditures on the acquisition of non-financial non-current assets	(719.0)	(1,045.8)
Proceeds from the sale of non-financial non-current assets	60.3	18.3
Proceeds from dividends received	0.4	2.4
Inflows / (outflows) on bank deposits over 3 months	-	200.0
Other inflows / (outflows) from investing activities	3.2	10.3
Net cash from investing activities	(655.1)	(814.8)
Cash flow from financing activities		
Payments on lease liabilities	(148.5)	(127.3)
Proceeds from bank loans and borrowings	285.7	549.1
Repayment of bank loans and borrowings	(301.2)	(248.3)
Interest paid on lease liabilities and bank loans and borrowings	(53.0)	(53.2)
Grants received	74.7	63.2
Dividends paid out to owners	-	(67.2)
Other outflows from financing activities	(3.6)	(4.9)
Net cash from financing activities	(145.9)	111.4
Net increase/ (decrease) in cash and cash equivalents	(247.9)	103.1
Cash and cash equivalents at the beginning of the reporting period	550.4	447.3
Impact exerted by FX rate movements on the cash balance in foreign currencies	3.5	-
Cash and cash equivalents at the end of the reporting period, including:	306.0	550.4
<i>Restricted cash</i>	49.1	49.2



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

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

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

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 December 2020 are presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020 in [Chapters 9.11](#) and [9.4](#), respectively.

Information about the Group

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

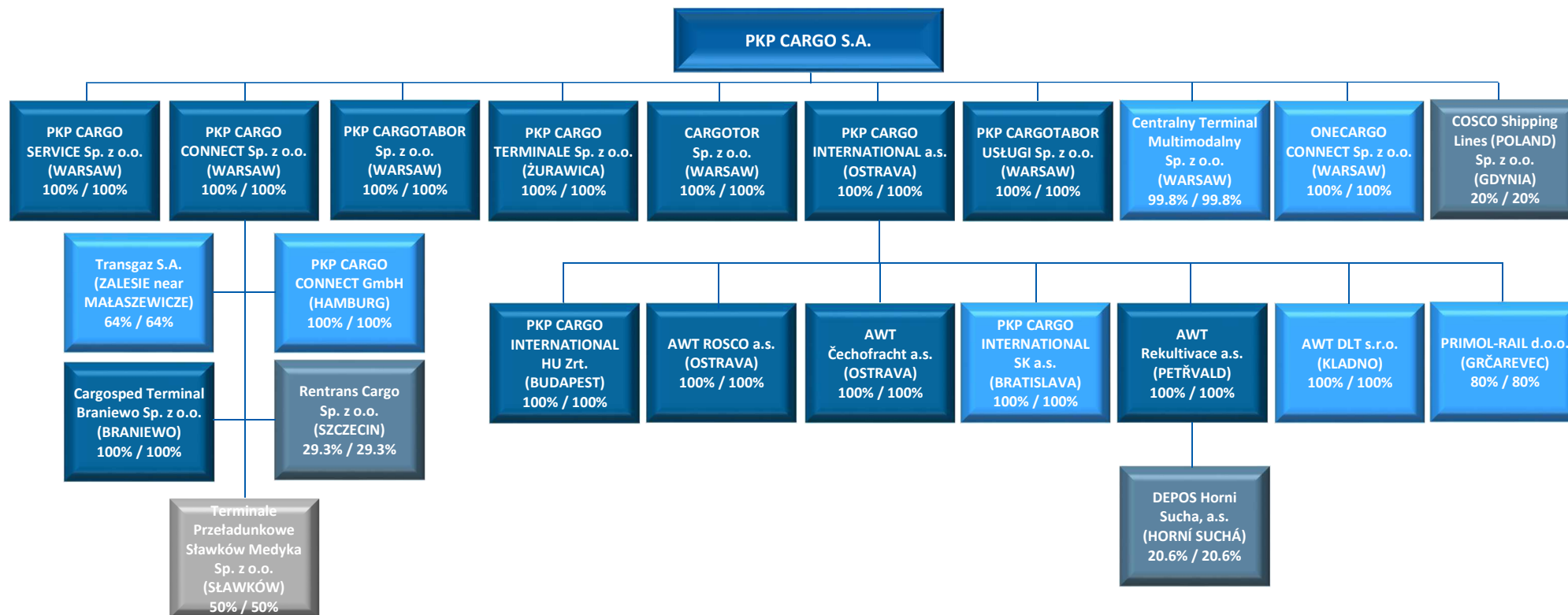


As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 19 subsidiaries. In addition, the Group held shares in 3 associated entities and 1 joint venture.

The duration of individual Group companies is unlimited.

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

Detailed information about members of the Group as at 31 December 2020 is as follows:



Subsidiaries – consolidated by the full method
 Associates in the Group

Other subsidiaries in the Group
 Shares in the Group's joint ventures

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

Effective as of 1 January 2020, a cross-border merger of AWT Reklivitace a.s. and AWT Reklivitace PL Sp. z o.o. was effected, as a result of which the acquired company AWT Reklivitace PL Sp. z o.o. was removed from the National Court Register.

On 10 February 2020, the name of the company AWT Rail HU Zrt. was changed to PKP CARGO INTERNATIONAL HU Zrt.

On 13 June 2020, the company P.P.H.U. "UKPOL" Sp. z o.o. was dissolved pursuant to a decision of the District Court in Rzeszów. As a result of the above, P.P.H.U. "UKPOL" Sp. z o.o. ceased to be a related party to the PKP CARGO Group.

On 24 June 2020, the name of the company AWT Rail SK a.s. was changed to PKP CARGO INTERNATIONAL SK a.s.

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

1.2 Basis for preparation of the Consolidated Financial Statements

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

These Consolidated Financial Statements for the year ended 31 December 2020 have been prepared on the assumption that the Group will continue to be a going concern in the foreseeable future. As at the preparation date of the financial statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

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

These Consolidated Financial Statements have been audited by a statutory auditor.

Group's accounting principles described in individual notes were applied in a continuous manner to all presented periods. The significant estimates and judgments for the key items of the consolidated financial statements were presented in individual notes to these Consolidated Financial Statements.



1.2 Basis for preparation of the Consolidated Financial Statements (cont.)

Note	Title	Amount recognized in the Consolidated Financial Statements		Accounting Policy	Significant estimates and judgments
		2020	2019		
2.1	Revenues from contracts with customers	4,075.6	4,781.6	X	X
2.2	Operating expenses	(4,385.6)	(4,674.9)		
2.3	Other operating revenue and (expenses)	123.6	36.7		
2.4	Financial revenue and (expenses)	(82.2)	(71.6)		
3.1	Income tax	42.6	(37.5)	X	X
5.1	Rolling stock	4,245.0	4,329.6	X	X
5.1	Other property, plant and equipment	875.6	872.4	X	X
5.2	Rights-of-use assets	1,008.6	1,078.8	X	X
5.3	Investments in entities accounted for under the equity method	42.0	40.4	X	
3.1	Deferred tax assets	177.8	113.7	X	X
5.4	Inventories	165.8	161.0	X	
5.5	Trade receivables	588.8	594.3	X	X
	Lease receivables	11.0	11.6		
	Income tax receivables	2.9	51.4		
5.6	Other assets	123.2	187.7	X	
4.4	Cash and cash equivalents	306.0	550.4	X	
	Non-current assets classified as held for sale	12.7	-		
4.2	Equity	3,143.8	3,423.3	X	
4.1	Debt liabilities	2,580.3	2,622.7	X	X
	Trade liabilities	349.0	414.9		
5.7	Investment liabilities	279.0	338.5	X	
5.8	Provisions for employee benefits	800.6	784.2	X	X
5.9	Other provisions	29.8	51.0	X	
5.10	Other liabilities	286.2	264.4	X	
3.1	Deferred tax liability	90.7	92.3	X	X
7.3	Contingent liabilities	208.8	229.1	X	X

Consolidation rules

The Consolidated Financial Statements comprise the standalone financial statements of the Parent Company and its controlled entities (subsidiaries) for the financial year ended on 31 December 2020 and 31 December 2019. The financial statements of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with EU IFRS, are prepared for the same reporting period as the statements of the Parent Company, based on uniform accounting principles applied for transactions and similar economic events.

Revenues and costs of subsidiaries are taken into account in the consolidated statement of profit or loss and other comprehensive income as of the actual date of acquisition of the given entity to the date of its effective disposal. All transactions effected within the Group, negative balances and revenues and costs of operations effected between the Group companies have been fully eliminated from the consolidation.

On 12 May 2020, the Rail Transport Act was amended, which implemented, among others, restrictions in ownership rights of the Parent Company in respect to its subsidiary CARGOTOR Sp. z o.o. (hereinafter referred to as CARGOTOR). Accordingly, in order to strengthen the corporate governance of the Parent Company, the relevant amendments were made to the Articles of Association of CARGOTOR, which transferred some significant competences from the supervisory board level to the level of CARGOTOR's shareholder meeting. The Management Board of the Parent Company believes that, as a result of changes introduced in the Articles of Association and considering all the relations between both companies, control over CARGOTOR within the meaning of IFRS 10 was maintained.

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.

1.2 Basis for preparation of the Consolidated Financial Statements (cont.)

As at 31 December 2020 and 31 December 2019, for the needs of valuation of financial statements of foreign operations subject to consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of profit or loss and other comprehensive income and the cash flow statement	
	31/12/2020	31/12/2019	2020	2019
EUR	4.6148	4.2585	4.4742	4.3018
CZK	0.1753	0.1676	0.1687	0.1676

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 31 March 2021.

1.3 Applied International Financial Reporting Standards platform

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

When approving the 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 references to the IFRS Conceptual Framework	1 January 2020
Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of material	1 January 2020
Amendments to IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement" – IBOR reform	1 January 2020
Amendments to IFRS 3 "Business combinations" – Definition of a business	1 January 2020
Amendments to IFRS 16 "Leases" – Covid-19-Related Rent Concessions	1 June 2020

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

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

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

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

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 as at 31 December 2020 have not yet been endorsed by the EU and have not entered into effect. In the opinion of the Parent Company's Management Board, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Group:

Standard / Interpretation	Effective date
Amendments to IFRS 3 "Business combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	1 January 2022
Annual Improvements to IFRS 2018-2020 Cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term	1 January 2023
IFRS 17 "Insurance contracts"	1 January 2023
Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023

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

Impairment of the Group's non-current assets

In the financial year ended 31 December 2020, as a result of the COVID-19 pandemic, the Group achieved financial results that were lower than expected and accordingly as at 31 December 2020 it was conducted impairment tests for three cash-generating units defined at the level of assets of the Parent Company, PKP CARGOTABOR Sp. z o.o. and the PKP CARGO INTERNATIONAL Group. The results of tests did not show any need for revaluation of the non-current assets held by the Group. Detailed information on the tests are described in [Note 5.1](#) to these Consolidated Financial Statements.

Assessment of expected credit losses

The Group has conducted an analysis of the impact of the COVID-19 pandemic on the calculation of expected credit losses, by incorporating the additional credit risk related to the current economic situation, which may cause deterioration of liquidity of business partners and consequently affect the ratio of recovery of trade receivables. Based on analysis of the payments of receivables to date, the Group observed that the payment levels of trade receivables presented in the statement of financial position as at 31 December 2020 did not differ significantly from the rates in previous periods. Additionally, some trade receivables are secured. The Group remains in touch with key contractors and has received no signals indicating an increased risk of non-payment of receivables. The Group analyzes the situation on an ongoing basis and if such indications arise it will update the assumptions adopted in the model for calculating the expected credit losses.

Impact on employee benefits

In connection with the COVID-19 pandemic, the Parent Company and selected subsidiaries signed agreements with trade union organizations on reducing the working hours of employees. The agreement signed by the Parent Company applied to the period from 1 June 2020 to 31 August 2020 and the agreements signed by the subsidiaries pertained to the period from 1 July 2020 to 30 September 2020. The reduced working time of the Group's employees caused a decrease in employee benefit expenses in the total amount of PLN 33.8 million.

Under the Anti-Crisis Act, the Parent Company and selected subsidiaries were awarded support from the Guaranteed Employee Benefit Fund in the total amount of PLN 115.2 million.

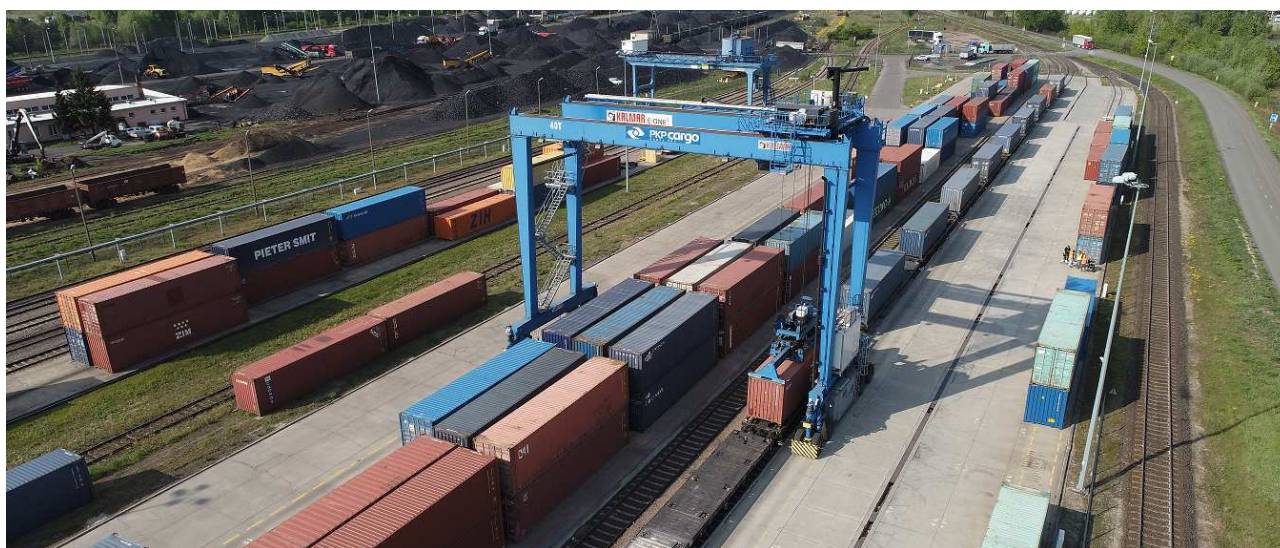
Impact on other expenses

Other expenses incurred by the Group for COVID-19 preventive measures amounted to PLN 4.1 million and included mainly the costs incurred for personal protection equipment. Additionally, in April 2020, the Parent Company donated PLN 1.0 million to the PKP Group Foundation for combating the COVID-19 pandemic.

Liquidity standing of the Group

As at 31 December 2020, the working capital level fell as compared to 31 December 2019. In the financial year ended 31 December 2020, in order to secure its liquidity position, the Parent Company signed an agreement with the European Investment Bank to grant an investment loan up to the maximum amount of EUR 200 million, of which EUR 60 million was used by 31 December 2020. A drawdown of the remaining amount of the liability in the amount of EUR 140 million is optional and requires prior approval from the Supervisory Board and execution of a separate agreement with the bank. As at 31 December 2020, the Group also had unused credit and lease facilities in the amount of PLN 260.2 million.

Detailed information on the impact of the COVID-19 pandemic on the Group's activities are described in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020 in [Chapter 8.1](#).



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

2.1 Revenues from contracts with customers

Accounting policy applied

The Group recognizes revenue from contracts with customers in such a manner as to reflect the transfer of promised goods or services to the customer in the amount corresponding to the remuneration expected to be payable to the Group in return for such goods and services. Revenues from contracts with customers is disclosed at fair value of the payment received or due less VAT, refunds, rebates and discounts.

Revenues are recognized upon (or during) fulfillment of the obligation to make the performance through the provision of the promised good or service (i.e. asset) to the customer.

Revenue from sales of services is recognized in the statement of profit or loss and other comprehensive income over time, because the customer receives and at the same time benefits from the performance provided by the Group as it is being provided. The Group is of the opinion that this condition is fulfilled, because the work performed by it to date would not have to be substantially re-performed by another entity if it were to complete the remaining portion of the obligation toward the customer.

Revenues from sales of materials, goods and finished products are recognized in the statement of profit or loss and other comprehensive income when the customer obtains control over the asset in question. The moment of the transfer of control is the same as the moment when the significant risk and benefits resulting from their ownership were transferred.

Variable remuneration

Commercial contracts contain a variable remuneration element resulting from the following:

- the possibility of imposing penalties on the client in connection with its failure to meet the contractual provisions pertaining to transportation of a specified freight volume,
- the possibility of imposing fines on the Group by the client in the event of failure to transport the ordered freight volume.

The Group estimates the value of variable remuneration resulting from penalties based on the degree of performance of a given contract in the agreed settlement period. Facts and circumstances determining the probability of the occurrence of each scenario are reviewed at least at the end of each reporting period.

Contract assets

The Group recognizes in its statement of financial position a contract asset constituting the Group's right to remuneration in return for goods or services that the Group has provided to the customer if this right is dependent on a condition other than the passage of time. Assets arising from contracts with customers are presented under the trade receivables item and include predominantly assets that have not yet been invoiced but reflect services that have been completed or are in the process of being provided.

Contract liabilities

The Group recognizes in its statement of financial position a contract liability constituting the Group's obligation to transfer goods or services to the customer in return for which the Group has obtained remuneration (or the amount of remuneration is due) from the customer. The Group recognizes a contract liability chiefly in connection with remuneration received in advance for services that have not yet been provided by the Group. As at 31 December 2020 and 31 December 2019 the Group had no significant liabilities under contracts with customers.



SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Significant estimates of revenues from contracts with customers relate to recognized but not invoiced revenues resulting from the following:

- from the degree of progress of transport services, which are measured based on the estimated level of freight volume the transportation of which has not been completed as at the balance sheet date and the average obtainable price,
- from the freight volume that has already been delivered to the destination but has not yet been collected by the customer. The measurement takes into account the actual freight volume and the average obtainable price,
- from rents for wagons owned by the Group which are used by foreign rail transport companies in the course of transport services rendered outside Poland. This item is measured based on the quantity of wagons outside Poland (data obtained from IT systems) and prices resulting from agreements and contracts with foreign rail freight companies,
- from reclamation and construction works that are currently in the process of acceptance by the client or, in accordance with the contract, the stage of works that would enable invoicing has not yet been achieved. The Group measures revenue based on the scope of work performed as at the balance sheet date and the rates resulting from contracts/orders.

The value of recognized revenue estimates as at the balance sheet date is presented in this note in the table on movement in assets arising from contracts with customers.

2.1 Revenues from contracts with customers (cont.)

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 have been presented in these Consolidated Financial Statements.

2020	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	225.0	9.6	823.6	2,200.5	3,258.7
Revenue from other transportation activity	0.5	-	1.2	141.4	143.1
Revenue from siding and traction services	-	9.0	143.2	131.0	283.2
Revenue from transshipment services	1.2	-	0.4	152.7	154.3
Revenue from reclamation services	-	0.1	1.1	68.6	69.8
Revenue from sales of goods and materials	-	-	1.7	47.0	48.7
Other revenues	1.1	16.2	12.0	88.5	117.8
Total	227.8	34.9	983.2	2,829.7	4,075.6
Revenue recognition date					
At a point of time	-	-	1.7	50.3	52.0
Over a period	227.8	34.9	981.5	2,779.4	4,023.6
Total	227.8	34.9	983.2	2,829.7	4,075.6

2019	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	382.5	0.8	1,061.0	2,468.8	3,913.1
Revenue from other transportation activity	1.2	0.5	2.0	155.4	159.1
Revenue from siding and traction services	0.4	11.4	124.7	143.5	280.0
Revenue from transshipment services	1.1	-	0.4	154.9	156.4
Revenue from reclamation services	-	-	-	98.0	98.0
Revenue from sales of goods and materials	-	-	2.2	53.3	55.5
Other revenues	1.4	8.0	10.9	99.2	119.5
Total	386.6	20.7	1,201.2	3,173.1	4,781.6
Revenue recognition date					
At a point of time	-	-	2.2	64.7	66.9
Over a period	386.6	20.7	1,199.0	3,108.4	4,714.7
Total	386.6	20.7	1,201.2	3,173.1	4,781.6

2.1 Revenues from contracts with customers (cont.)

Transaction price assigned to other unfulfilled (or partially unfulfilled) performance commitments

The following table present revenues related to unfulfilled (or partially unfulfilled) performance commitments as at the end of the financial year that the Group expects to recognize in the future:

	31/12/2020			31/12/2019		
	Siding services	Reclamation services	Total	Siding services	Reclamation services	Total
Up to 1 year	53.5	40.7	94.2	40.2	35.1	75.3
1 to 3 years	27.2	37.9	65.1	33.0	2.8	35.8
Over 3 years	-	17.1	17.1	-	0.4	0.4
Total	80.7	95.7	176.4	73.2	38.3	111.5

In accordance with IFRS 15.121, in the case of other executed commercial agreements, the Group takes advantage of a practical simplification and refrains from disclosing information on the total transaction price assigned to a performance commitment that was not fulfilled at the end of the period and refrains from disclosing the period in which revenue from fulfilling the performance commitment is expected to be recognized. The possibility of applying this simplification is due to the fact that a significant portion of contracts are entered into for a period not longer than 12 months or the Group has the right to recognize revenue in the invoiced amount.

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

	2020	2019
Poland	2,797.2	3,411.9
Czech Republic	541.3	597.3
Germany	279.5	294.6
Slovakia	86.9	111.8
Austria	65.2	53.2
Denmark	58.6	59.2
Other countries	246.9	253.6
Total	4,075.6	4,781.6

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

	2020	2019
Poland	5,415.6	5,576.0
Czech Republic	779.6	787.8
Other countries	5.5	4.3
Total	6,200.7	6,368.1

Information on key customers

In the financial year ended 31 December 2020 and 31 December 2019, 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

	2020	2019
As at the beginning of the reporting period	18.6	37.1
Recognition of revenue before the payment due date	24.2	18.6
Reclassification to receivables	(18.9)	(37.1)
FX differences from valuation	0.3	-
As at the end of the reporting period	24.2	18.6

2.2 Operating expenses

Consumption of electricity and traction fuel

	2020	2019
Consumption of traction fuel	(115.8)	(176.8)
Consumption of traction electricity	(376.9)	(407.0)
Total	(492.7)	(583.8)

Other services

	2020	2019
Repair and maintenance services for non-current assets	(94.7)	(96.4)
Rent and fees for the use of real properties and rolling stock	(62.5)	(87.2)
Telecommunications services	(6.4)	(6.6)
Legal, consulting and similar services	(11.1)	(15.8)
IT services	(45.8)	(46.4)
Transshipment services	(11.6)	(14.3)
Reclamation services	(71.5)	(86.9)
Other services	(62.2)	(55.0)
Total	(365.8)	(408.6)

Employee benefits

	2020	2019
Payroll	(1,254.1)	(1,303.3)
Social security expenses	(263.5)	(275.7)
Expenses for contributions to the Company Social Benefits Fund	(33.4)	(25.2)
Other employee benefits during employment	(44.4)	(46.5)
Post-employment benefits	(4.6)	(4.9)
Movement in provisions for employee benefits	(38.1)	(81.7)
Total	(1,638.1)	(1,737.3)

Other expenses

	2020	2019
Consumption of non-traction fuel	(21.3)	(27.7)
Consumption of electricity, gas and water	(37.5)	(37.8)
Consumption of materials	(90.8)	(98.2)
Taxes and charges	(36.2)	(35.6)
Cost of goods and materials sold	(31.4)	(35.0)
Business trips	(27.6)	(33.2)
Other	(19.8)	(25.3)
Total	(264.6)	(292.8)

Depreciation, amortization and impairment losses

	2020	2019
Depreciation of rolling stock	(537.4)	(501.5)
Depreciation of other property, plant and equipment	(77.4)	(78.0)
Depreciation of rights-of-use assets	(138.1)	(123.9)
Amortization of intangible assets	(10.9)	(13.1)
(Recognized) / reversed impairment losses:		
Rolling stock	(1.8)	0.4
Other property, plant and equipment	(1.3)	(0.4)
Non-current assets classified as held for sale	0.3	-
Total	(766.6)	(716.5)

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	2020	2019
Income from the Anti-Crisis Shield ⁽¹⁾	115.2	-
Profit on sales of non-financial non-current assets	7.9	8.4
Reversed impairment losses on trade receivables	5.1	7.2
Penalties and compensations	16.0	19.4
Reversal of other provisions	3.8	27.5
Interest on trade and other receivables	3.4	2.5
Net result on FX differences on trade receivables and liabilities	3.3	-
VAT refund	-	12.6
Other	5.6	6.3
Total other operating revenue	160.3	83.9
Recognized impairment losses on trade receivables	(7.4)	(14.0)
Penalties and compensations	(8.3)	(7.5)
Costs of liquidation of non-current and current assets	(5.5)	(6.3)
Recognized other provisions	(7.6)	(10.6)
Net result on FX differences on trade receivables and liabilities	-	(1.9)
Other	(7.9)	(6.9)
Total other operating expenses	(36.7)	(47.2)
Other operating revenue and (expenses)	123.6	36.7

⁽¹⁾ This item represents the co-financing of employee salaries awarded to the Group from the Guaranteed Employee Benefits Fund.

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2020	2019
Interest income	2.4	4.9
Dividend income	-	0.3
Other		
Profit on sales of shares and stocks	-	0.8
Net result on FX differences	-	1.6
Other	-	0.2
Total financial revenue	2.4	7.8
Interest expenses	(57.9)	(58.6)
Other		
Settlement of the discount on provisions for employee benefits	(14.7)	(17.6)
Net result on FX differences	(9.3)	-
Other	(2.7)	(3.2)
Total financial expenses	(84.6)	(79.4)
Financial revenue and (expenses)	(82.2)	(71.6)

3. Explanatory notes on taxation

3.1 Income tax

Accounting policy applied

The income tax of the reporting period includes current and deferred income tax. The current tax charge is calculated on the basis of the tax result for the given reporting period. The tax result differs from the accounting pre-tax result due to exclusion of revenue which temporarily is not subject to taxation and expenses which are temporarily not tax deductible, as well as the expenses and revenues that will never be subject to taxation. Tax charge is calculated based on the tax rates applicable in the given financial year.

Deferred income tax is recognized with respect to temporary differences between the tax base of an asset or liability and the corresponding carrying amount. Deferred tax liabilities are recognized with respect to taxable temporary differences. Deferred tax assets are recognized with reference to deductible temporary differences up to the amount of the Group's likely future taxable income sufficient to settle such temporary differences. The value of the deferred tax assets is reviewed at each balance sheet date in terms of prospects of generation of future tax profits required to settle it.

Deferred tax assets and liabilities are subject to offsetting if there is an enforceable legal title to set off current income tax assets against the current income tax liabilities and if the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority if there is an intention to settle the accounts in net amounts.



SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The Group recognizes a deferred tax asset based on the assumption that taxable income would be achieved in the future, allowing the Group to use the asset. According to the long-term financial forecasts developed by the Group, these assets are not impaired as at the balance sheet date. A future deterioration of the tax results might lead to this assumption becoming unfounded.

Income tax recognized in profit / loss

	2020	2019
Current income tax		
Current tax charge	(8.9)	(3.9)
Adjustments recognized in the current year relating to tax from previous years	1.6	(0.7)
Deferred tax		
Deferred income tax of the reporting period	49.9	(32.9)
Income tax recognized in profit / loss	42.6	(37.5)

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

Deferred income tax recognized in other comprehensive income

	2020	2019
Deferred tax on the measurement of hedging instruments	9.7	(1.9)
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	9.5	10.0
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income	(3.4)	(0.2)
Deferred income tax recognized in other comprehensive income	15.8	7.9

3.1 Income tax (cont.)

Reconciliation of the effective tax rate

	2020	2019
Profit / (loss) before tax	(266.9)	73.5
Income tax expense at 19%	50.7	(14.0)
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Dividend	-	0.1
Reversal of non-tax provisions and impairment losses	0.2	0.4
Valuation under the equity method	0.4	0.3
Recovered VAT	-	5.0
Other	0.2	0.2
Tax effect of non-deductible expenses arising from tax regulations, including:		
Unused tax losses	-	(17.0)
PFRON disability fund	(5.0)	(5.1)
Establishment of non-tax provisions and impairment losses	(0.3)	(0.2)
Permanent differences in expenses related with property, plant and equipment	(0.9)	(2.7)
Representation expenses	(0.4)	(0.7)
Penalties and compensations	(0.9)	(1.2)
Value added tax and other public law liabilities	(0.1)	(0.3)
Other	(1.9)	(1.6)
Effect of tax losses used in a period in which deferred tax was not recognized	0.1	0.2
Effect of the recognition / (reversal) of a deferred tax asset on tax losses	(0.6)	(0.8)
Adjustments disclosed in the current year with reference to past years' tax	1.1	(0.1)
Income tax recognized in profit / loss	42.6	(37.5)
Effective tax rate	16.0%	51.0%

The corporate income tax rate effective in Poland in the years 2019-2020 amounted to 19%. In the case of the PKP CARGO INTERNATIONAL Group companies, the relevant tax rates were as follows: 19% in the Czech Republic and 9% in Hungary.

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 Consolidated Financial Statements:

	31/12/2020	31/12/2019
Deferred tax assets	177.8	113.7
Deferred tax liabilities	(90.7)	(92.3)
Total	87.1	21.4

Table of movements in deferred tax before the set-off

2020	1/01/2020	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2020
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	(167.0)	19.0	-	(3.2)	(151.2)
Rights-of-use assets and lease liabilities	(6.0)	(3.4)	-	(0.3)	(9.7)
Other provisions and liabilities	14.4	(1.1)	-	-	13.3
Inventories	(4.7)	(4.6)	-	-	(9.3)
Lease receivables	(2.1)	-	-	-	(2.1)
Trade receivables	1.7	1.2	-	-	2.9
Provisions for employee benefits	148.9	(6.5)	9.5	0.1	152.0
Other	0.6	5.4	9.7	-	15.7
Unused tax losses	35.6	39.9	-	-	75.5
Total	21.4	49.9	19.2	(3.4)	87.1

3.1 Income tax (cont.)

2019	1/01/2019 (audited)	Effect of the implementation of IFRS 16	1/01/2019 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2019
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non-current assets	(133.4)	11.9	(121.5)	(45.3)	-	(0.2)	(167.0)
Rights-of-use assets and lease liabilities	-	(9.5)	(9.5)	3.5	-	-	(6.0)
Other provisions and liabilities	10.8	(1.4)	9.4	5.0	-	-	14.4
Inventories	(4.1)	-	(4.1)	(0.6)	-	-	(4.7)
Lease receivables	-	(1.7)	(1.7)	(0.4)	-	-	(2.1)
Trade receivables	3.6	-	3.6	(1.9)	-	-	1.7
Provisions for employee benefits	134.0	-	134.0	4.9	10.0	-	148.9
Other	0.3	-	0.3	2.2	(1.9)	-	0.6
Unused tax losses	35.9	-	35.9	(0.3)	-	-	35.6
Total	47.1	(0.7)	46.4	(32.9)	8.1	(0.2)	21.4

Maturity analysis of deferred tax assets from tax losses

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

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

Based on the long-term forecasts adopted in the Group, as at 31 December 2020 the Parent Company's Management Board believes the risk that the above assets cannot be realized is low.

Expiration dates of the tax losses to which deferred tax assets were recognized as at 31 December 2019

Year	2021	2022	2023	2024	Total
Unused tax losses	12.6	8.4	85.4	80.3	186.7

Tax loss not recognized in calculation of deferred tax assets

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

	31/12/2020	31/12/2019
PKP CARGO INTERNATIONAL HU Zrt.	11.7	21.5
AWT Čechofracht a.s.	14.6	10.6
PKP CARGOTABOR USŁUGI Sp. z o.o.	3.8	7.5
CARGOSPED Terminal Braniewo Sp. z o.o.	-	0.4
Total	30.1	40.0

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

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

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2019

Year	2020	2021	2022	2023	2024	Total
Unused tax losses	3.9	8.8	6.3	6.9	14.1	40.0

4. Explanatory notes on debt, liquidity management and equity management

4.1 Reconciliation of debt liabilities

Accounting policy applied

Bank loans and borrowings are initially recognized at fair value less the incurred transaction costs. After initial recognition, loans and borrowings are shown according to amortized cost using the effective interest rate method.

A lease liability is measured at the present value of the lease payments that are not paid on such date, which include:

- fixed lease payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- cash penalties for lease termination if the lessee is reasonably certain not to exercise the early termination option.

The current value of future lease payments is calculated using the interest rate applicable to the lease. If the interest rate applicable to a lease is unknown, the Group applies the lessee's incremental borrowing rate for the lease in question.

After the initial recognition, the Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The Group takes advantage of an exemption and does not apply the requirements for measurement of lease liabilities and rights-of-use assets in respect of:

- short-term leases, i.e. leases where the term of the agreement is no longer than 12 months and which do not include a purchase option;
- leases for which the underlying asset is low value. The Group defines assets of low value as those whose value, when new, does not exceed PLN 25 thousand.

In cases where the exemptions referred to above are applied, the Group recognizes lease payments as an expense falling under the straight-line method over the lease term or under another method that provides a better reflection of the benefits obtained by the Group.



SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Significant estimates in respect to lease liabilities concern the model for determining:

a) the discount rate

The Group discounts lease payments using the interest rate implicit in the lease, if that rate can be readily determined; otherwise it uses the incremental borrowing rate. The incremental borrowing rate is calculated on the basis of the following two components:

- risk-free rate, which is based on a reference rate appropriate for the currency in question; and
- credit risk premium, which is based on the banks' credit margins and takes into account the contract term and the financial situation of each company in which leases have been identified.

b) term of lease

As regards lease periods, including in particular for leases entered into for an indefinite term, the Group takes into account all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease or not to exercise the option to terminate the lease, such as:

- the importance of the asset to the Group's operations, considering whether the asset is a specialized asset, the location of the asset and the availability of suitable alternatives,
- material leasehold improvements undertaken (or expected to be undertaken) over the term of the contract,
- contractual terms and conditions for the optional periods compared with market rates,
- circumstances related to the exercise of the option to extend the contract.

For contracts executed for a specific term without an extension option, the Group uses the term of the contract as the lease period.

4.1 Reconciliation of debt liabilities (cont.)

The Group's debt liabilities consist of the following two main categories: bank loans and borrowings and leases. Loan agreements were signed mainly to finance current activity, finance and refinance the investment plan and acquisitions. The repayment of liabilities contracted under the executed loan agreements is made in PLN and EUR. The collateral established to secure the repayment of liabilities is described in [Note 7.4](#) of these Consolidated Financial Statements.

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

Items in foreign currencies

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

31/12/2019	In the functional currency – PLN	In a foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	1,085.2	541.0	-	1,626.2
Leases	807.7	142.3	46.5	996.5
Total	1,892.9	683.3	46.5	2,622.7

Reconciliation of debt liabilities

2020	Bank loans and borrowings	Leases	Total
1/01/2020	1,626.2	996.5	2,622.7
New liabilities contracted	285.7	36.9	322.6
Modifications of existing agreements	-	29.1	29.1
Leaseback	-	9.1	9.1
Transaction costs	2.1	-	2.1
Accrual of interest	21.0	33.5	54.5
Payments under debt, including:			
Repayments of the principal	(301.2)	(148.5)	(449.7)
Interest paid	(21.5)	(31.5)	(53.0)
Transaction costs	(1.6)	-	(1.6)
Other	-	(14.2)	(14.2)
FX valuation	46.1	8.6	54.7
FX resulting from translation	2.5	1.5	4.0
31/12/2020	1,659.3	921.0	2,580.3
Long-term	1,322.3	779.5	2,101.8
Short-term	337.0	141.5	478.5
Total	1,659.3	921.0	2,580.3



4.1 Reconciliation of debt liabilities (cont.)

2019	Bank loans and borrowings	Leases	Total
1/01/2019 (audited)	1,331.8	95.2	1,427.0
Effect of the implementation of IFRS 16	-	803.7	803.7
1/01/2019 (restated)	1,331.8	898.9	2,230.7
New liabilities contracted	549.1	191.1	740.2
Modifications of existing agreements	-	42.9	42.9
Transaction costs	2.3	-	2.3
Accrual of interest	21.7	34.3	56.0
Payments under debt, including:			
Repayments of the principal	(248.3)	(127.3)	(375.6)
Interest paid	(21.9)	(31.3)	(53.2)
Transaction costs	(2.3)	-	(2.3)
Other	-	(10.6)	(10.6)
FX valuation	(6.3)	(1.3)	(7.6)
FX resulting from translation	0.1	(0.2)	(0.1)
31/12/2019	1,626.2	996.5	2,622.7
Long-term	1,355.5	845.9	2,201.4
Short-term	270.7	150.6	421.3
Total	1,626.2	996.5	2,622.7

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

Presentation in the statement of profit or loss and other comprehensive income		2020	2019
Revenues from operating leases	Revenues from contracts with customers	36.5	40.1
Interest income from leases	Financial revenue	0.5	0.5
Costs on account of:			
Short-term leases	Other services	(30.7)	(43.6)
Leases of low-value assets	Other services	(5.0)	(5.1)
Variable lease payments not included in the measurement of lease liabilities	Other services	(2.1)	(2.9)

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 indicating the performance of the 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 both the Standalone and Consolidated 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 most of the agreements signed by the Group, compliance with the terms and conditions of loan agreements is reviewed at the end of each financial year. In the case of two agreements, the above-mentioned ratios are reviewed semi-annually.

Net Debt/EBITDA is the level of debt less cash to the generated EBITDA and, in the case of most bank loans contracts, it is calculated without taking into account the impact of IFRS 16. The maximum permitted level of the Net Debt/EBITDA ratio must not exceed 3.0. As at 31 December 2020, the level of net debt is calculated on the basis of balance-sheet data, while the EBITDA parameter takes into account the actual 2020 result. For selected contracts, the Net Debt/EBITDA ratio is additionally calculated on the basis of projected 2021 EBITDA and net debt as at 30 June 2021.

The total debt ratio, which is defined as the ratio of total liabilities to total assets, cannot exceed 60%. The ratio is calculated on the basis of actual data as at 31 December 2020 and, for selected contracts, also based on the projected data as at 31 December 2021.

As at 31 December 2020, the value of the 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 exceeded the level of 3.0 stipulated in the loan agreements, however before the balance sheet date, the Parent Company had obtained from the creditors a one-time waiver of the covenant to maintain the net debt / EBITDA ratios at that level.

In contracts with two financing banks the waiver was granted with a provision that the Net Debt/EBITDA ratio based on the PKP CARGO Group's consolidated data must not exceed 4.0. This condition was met as at 31 December 2020 and therefore the liabilities under the loans do not have to be reclassified from the long to the short part.

In the case of other subsidiaries, there was no need to seek a waiver of any of the covenants set forth in the loan agreements as at 31 December 2020.

4.1 Reconciliation of debt liabilities (cont.)

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2020	31/12/2019
Investment loan	European Investment Bank	19/07/2020	EUR	-	22.0
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2021	PLN	100.0	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/12/2021	PLN	99.9	100.0
Overdraft	Bank Polska Kasa Opieki S.A.	25/06/2021	PLN	10.0	-
Investment loan	Bank Polska Kasa Opieki S.A.	31/05/2021	PLN	10.0	-
Overdraft	Bank Polska Kasa Opieki S.A.	09/07/2021	PLN	1.6	-
Leasing facility	Millennium Leasing Sp. z o.o.	02/12/2021	PLN	38.7	51.3
Total				260.2	273.3

4.2 Equity and capital management policy

Accounting policy applied

The share capital is presented in the consolidated financial statements at the value specified in the Parent Company's Articles of Association, regardless of the entry in the National Court Register (the 'substance over form' rule).

Supplementary capital includes a share premium account (agio), profit of previous years transferred to supplementary capital and the reserve capital created from the retirement of shares.

Other items of equity include Actuarial profit/(loss) pertaining to employee benefits, the effect of measurement of equity instruments at fair value and the effective portion of gains and losses on hedging instruments in hedge accounting applied by the Group.

Retained earnings include financial result of the current year undistributed earnings and uncovered losses from previous years, differences attributable to transition to EU IFRS.

Exchange differences resulting from translation of financial statements of foreign operations arise as a result of translation of financial data of such operations to the Polish currency based on the following principles:

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

Share capital

	31/12/2020	31/12/2019
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 31 December 2020 and 31 December 2019, the share capital consisted of common 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 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 financial years ended 31 December 2020 and 31 December 2019, there were no movements in the share capital of the Parent Company.

4.2 Equity and capital management policy (cont.)

Movement in supplementary capital and retained earnings

In the financial year ended 31 December 2020, changes in the Group's supplementary capital resulted from a resolution adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o in the matter of allocating the net profit of PLN 1.0 million generated in 2019 to supplementary capital.

On 29 June 2020, the Parent Company's Ordinary Shareholder Meeting adopted a resolution to cover the net loss incurred in 2019 in the amount of PLN 8.3 million with retained earnings from previous years.

On 31 March 2021, the Parent Company's Management Board adopted a resolution on the recommendation to cover the loss for 2020 shown in the Standalone Financial Statements with undistributed earnings from previous years.

Equity management

The main objective of equity management in the Group is to ensure the ability to continue operations, create value for shareholders and benefits for other stakeholders. In accordance with the adopted policy and assumptions following from the facility agreements concluded, the Group accepts the maximum level of debt up to 60% of total assets. The debt level is monitored by the Group on an ongoing basis. The assumed capital structure can be ensured through: issue of new shares, sale of assets, return of capital to the shareholders or adjustment of the dividend amount.

The total debt ratio as at the end of the year was as follows:

	31/12/2020	31/12/2019
Total liabilities	4,415.6	4,568.0
Total balance sheet	7,559.4	7,991.3
Total debt ratio	58%	57%

4.3 Liquidity risk management

The Group may be exposed to liquidity risk following from the ratio of current assets to current liabilities. Additionally, to secure its long-term liquidity, the Group used investment loans and leases (financing of capital expenditures).

To minimize the risk of cash flow disturbances and the risk of liquidity loss as well as to optimize financial expenses in the PKP CARGO Group, a cash pool system is in place and comprises, as at 31 December 2020, 8 Group companies. The cash pool, independently of the cash collected by particular participants, is associated with a flexible line of credit in the form of a current account overdraft facility. As at 31 December 2020, the Group had unused credit facilities in the aggregate amount of PLN 221.5 million and an unused leasing facility in the amount of PLN 38.7 million.

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):

31/12/2020	Contractual maturities				Total (no discount)	Carrying amount
	from the end of the reporting period					
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	130.3	388.9	1,453.0	869.7	2,841.9	2,580.3
Trade liabilities	322.1	25.4	1.5	-	349.0	349.0
Investment liabilities	91.7	44.3	148.3	-	284.3	279.0
Derivative instruments – FX forwards	1.1	1.6	-	-	2.7	2.7
Cash pool	1.1	-	-	-	1.1	1.1
Total	546.3	460.2	1,602.8	869.7	3,479.0	3,212.1

31/12/2019	Contractual maturities				Total (no discount)	Carrying amount
	from the end of the reporting period					
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	139.3	342.3	1,602.8	877.8	2,962.2	2,622.7
Trade liabilities	396.3	15.9	2.7	-	414.9	414.9
Investment liabilities	147.4	36.7	160.9	-	345.0	338.5
Total	683.0	394.9	1,766.4	877.8	3,722.1	3,376.1

4.4 Cash and cash equivalents

Accounting policy applied	
Cash and cash equivalents include cash on hand, cash in bank accounts, bank deposits payable on demand, other short-term investments with high liquidity and with the original maturity date of up to three months.	

Structure of cash and cash equivalents

	31/12/2020	31/12/2019
Cash on hand and on bank accounts	134.0	192.2
Bank deposits up to 3 months	171.6	358.2
Other cash	0.4	-
Total	306.0	550.4
<i>including restricted cash</i>	<i>49.1</i>	<i>49.2</i>

Restricted cash included mostly cash received as tender deposits or guarantees and cash accumulated on bank accounts dedicated for the split-payment mechanism.

4.5 Notes to the cash flow statement

Movement in working capital

2020	Movement in statement of financial position	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(4.8)	35.4	-	30.6
Trade receivables	5.5	(4.4)	0.8	1.9
Other assets	64.5	(4.5)	(11.0)	49.0
Provisions	(4.8)	-	-	(4.8)
Trade liabilities	(65.9)	(1.8)	(0.2)	(67.9)
Investment liabilities	(59.5)	45.3	-	(14.2)
Other liabilities	21.8	(1.2)	(2.8)	17.8
Total working capital	(43.2)	68.8	(13.2)	12.4

2019	Movement in statement of financial position	Effect of the implementation of IFRS 16	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	0.7	-	7.0	-	7.7
Trade receivables	91.0	-	(0.9)	-	90.1
Other assets	(9.6)	(9.5)	19.2	(14.4)	(14.3)
Provisions	50.8	3.7	-	(0.1)	54.4
Trade liabilities	(85.0)	12.1	-	-	(72.9)
Investment liabilities	51.1	-	(76.7)	-	(25.6)
Other liabilities	28.8	-	1.6	1.0	31.4
Total working capital	127.8	6.3	(49.8)	(13.5)	70.8

4.5 Notes to the statement of cash flows (cont.)

Other adjustments

	2020	2019
Actuarial profits / (losses) on post-employment benefits recognized in other comprehensive income	(50.2)	(52.2)
Measurement of hedging instruments	(10.0)	4.1
Measurement of equity instruments at fair value	(0.7)	0.7
(Profit) / loss on investing activities	-	(0.8)
FX differences resulting from translation of financial statements	(0.7)	(0.1)
Other	(1.7)	(1.7)
Other adjustments in the cash flow statement	(63.3)	(50.0)

Non-cash transactions

In the financial years ended 31 December 2020 and 31 December 2019, major non-financial transactions concerning investing and financial activity which were not reflected in the cash flow statement were as follows:

- Offsetting off mutual settlements

The Group set off trade receivables with liabilities arising from the purchase of non-financial non-current assets. The total amount of set offs in 2020 amounted to PLN 4.4 million, whereas in 2019 it was PLN 0.8 million.

- Liquidation of rolling stock

When it is decided to liquidate a rolling stock component, its residual value is posted in the item of inventories. In 2020, the residual value of non-current assets reclassified to inventories amounted to PLN 35.4 million, whereas in 2019 it was PLN 7.0 million.

5. Explanatory notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Accounting policy applied

Rolling stock and other property, plant and equipment (hereinafter referred to as: property, plant and equipment) are measured at purchase price or production cost reduced by depreciation and impairment losses. The initial value of a property, plant and equipment item consists of its acquisition cost or cost of production, along with any import duties, non-refundable purchase taxes included in the price. It is also reduced by any rebates, discounts and grants and increased by any costs directly attributable to preparation of the asset for its intended use and, if applicable, external borrowing costs. Government grants are recognized as reduction of the assets' value at the moment when it is reasonably certain that they will be obtained and that all the necessary conditions will be met.

Construction-in-progress is presented in the statement of financial position at the production cost reduced by recognized impairment losses.

An item of property, plant and equipment is removed from the statement of financial position at the moment of sale or when no economic benefits are expected from its use. When it is decided to derecognize an item of property, plant and equipment, its carrying amount is recognized in the profit or loss of the period in which the decision was taken. Items of rolling stock are an exception – their residual value is recognized in the inventory item when the decision is made to liquidate them.

Within rolling stock items, the Group identifies and separates all the material elements, or components, making up the given asset with different economic useful lives. The material components of freight cars and commercial locomotives distinguished by the Group comprise the main part of the rolling stock item and the repair/periodic inspection part. In addition, the residual value (scrap value) is established for the rolling stock items.

Residual value of rolling stock

The residual value of rolling stock is measured based on prices of scrap of specific classes, taking into account disposal costs. The residual value of rolling stock is not depreciated but is subject to periodic verification at the end of each financial year. The Group changes the residual value if it has a material impact on the Group's financial statements.

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

Accounting policy applied

Repairs and inspections of rolling stock

Rolling stock undergoes planned maintenance operations at five levels, the extent of which is defined in the Regulation of the Minister of Infrastructure dated 12 October 2005 on general technical conditions for the operation of railroad vehicles (Journal of Laws of 2016, Item 226, as amended). Detailed requirements for these operations are given in the Maintenance System Documentation (DSU), which is mandatory for each of the operated railroad vehicles. Rolling stock undergoes planned maintenance operations in accordance with repair cycles defined in the Maintenance System Documentation (DSU), depending on the permissible time and/or course of the vehicle's operation.

After completing repair or modernization at level 4 and 5, a technical railworthiness certificate is issued. A technical railworthiness certificate confirms that the given rolling stock asset is allowed to be used until the next repair at level P4 or P5. An asset may be operated in the entire certificate validity period provided also that a P3 inspection is carried out halfway through the cycle. If no repair / inspection at levels P3, P4 and P5 is carried out, the rolling stock asset loses its operational capacity and cannot be used in rail transport. The Group considers periodic repairs and inspections at levels P3, P4 and P5 as the condition for continuous use of rolling stock asset item and at the moment of performing such a repair, if the criteria for its recognition are satisfied, the costs of the repair is recognized in the carrying amount of the rolling stock asset and are depreciated in the period between repairs.

Other costs of current maintenance and repairs for property, plant and equipment and costs of current repairs (which are not costs of periodic P3, P4 or P5 repairs and inspections) are treated on general terms as costs of the period in which they were carried out.

Depreciation of property, plant and equipment

The Group applies straight-line depreciation. The value of property, plant and equipment subject to depreciation is distributed systematically over the useful life. The initial value subject to depreciation for a given asset is determined after deducting its residual value.

Freehold land and rights of perpetual usufruct of land exempt from fees are not depreciated.

The estimated useful lives, residual values and depreciation methods are verified at the end of each reporting period, including prospective application of any changes to estimates.

To calculate depreciation, the Group applies the following economic useful lives for particular groups of non-current assets:

	Useful lives
Real properties, including:	
Land and perpetual usufruct rights to land	are not depreciated
Buildings, premises and civil and water engineering facilities	from 5 to 75 years
Technical machinery and equipment	from 2 to 40 years
Rolling stock, including:	
Freight cars:	
- main part of a wagon	from 36 to 48 years
- periodic repairs of wagons	from 4 to 6 years
- periodic inspections of wagons	from 2 to 3 years
Electric locomotives:	
- main part of a locomotive,	from 24 to 45 years
- periodic repairs of locomotives	from 4 to 8 years
- periodic inspections of locomotives	from 2 to 4 years
Other means of transport	from 2 to 25 years
Other fixed assets	from 2 to 25 years

Impairment of property, plant and equipment

At each balance sheet date, the Group performs an analysis of carrying amounts of owned non-current assets to determine if there are any indications of their impairment. If such indications of impairment are identified, the recoverable amount of the cash-generating units or individual assets is estimated to determine a potential related charge.

The recoverable amount is measured at the higher of the following two values: fair value less cost of disposal or value in use.

The value in use is defined as the present value of estimated future cash flows discounted using a discount rate before tax.

If the recoverable amount of a cash-generating unit or individual asset is lower than its carrying amount, the latter is reduced to the recoverable amount. An impairment loss is recognized in the line item "depreciation, amortization and impairment losses".

Where an impairment loss is reversed, the net value of the asset is increased to the revised estimate of the recoverable amount, which, however, does not exceed the carrying amount of the asset that would have been determined if an impairment loss had not been recognized in previous years. The reversal of an impairment loss is recognized in the line item "depreciation, amortization and impairment losses".

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



SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

The Group estimates the economic useful lives of individual items of property, plant and equipment and on this basis determines the depreciation rates for these items. The estimates are based on the expected economic useful lives of the assets. Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation charges and the net carrying amount of specific items of property, plant and equipment in future periods. The verification of the useful lives of property, plant and equipment conducted as at 31 December 2020 and 31 December 2019 did not reveal the need to make material changes to previously applied depreciation rates.

Residual value of the rolling stock

As at 31 December 2020, the Group verified the residual value of its rolling stock. In connection with the increased prices of scrap metal on the market, the Group decided to update the residual value of its rolling stock, however this change did not have a material impact on the value of the impairment loss on rolling stock.

Impairment of non-current assets

As at 31 December 2020, the Group performed impairment tests with respect to three cash-generating units defined at the level of assets of the Parent Company, PKP CARGOTABOR Sp. z o.o. and the PKP CARGO INTERNATIONAL Group, because of the market value of the Group's net assets being persistently lower than their carrying amount and the lower than expected financial results achieved by the Group. The tests were performed on cash-generating units by determining their recoverable amount at the level of their value in use. The recoverable amount of the analyzed assets was determined on the basis of their estimated value in use using the net discounted cash flows method, in line with detailed financial projections developed for 2021-2030. In the opinion of the Parent Company's Management Board, adopting financial projections for more than five years is reasonable because the property, plant and equipment used by the Group have a considerably longer economic useful lives.

PKP CARGO S.A.

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

- a) in the whole period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 2.5% in real terms,
- b) in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 15.3% in real terms,
- c) the after-tax weighted average cost of capital (WACC) will be at 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 assets tested as at 31 December 2020, the Parent Company recognized no impairment loss for the assets.

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 loss for assets owned by the Parent Company.

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) in the period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 1.8% in real terms,
- b) in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 4.1% in real terms,
- c) the after-tax weighted average cost of capital (WACC) will be at 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 31 December 2020 the Group recognized no impairment loss 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 loss for assets owned by the PKP CARGOTABOR Sp. z o.o.

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

PKP CARGO INTERNATIONAL GROUP

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

- a) the cash-generating unit was considered to be all assets owned by the PKP CARGO INTERNATIONAL Group, used mainly to service customers on the Czech rail market,
- b) in the whole period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 1.7% in real terms,
- c) in the whole period covered by the detailed projection, capital expenditures will reach the level of 5.7% of annual operating revenue in real terms,
- d) the after-tax weighted average cost of capital (WACC) will be at 6.2% 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 31 December 2020, which as at that date amounted to PLN 109.4 million.

Presented below is the estimated amount of impairment loss as at 31 December 2020 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	(42.9)	36.1
Increase after the detailed projection period	21.2	(26.5)



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

Movement in rolling stock and other property, plant and equipment

2020	Rolling stock	Other property, plant and equipment					Total
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	
Gross value							
1/01/2020	6,847.0	916.4	435.8	99.6	43.9	73.2	1,568.9
<i>Increases / (decreases):</i>							
Periodic repairs of rolling stock	-	-	-	-	-	276.5	276.5
Other acquisitions	-	-	-	-	-	403.4	403.4
Purchases of leased items	-	-	2.9	2.6	-	-	5.5
Settlement of fixed assets under construction	601.8	25.9	42.1	1.1	1.4	(672.3)	(601.8)
Grant for non-current assets	(68.1)	-	(0.2)	-	-	(3.6)	(3.8)
Sales	(26.5)	(1.0)	(0.3)	(4.4)	-	-	(5.7)
Liquidation ⁽¹⁾	(214.7)	(2.6)	(3.0)	(0.3)	(0.5)	(0.6)	(7.0)
Reclassified to assets held for sale ⁽²⁾	(128.9)	-	-	-	-	-	-
FX differences	35.0	6.6	2.0	2.1	0.1	1.7	12.5
Other	(1.6)	(0.1)	0.1	-	(0.3)	-	(0.3)
31/12/2020	7,044.0	945.2	479.4	100.7	44.6	78.3	1,648.2
Accumulated depreciation							
1/01/2020	(2,310.2)	(262.0)	(309.7)	(81.0)	(36.8)	-	(689.5)
<i>Increases / (decreases):</i>							
Depreciation	(537.4)	(34.4)	(35.7)	(4.6)	(2.7)	-	(77.4)
Purchases of leased items	-	-	(1.7)	(2.1)	-	-	(3.8)
Sales	9.6	-	0.3	4.3	-	-	4.6
Liquidation ⁽¹⁾	170.4	2.4	3.0	0.3	0.5	-	6.2
Reclassified to assets held for sale ⁽²⁾	63.3	-	-	-	-	-	-
FX differences	(8.8)	(1.8)	(1.0)	(1.5)	(0.1)	-	(4.4)
Other	0.2	(0.1)	(0.5)	(0.1)	0.2	-	(0.5)
31/12/2020	(2,612.9)	(295.9)	(345.3)	(84.7)	(38.9)	-	(764.8)
Accumulated impairment							
1/01/2020	(207.2)	(2.4)	(1.7)	-	-	(2.9)	(7.0)
<i>Increases / (decreases):</i>							
Recognition	(1.8)	-	-	-	-	(1.4)	(1.4)
Derecognition	-	-	0.1	-	-	-	0.1
Utilization ⁽¹⁾	12.3	-	-	-	-	0.6	0.6
Reclassified to assets held for sale ⁽²⁾	18.5	-	-	-	-	-	-
FX differences	(7.9)	-	(0.1)	-	-	-	(0.1)
31/12/2020	(186.1)	(2.4)	(1.7)	-	-	(3.7)	(7.8)
Net value							
1/01/2020	4,329.6	652.0	124.4	18.6	7.1	70.3	872.4
31/12/2020	4,245.0	646.9	132.4	16.0	5.7	74.6	875.6

⁽¹⁾ In 2020, the Group made a decision on physical liquidation of:

- 1,647 wagons with the book value of PLN 20.4 million, and
- 113 locomotives with the book value of PLN 15.0 million.

These assets were recognized as inventories designated for scrapping.

⁽²⁾ In 2020, the Parent Company decided to sell and reclassify to assets held for sale:

- 2,761 wagons with the book value of PLN 29.8 million,
- 210 locomotives with the book value of PLN 17.3 million.

The sale is pending. As at 31 December 2020 the book value of locomotives and wagons remaining for sale was, respectively PLN 9.1 million and PLN 3.6 million.

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

2019	Rolling stock	Other property, plant and equipment					Total
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	
Gross value							
1/01/2019 (audited)	6,471.2	943.7	432.1	98.2	41.1	71.9	1,587.0
Effect of the implementation of IFRS 16	(217.4)	(42.8)	(6.3)	(10.7)	-	-	(59.8)
1/01/2019 (restated)	6,253.8	900.9	425.8	87.5	41.1	71.9	1,527.2
<i>Increases / (decreases):</i>							
Periodic repairs of rolling stock	-	-	-	-	-	632.0	632.0
Other acquisitions	-	-	-	-	-	472.1	472.1
Purchases of leased items	25.3	-	-	6.8	-	-	6.8
Settlement of fixed assets under construction	1,029.9	22.1	32.3	8.4	3.2	(1,095.9)	(1,029.9)
Grant for non-current assets	(58.2)	-	-	(0.3)	-	(6.5)	(6.8)
Sales	(53.3)	(0.1)	(4.0)	(5.6)	(0.1)	-	(9.8)
Liquidation	(347.7)	(10.5)	(18.6)	(0.1)	(0.2)	(0.2)	(29.6)
FX differences	0.7	0.2	0.1	-	(0.1)	-	0.2
Other	(3.5)	3.8	0.2	2.9	-	(0.2)	6.7
31/12/2019	6,847.0	916.4	435.8	99.6	43.9	73.2	1,568.9
Accumulated depreciation							
1/01/2019 (audited)	(2,263.4)	(234.1)	(301.1)	(60.8)	(33.9)	-	(629.9)
Effect of the implementation of IFRS 16	56.5	1.1	1.9	6.8	-	-	9.8
1/01/2019 (restated)	(2,206.9)	(233.0)	(299.2)	(54.0)	(33.9)	-	(620.1)
<i>Increases / (decreases):</i>							
Depreciation	(501.5)	(37.4)	(32.1)	(5.3)	(3.2)	-	(78.0)
Purchases of leased items	(4.6)	-	-	(5.0)	-	-	(5.0)
Sales	41.9	-	3.3	5.6	0.1	-	9.0
Liquidation	338.0	9.6	18.6	0.1	0.2	-	28.5
FX differences	(0.6)	-	(0.1)	-	-	-	(0.1)
Other	23.5	(1.2)	(0.2)	(22.4)	-	-	(23.8)
31/12/2019	(2,310.2)	(262.0)	(309.7)	(81.0)	(36.8)	-	(689.5)
Accumulated impairment							
1/01/2019 (audited)	(210.8)	(2.8)	(1.7)	-	-	(2.7)	(7.2)
<i>Increases / (decreases):</i>							
Recognition	-	-	-	-	-	(0.4)	(0.4)
Derecognition	0.4	-	-	-	-	-	-
Utilization	2.5	0.4	-	-	-	0.2	0.6
FX differences	0.7	-	-	-	-	-	-
31/12/2019	(207.2)	(2.4)	(1.7)	-	-	(2.9)	(7.0)
Net value							
1/01/2019 (restated)	3,836.1	665.1	124.9	33.5	7.2	69.2	899.9
31/12/2019	4,329.6	652.0	124.4	18.6	7.1	70.3	872.4

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

A technical railworthiness certificate is a document issued individually for each rail vehicle, confirming the validity of vehicle inspection and their suitability for transport.

A technical railworthiness certificate is issued immediately after performing level P4 or P5 maintenance activities and upon entering new and modernized vehicles into service. Rolling stock without valid technical railworthiness certificates is treated by the Group:

- as a backup from which additional resources can be drawn from to increase freight turnover following P4 and P5 level repairs,
- as a necessary set of rail vehicles to be rotated in the maintenance process. Performing a P4 or P5 level repair takes from 30 to 90 days depending on vehicle type. To prevent the number of operated wagons and locomotives with valid technical railworthiness certificate from decreasing, it is necessary to have a larger pool of vehicles so that a vehicle whose technical railworthiness certificates expires can be replaced at least on the same day with another that has been repaired and had a technical railworthiness certificate issued.

As at 31 December 2020 and 31 December 2019, the carrying amount of rolling stock without valid technical railworthiness certificates, for which the Group recognized an impairment loss, was PLN 326 million and PLN 300 million, respectively.

5.2 Rights-of-use assets

Accounting policy applied

Rights-of-use assets are initially measured at cost, which includes the lease liability in the current value of lease payments outstanding at such date, all lease payments paid up until the start date, minus all lease incentives received, all initial direct costs incurred by the Group as the lessee and estimated costs to be incurred in connection with the disassembly and removal of the underlying asset and the renovation of the place in which it was located.

The rights-of-use asset item is also used by the Group to present the perpetual usufruct right to land, used by the Group in return for consideration. Perpetual usufruct rights to land for which the Group does not pay any fees due to the exemption applicable to it by operation of law do not fulfill the definition of a lease and thus are presented as part of other property, plant and equipment.

After the initial recognition, the Group measures the right-of-use asset at cost minus any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

In the case of expenditures on repairs and periodic inspections of right-of-use assets, the Group applies IAS 16, i.e. presents assets related to repairs and their periodic inspections in the same item of the statement of financial position, i.e. in the rights-of-use assets item.

Useful life of rights-of-use assets

The Group applies straight-line depreciation. The value of a rights-of-use asset are distributed systematically over its useful life. The useful lives of rights-of-use assets were as follows:

Rolling stock	2 to 32 years
Strategic property	14 to 17 years
Other property	2 to 15 years
Technical equipment and machinery	2 to 15 years
Other	2 to 15 years

The useful life of perpetual usufruct rights to land is defined by the Group as the period remaining until the date for which these rights have been granted unless the circumstances require the adoption of a longer or shorter period.

5.2 Rights-of-use assets (cont.)



SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Useful lives of rights-of-use assets

The Group estimates the economic useful lives of individual items of right-of-use assets and on this basis determines the depreciation rates for these items. If the lease transfers ownership of the underlying asset to the Group before the end of the lease term or if the Group expects to exercise its purchase option, the Group will depreciate the right-of-use asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the right-of-use asset until the earlier of: the end of the useful life of the asset or the end of the lease term. Depreciation rates may change in the event of circumstances causing a change in the expected useful life,

which in turn affects the value of the depreciation charges and the carrying amount of specific items of rights-of-use assets. The verification of the useful lives of rights-of-use assets conducted as at 31 December 2020 and 31 December 2019 did not reveal the need to correct the previously applied depreciation rates.

Movement in rights-of-use assets

2020	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2020	450.6	767.0	23.7	18.5	1.7	1,261.5
<i>Increases / (decreases):</i>						
New leases	18.0	11.9	4.6	1.6	0.8	36.9
Modifications of existing agreements	3.2	24.9	0.3	0.2	-	28.6
Leaseback	8.2	-	-	-	-	8.2
Periodic repairs of rolling stock	2.9	-	-	-	-	2.9
Return of leased items	(16.2)	(12.0)	(0.1)	(0.1)	-	(28.4)
Purchases of leased items	-	-	(2.9)	(2.6)	-	(5.5)
Other	(6.2)	(1.6)	2.9	(0.2)	(0.6)	(5.7)
FX differences	6.7	1.9	0.6	0.2	-	9.4
31/12/2020	467.2	792.1	29.1	17.6	1.9	1,307.9
Accumulated depreciation						
1/01/2020	(109.2)	(61.8)	(4.9)	(6.4)	(0.4)	(182.7)
<i>(Increases) / decreases:</i>						
Depreciation	(64.9)	(62.9)	(4.8)	(5.2)	(0.3)	(138.1)
Return of leased items	14.1	3.2	-	-	-	17.3
Purchases of leased items	-	-	1.7	2.1	-	3.8
Other	4.9	(0.6)	(0.5)	(0.1)	0.1	3.8
FX differences	(2.4)	(0.7)	(0.2)	(0.1)	-	(3.4)
31/12/2020	(157.5)	(122.8)	(8.7)	(9.7)	(0.6)	(299.3)
Net value						
1/01/2020	341.4	705.2	18.8	12.1	1.3	1,078.8
31/12/2020	309.7	669.3	20.4	7.9	1.3	1,008.6

5.2 Rights-of-use assets (cont.)

2019	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
Effect of the implementation of IFRS 16	310.1	729.2	14.6	14.0	1.2	1,069.1
1/01/2019 (restated)	310.1	729.2	14.6	14.0	1.2	1,069.1
<i>Increases / (decreases):</i>						
New leases	170.6	1.2	7.8	11.0	0.5	191.1
Modifications of existing agreements	(1.3)	42.5	1.2	0.3	-	42.7
Periodic repairs of rolling stock	3.8	-	-	-	-	3.8
Return of leased items	(9.5)	(2.4)	-	-	-	(11.9)
Purchases of leased items	(25.3)	-	-	(6.8)	-	(32.1)
Other	2.0	(3.6)	0.1	-	-	(1.5)
FX differences	0.2	0.1	-	-	-	0.3
31/12/2019	450.6	767.0	23.7	18.5	1.7	1,261.5
Accumulated depreciation						
Effect of the implementation of IFRS 16	(56.5)	(1.1)	(1.9)	(6.8)	-	(66.3)
1/01/2019 (restated)	(56.5)	(1.1)	(1.9)	(6.8)	-	(66.3)
<i>Increases / (decreases):</i>						
Depreciation	(57.7)	(58.2)	(3.0)	(4.6)	(0.4)	(123.9)
Return of leased items	3.2	0.1	-	-	-	3.3
Purchases of leased items	4.6	-	-	5.0	-	9.6
Other	(2.8)	(2.6)	-	-	-	(5.4)
FX differences	-	-	-	-	-	-
31/12/2019	(109.2)	(61.8)	(4.9)	(6.4)	(0.4)	(182.7)
Net value						
1/01/2019	253.6	728.1	12.7	7.2	1.2	1,002.8
31/12/2019	341.4	705.2	18.8	12.1	1.3	1,078.8

5.3 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Carrying amount	
	31/12/2020	31/12/2019
COSCO Shipping Lines (POLAND) Sp. z o.o.	1.2	0.9
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	21.2	20.3
Transgaz S.A.	6.3	6.1
Rentrans Cargo Sp. z o.o.	7.0	7.9
PKP CARGO CONNECT GmbH	0.2	0.4
PKP CARGO INTERNATIONAL SK a. s.	2.8	2.4
PRIMOL-RAIL d.o.o.	2.1	0.9
Centralny Terminal Multimodalny Sp. z o.o.	1.2	1.5
Total	42.0	40.4

5.3 Investments in entities accounted for under the equity method (cont.)

Investments in entities accounted for under the equity method

	2020	2019
As at the beginning of the reporting period	40.4	47.3
Merger under common control	-	(7.7)
Share purchase	-	1.5
Share in the profit / (loss) of entities accounted for under the equity method	2.5	1.7
Movement in equity on account of dividends	(0.4)	(3.3)
Impairment losses on entities accounted for under the equity method	(0.8)	-
Recognition of entities accounted for under the equity method	-	0.9
FX differences from translation of financial statements	0.3	-
As at the end of the reporting period	42.0	40.4

Summary of financial data of entities accounted for under the equity method

	31/12/2020	31/12/2019
Non-current assets	31.6	31.9
Current assets	105.6	111.8
Total assets	137.2	143.7
Long-term liabilities	0.4	0.4
Short-term liabilities	46.3	57.1
Total liabilities	46.7	57.5
Net assets	90.5	86.2
Group's shares in the net assets of entities accounted for under the equity method	41.9	39.6
Total revenue	111.4	122.0
Net result for the financial year	4.4	4.8
Group's shares in the result of the entities accounted for under the equity method	2.5	1.7
Group's shares in the comprehensive income of the entities accounted for under the equity method	2.8	1.7

Net assets are calculated as the sum of all net assets of all entities accounted for under the equity method.

5.4 Inventories

Accounting policy applied

Inventories are carried at their cost or net realizable value, whichever is lower. Inventories releases are made using the FIFO method. The realizable value is the estimated sale price of inventories less any costs necessary to effect the sale. The Group creates impairment losses for inventory value if redundant or damaged inventories exist or when the net sale price of the inventory is lower than its carrying amount. The amount of the impairment loss for inventories is determined on the basis of usefulness analysis conducted at least at the end of each financial year. Based on this analysis, impairment losses for inventories are made with respect to inventories useless from the Group's point of view.

Structure of inventories

	31/12/2020	31/12/2019
Strategic inventories	33.7	38.1
Rolling stock during liquidation	40.3	13.5
Other inventories	97.2	114.2
Impairment losses	(5.4)	(4.8)
Net inventories	165.8	161.0

List of changes in impairment losses for inventories

	2020	2019
As at the beginning of the reporting period	(4.8)	(4.5)
Recognition	(3.0)	(0.3)
Reversal	0.4	-
Utilization	2.0	-
As at the end of the reporting period	(5.4)	(4.8)

5.5 Trade receivables

Accounting policy applied

Trade receivables are treated as financial instruments and measured at amortized cost in accordance with the business model applied by the Group, the purpose of which is to obtain contractual cash flows constituting the sole repayment of the nominal value and interest on specific dates.

The Group applies a simplified approach, as permitted by IFRS 9, and measures its impairment losses in an amount equal to credit losses expected throughout the lifetime of trade receivables.

The probability of incurred credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges. For this purpose, the indicators of default by counterparties for each aging range were estimated, in accordance with the table breaking down the aging structure of trade receivables.

Impairment losses are calculated by taking into account the rates of default and the amount of unpaid receivables as at the balance sheet date for each interval in the aging structure.

Moreover, the Group recognizes impairment losses on an individual basis in cases where an objective proof exists that the Group will be unable to recover the amounts due.



SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The calculation and measurement of impairment losses on trade receivables and assets arising from contracts with customers is an area that requires estimation. Expected credit losses are calculated on the basis of an individual assessment of the recoverability of a given receivable and taking into account the model applied by the Group to estimate its counterparty default ratio. Impairment losses determined on a case by case basis require judgment of whether the receivable in question will be repaid by the counterparty, taking into account the established security and settlements made, if any. Such judgment is made by the Group companies' debt collection unit. The model of estimation of the counterparty default ratio applied by the Group is based on a simplified impairment loss matrix for each aging range based on the expected credit losses throughout the lifetime of the receivables. The estimation of the expected credit losses is based on a method that makes use of expected counterparty default ratios calculated on the basis of historical data for the years 2017-2020 obtained from financial and accounting systems. The COVID-19 pandemic had no significant impact on the level of expected credit losses, which is described in **Note 1.4**. The reconciliation of impairment losses on receivables is presented in the tables below.

Structure of trade receivables

	31/12/2020	31/12/2019
Trade receivables	738.0	739.5
Impairment loss on receivables	(149.2)	(145.2)
Total	588.8	594.3
Non-current assets	3.0	3.0
Current assets	585.8	591.3
Total	588.8	594.3

Reconciliation of impairment losses on trade receivables

	Expected credit losses					
	2020			2019		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	(1.7)	(143.5)	(145.2)	(3.0)	(152.4)	(155.4)
Recognition	(0.2)	(7.0)	(7.2)	-	(14.0)	(14.0)
Reversal	-	4.9	4.9	1.3	5.9	7.2
Utilization	-	2.9	2.9	-	16.5	16.5
FX valuation	-	(1.6)	(1.6)	-	0.5	0.5
FX differences resulting from translation of financial statements	-	(3.0)	(3.0)	-	-	-
As at the end of the reporting period	(1.9)	(147.3)	(149.2)	(1.7)	(143.5)	(145.2)

5.5 Trade receivables (cont.)

Movement in the carrying amount of gross trade receivables

	2020			2019		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	595.5	144.0	739.5	684.4	156.3	840.7
Recognized	4,795.5	0.1	4,795.6	5,580.3	0.1	5,580.4
Interest accrued	2.2	0.2	2.4	2.0	0.1	2.1
Written off	(0.1)	(3.1)	(3.2)	-	(16.5)	(16.5)
Repaid	(4,805.1)	(5.0)	(4,810.1)	(5,658.1)	(8.9)	(5,667.0)
Transferred	(8.9)	8.9	-	(13.5)	13.5	-
FX valuation	3.7	1.6	5.3	0.1	(0.8)	(0.7)
FX differences resulting from translation of financial statements	5.5	3.0	8.5	0.3	0.2	0.5
As at the end of the reporting period	588.3	149.7	738.0	595.5	144.0	739.5

Age analysis of trade receivables

	31/12/2020			31/12/2019		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	550.5	(1.5)	549.0	539.2	(0.7)	538.5
Overdue receivables						
to 30 days	23.3	(0.3)	23.0	43.7	(0.7)	43.0
31 - 90 days	7.3	(1.1)	6.2	6.5	(0.4)	6.1
91-180 days	2.7	(1.2)	1.5	5.9	(4.0)	1.9
181 - 365 days	9.4	(2.8)	6.6	7.0	(4.9)	2.1
over 365 days	144.8	(142.3)	2.5	137.2	(134.5)	2.7
Total	738.0	(149.2)	588.8	739.5	(145.2)	594.3

5.6 Other assets

Accounting policy applied

The accounting policy pertaining to financial instruments is described in [Note 6](#) to these Consolidated Financial Statements. As other assets, the Group recognizes predominantly prepaid expenses which are set in the amount of incurred expenses that relate to future periods and will generate future economic benefits for the Group. Prepaid expenses are settled in line with the passage of time.

Other receivables include predominantly public law receivables measured at the amount due.

Intangible assets are presented at the cost of production less amortization and the total amount of the impairment loss of intangible assets. The Group applies straight-line depreciation.

The period of economic utility and method of amortization are verified at the end of each reporting period, and the results of estimate changes are settled prospectively.

5.6 Other assets (cont.)

Structure of other assets

	31/12/2020	31/12/2019
Financial assets		
FX forwards	-	7.4
Shares in unlisted companies	5.6	6.3
Non-financial assets		
Costs settled in time		
Prepayments for purchase of electricity	24.0	27.2
Insurance	7.0	7.8
IT services	8.1	9.0
Other costs settled over time	2.5	6.3
Other	1.9	12.2
Other receivables		
VAT settlements	35.6	68.5
Other	12.6	12.7
Intangible assets		
Licenses	20.8	24.7
Other intangible assets	0.3	0.2
Intangible assets under development	4.8	5.4
Total	123.2	187.7
Non-current assets	35.1	55.0
Current assets	88.1	132.7
Total	123.2	187.7

5.7 Investment liabilities

Accounting policy applied

Investment liabilities include obligations related to the purchase of non-financial non-current assets. Initially, they are carried at fair value adjusted for transaction costs and subsequently at amortized cost. This applies to liabilities with a maturity of over 1 year for which the liability value corresponds to the amount that would be paid in a single cash transaction. The difference between this amount and the total payments is recognized as interest expense over the period of commercial credit. Liabilities with a maturity of up to 1 year are measured in the amount payable.

Structure of investment liabilities

	31/12/2020	31/12/2019
Investment liabilities related to rolling stock	260.5	304.0
Investment liabilities related to real properties	9.8	12.9
Other	8.7	21.6
Total	279.0	338.5
Long-term liabilities	145.5	157.0
Short-term liabilities	133.5	181.5
Total	279.0	338.5

5.8 Provisions for employee benefits

Accounting policy applied

The Group provides its employees with long-term benefits during their employment (jubilee awards) as well as post-employment benefits (retirement and disability severance benefits, transportation benefits and benefits from the Company Social Benefits Fund (ZFŚS) for old age and disability pensioners, post-mortem benefits). Jubilee awards are paid out to the employees upon reaching a specified number of years in employment. Retirement and disability severance pays are paid out once when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The Group is establishing provisions for future liabilities arising out of the foregoing virtues to assign the costs to the respective periods. The employees are also vested with the right to receive post-employment benefits in the form of social benefits from the Company Social Benefits Fund and train fare discounts. In its statement of financial position, the Group recognizes the foregoing benefits at the current value of the liability as at the date ending the reporting period.

The amount of long-term benefits during the employment period and post-employment benefits is calculated by an independent actuarial firm using the forecast individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. Current service cost reflects the increase in the defined benefit obligation resulting from employee service in the current period and is recognized in profit and loss as employee benefits, except when it is recognized as the cost of manufacturing an asset. Past service costs are recognized directly in the financial result. Net interest cost is calculated by applying a discount rate to the net value of the defined benefit obligation and presented in financial expenses.

Actuarial profits and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.



SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2020 and 31 December 2019, the actuarial valuation of provisions for employee benefits for the Polish Group companies was based on the following main assumptions:

	Valuation as at [%]	
	31/12/2020	31/12/2019
Discount rate	1.4	2.1
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 4.0
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 Company Benefits Fund	4.0	4.0
Weighted average employee mobility ratio	2.0 - 7.9	2.0 - 10.6

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

	31/12/2020	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	310.5	(5.4)	5.6	5.3	(5.2)	(4.2)	4.3
Retirement and disability severance benefits	234.5	(4.3)	4.5	3.9	(3.8)	(2.7)	2.8
Post-mortem benefits	7.3	(0.2)	0.2	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	179.3	(8.5)	9.1	7.8	(7.4)	(1.0)	1.1
Transportation benefits	40.3	(1.8)	1.9	1.7	(1.6)	(0.3)	0.3
Total	771.9	(20.2)	21.3	18.8	(18.1)	(8.3)	8.6

5.8 Provisions for employee benefits (cont.)

	31/12/2019	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	329.4	(5.0)	5.1	4.1	(4.0)
Retirement and disability severance benefits	234.6	(4.0)	4.1	3.4	(3.3)	(3.5)	3.5
Post-mortem benefits	8.8	(0.1)	0.2	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	139.7	(5.9)	6.4	5.2	(4.9)	(1.0)	1.0
Transportation benefits	36.9	(1.5)	1.6	1.3	(1.3)	(0.3)	0.3
Total	749.4	(16.5)	17.4	14.1	(13.6)	(9.3)	9.3

Movement in provisions for employee benefits

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2020	234.6	139.7	36.9	8.8	329.4	34.8	784.2
Current service cost	8.5	2.9	0.8	0.5	15.7	-	28.4
Interest expenses	4.3	2.9	0.8	0.2	6.5	-	14.7
Actuarial (profits)/ losses recognized in other comprehensive income	9.3	39.0	2.8	(0.9)	-	-	50.2
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	9.7	-	9.7
Recognition of provisions	-	-	-	-	-	3.4	3.4
Reversal of provisions	-	-	-	-	-	(3.4)	(3.4)
Benefits paid out	(22.2)	(5.2)	(1.0)	(1.3)	(51.0)	(6.4)	(87.1)
FX differences	-	-	-	-	0.2	0.3	0.5
31/12/2020	234.5	179.3	40.3	7.3	310.5	28.7	800.6
Long-term provisions	201.4	173.9	39.0	6.4	263.6	-	684.3
Short-term provisions	33.1	5.4	1.3	0.9	46.9	28.7	116.3
Total	234.5	179.3	40.3	7.3	310.5	28.7	800.6

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2019	195.8	130.2	32.8	7.9	304.0	36.3	707.0
Current service cost	6.8	2.4	0.7	0.4	12.5	-	22.8
Interest expenses	5.1	3.8	0.9	0.1	7.7	-	17.6
Actuarial (profits)/ losses recognized in other comprehensive income	37.4	10.0	3.6	1.2	-	-	52.2
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	52.3	-	52.3
Past service cost	1.3	-	-	-	(0.1)	-	1.2
Recognition of provisions	-	-	-	-	-	18.6	18.6
Reversal of provisions	-	-	-	-	-	(13.2)	(13.2)
Benefits paid out	(11.8)	(6.7)	(1.1)	(0.8)	(47.0)	(7.0)	(74.4)
FX differences	-	-	-	-	-	0.1	0.1
31/12/2019	234.6	139.7	36.9	8.8	329.4	34.8	784.2
Long-term provisions	198.1	135.3	35.8	7.4	280.5	-	657.1
Short-term provisions	36.5	4.4	1.1	1.4	48.9	34.8	127.1
Total	234.6	139.7	36.9	8.8	329.4	34.8	784.2

5.8 Provisions for employee benefits (cont.)

Items recognized in the result in reference to employee benefits programs

	31/12/2020	31/12/2019
Employee benefits	(38.1)	(81.7)
Financial expenses	(14.7)	(17.6)
Total recognized in the profit before tax	(52.8)	(99.3)

Actuarial (profits) / losses

2020	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses/ (profits) – post-employment benefits				
Retirement and disability severance benefits	6.6	5.2	(2.5)	9.3
Company Social Benefits Fund	1.4	18.3	19.3	39.0
Transportation benefits	0.4	4.0	(1.6)	2.8
Post-mortem benefits	(0.3)	0.2	(0.8)	(0.9)
Actuarial losses/ (profits) – other long-term benefits				
Jubilee awards	(3.6)	6.1	7.2	9.7
Total	4.5	33.8	21.6	59.9

2019	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses/ (profits) – post-employment benefits				
Retirement and disability severance benefits	(0.5)	17.2	20.7	37.4
Company Social Benefits Fund	(0.2)	16.4	(6.2)	10.0
Transportation benefits	(0.1)	4.3	(0.6)	3.6
Post-mortem benefits	(0.1)	0.6	0.7	1.2
Actuarial losses/ (profits) – other long-term benefits				
Jubilee awards	(1.4)	20.8	32.9	52.3
Total	(2.3)	59.3	47.5	104.5

Analysis of maturities of paid out employee benefits

31/12/2020	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	33.1	5.4	1.3	0.9	46.9	28.7	116.3
1 to 5 years	85.9	23.4	5.3	2.9	130.0	-	247.5
over 5 years	115.5	150.5	33.7	3.5	133.6	-	436.8
Total	234.5	179.3	40.3	7.3	310.5	28.7	800.6

31/12/2019	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	36.5	4.4	1.1	1.4	48.9	34.8	127.1
1 to 5 years	79.6	20.6	5.5	3.4	141.1	-	250.2
over 5 years	118.5	114.7	30.3	4.0	139.4	-	406.9
Total	234.6	139.7	36.9	8.8	329.4	34.8	784.2

The average maturity of employee benefits in the Parent Company was 12 years as at 31 December 2020. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using actuarial methods, is approx. 90%.

5.9 Other provisions

Accounting policy applied
<p>Provisions are established if the Group is subject to an existing legal or usually expected obligation attributable to past events and when it may be reasonably expected that the fulfillment of this obligation will cause the outflow of cash and the amount of such obligation may be credibly estimated. The recognized amount of provisions reflects the most precise possible estimate of the amount that must be used to settle the ongoing liability as at the balance sheet date, taking into account the risk and uncertainty related to that liability. If provisions are measured using the method of estimated cash flows necessary to settle a current liability, its carrying amount corresponds to the value of those flows at the given moment (if the time value of money effect is material). If it is likely that a portion or all the economic benefits, required for settlement of provisions, may be recovered from a third party, such receivables shall be recognized as an asset component if the likelihood of recovering that amount is adequately high and may be credibly estimated.</p> <p>If it is impossible to unequivocally determine whether the present liability exists, for example in the event of a court case, the Group shall establish reserves for such events if it concludes that after taking into account all the available evidence, such liability is more likely to exist as at the balance sheet date than it is not. If the present liability is more likely not to exist than it is to exist as at the balance sheet date, the Group shall disclose the information on the contingent liability unless it is unlikely that there will be the outflow of the means entailing economic benefits.</p>

Structure of other provisions

2020	Provision for penalties imposed by anti-monopoly authorities	Provision for land reclamation	Other provisions	Total
1/01/2020	14.6	5.4	31.0	51.0
Recognition	-	1.7	6.1	7.8
Reversal	-	(0.4)	(5.9)	(6.3)
Utilization	(14.2)	(0.6)	(8.3)	(23.1)
FX differences	-	0.3	0.1	0.4
31/12/2020	0.4	6.4	23.0	29.8
Long-term provisions	-	5.7	-	5.7
Short-term provisions	0.4	0.7	23.0	24.1
Total	0.4	6.4	23.0	29.8

2019	Provision for penalties imposed by anti-monopoly authorities	Provision for land reclamation	Provision for VAT liabilities	Provision for onerous contracts	Other provisions	Total
1/01/2019 (audited)	14.8	5.3	23.6	3.7	30.0	77.4
Effect of the implementation of IFRS 16	-	-	-	(3.7)	-	(3.7)
1/01/2019 (restated)	14.8	5.3	23.6	0.0	30.0	73.7
Recognition	-	0.1	0.8	-	9.7	10.6
Reversal	(0.2)	-	(24.4)	-	(4.9)	(29.5)
Utilization	-	-	-	-	(3.8)	(3.8)
31/12/2019	14.6	5.4	-	-	31.0	51.0
Long-term provisions	-	5.4	-	-	-	5.4
Short-term provisions	14.6	-	-	-	31.0	45.6
Total	14.6	5.4	-	-	31.0	51.0

Provision for penalties imposed by anti-monopoly authorities

As at 31 December 2020, this item included a provision for a penalty in the amount of PLN 0.4 million established in connection with a pending procedure initiated by the Czech Antimonopoly Office.

As at 31 December 2019, the provision also represented an estimate by the Parent Company's Management Board in connection with the likelihood of payment of a fine imposed by the Decision of 31 December 2015 of the President of the Office of Competition and Consumer Protection (hereinafter referred to as "UOKiK", "Office") in the amount of PLN 14.2 million. As at 31 December 2020, in connection with the judgment of 2 July 2020 handed down by the Appellate Court in Warsaw dismissing PKP CARGO S.A.'s appeal in this case, the Parent Company reclassified the claim amount to the other liabilities item. The due amount was paid to the Office in January 2021.

5.9 Other provisions (cont.)

Provision for land reclamation

The provision has been recognized to cover future expenses associated with the duty to reclaim the land. The estimated amount of the provision corresponds to the current value of expected future expenses.

Other provisions

This line item mostly includes the provisions established for disputed settlements, litigation and liquidated damages in the event of which it is more likely that there will be an outflow of cash in connection with the performance of those claims than it will not.

According to the Parent Company's Management Board, the amount of other provisions as at 31 December 2020, and as at 31 December 2019, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the Group's estimates may be changed in subsequent reporting periods.

5.10 Other liabilities

Accounting policy applied

Liabilities are the Group's present obligation resulting from past events, whose fulfillment will, according to expectations, cause the outflow from the entity of the means entailing economic benefits.

Other liabilities include predominantly public law settlements and payroll liabilities which are carried at the amount due.

Structure of other liabilities

	31/12/2020	31/12/2019
Financial liabilities		
FX forwards	2.7	-
Cash pool	1.1	-
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	46.5	40.5
Public law liabilities	121.5	117.6
Settlements with employees	97.0	97.4
Received grants	1.6	0.3
Other settlements	8.8	4.6
VAT settlements	5.3	4.0
Current income tax liabilities	1.7	-
Total	286.2	264.4
Short-term liabilities	286.2	264.4
Total	286.2	264.4



6. Financial instruments and principles of financial risk management

Accounting policy applied

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Company becomes bound by the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, financial assets of a debt nature are classified as measured:

- a) at amortized cost,
- b) fair value through other comprehensive income,
- c) at fair value through profit or loss.

Such classification is based on:

- a) the Group's business model for managing financial assets,
- b) the contractual cash flow characteristics of the financial asset, i.e. whether the contractual cash flows are solely payments of principal and interest. The nature and the purpose of financial assets are determined at the moment of initial recognition.

Financial assets carried at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows;
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In this category, the Group classifies mainly:

- a) trade receivables,
- b) bank deposits over 3 months,
- c) cash and cash equivalents.

As at 31 December 2020 and 31 December 2019, the Group did not have any financial assets of a debt nature measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Investments in equity instruments

Investments in equity instruments are measured at fair value through other comprehensive income.

Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortized cost, except for:

- a) financial liabilities at fair value through profit or loss,
- b) liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies,
- c) financial guarantee contracts,
- d) commitments to provide a loan at a below-market interest rate,
- e) contingent consideration recognized by the acquiring Group in a business combination to which IFRS 3 applies.

All financial liabilities held by the Group are classified as measured at amortized cost. Additionally, for other financial assets and financial liabilities, the Group presents derivative like forward. These instruments are used to hedge future cash flows. Upon provision of the hedge, the Group defines a hedging relationship. The effective portion of profits or losses related to a hedging instrument is recognized in other comprehensive income. The non-effective portion of profits or losses related to the hedging instrument is recognized in the period's financial result unless it has no material value. Profits/losses related to the evaluation of hedging instruments and recognized in other comprehensive income are recognized in financial result when the hedged item affects the financial performance. The Group derecognizes a financial asset when, and only when, the contractual rights to the cash flows generated from the financial asset expire or it transfers the financial asset and all related risks and rewards of ownership of the financial asset to another entity.

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	31/12/2020	31/12/2019
Hedging financial instruments			
Derivatives	Note 5.6	-	7.4
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	Note 5.6	5.6	6.3
Financial assets measured at amortized cost			
Trade receivables	Note 5.5	588.8	594.3
Receivables on account of sale of non-financial non-current assets		0.1	0.5
Cash and cash equivalents	Note 4.4	306.0	550.4
Financial assets excluded from the scope of IFRS 9		11.0	11.6
Total		911.5	1,170.5

Financial liabilities by categories and classes	Note	31/12/2020	31/12/2019
Hedging financial instruments			
Derivatives	Note 5.10	2.7	-
Bank loans and borrowings	Note 4.1	660.0	469.7
Financial liabilities excluded from the scope of IFRS 9	Note 4.1	53.1	-
Financial liabilities carried at amortized cost			
Bank loans and borrowings	Note 4.1	999.3	1,156.5
Trade liabilities		349.0	414.9
Investment liabilities	Note 5.7	279.0	338.5
Cash pool	Note 5.10	1.1	-
Financial liabilities excluded from the scope of IFRS 9		867.9	996.5
Total		3,212.1	3,376.1

Impairment losses on trade receivables are presented in [Note 5.5](#) to these Consolidated Financial Statements.

Hedge accounting

In the period from 1 January 2020 to 31 December 2020, the Group applied hedge accounting to its cash flows. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 31 December 2020, 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 31 December 2020, the nominal amount of the hedging instrument was EUR 143.0 million, which is an equivalent of PLN 660.0 million.
- leases denominated in EUR. The hedged cash flows will be realized until May 2024. As at 31 December 2020, the nominal amount of the hedging instrument was EUR 11.5 million, which is an equivalent of PLN 53.1 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 31 December 2020, the value of liabilities from measurement of a hedging instrument was PLN 2.7 million.

6.1 Financial instruments (cont.)

Fair value hierarchy

As at 31 December 2020 and 31 December 2019, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	31/12/2020		31/12/2019	
	Level 2	Level 3	Level 2	Level 3
Assets				
Derivatives – FX forward contracts	-	-	7.4	-
Investments in equity instruments - shares in unlisted companies	-	5.6	-	6.3
Liabilities				
Derivatives – FX forward contracts	2.7	-	-	-

Measurement methods for financial instruments carried at fair value

a) FX forward contracts

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

b) Investments in financial instruments

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



c) Other financial instruments

For the category of financial instruments that are not measured at fair value as at the balance sheet date, the Group does not disclose fair value because as at 31 December 2020 and 31 December 2019 fair value was not materially different from the value presented in the statement of financial position.

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

	2020	2019
As at the beginning of the reporting period	6.3	6.8
Profits / (losses) for the period recognized in other comprehensive income	(0.7)	0.7
Sale of shares	-	(0.2)
Recognition of entities accounted for under the equity method	-	(0.9)
Exchange differences resulting from translation of financial statements	-	(0.1)
As at the end of the reporting period	5.6	6.3

In the financial year ended 31 December 2020 and 31 December 2019, there were no transfers between levels 2 and 3 of the fair value hierarchy.

6.1 Financial instruments (cont.)

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

2020	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(3.3)	-	4.3	0.5	(21.9)	(33.1)	(53.5)
FX differences	-	-	8.3	-	(6.0)	(8.0)	(5.7)
Impairment losses / revaluation	(0.1)	-	(2.3)	-	-	-	(2.4)
Transaction costs related to loans	-	-	-	-	(2.1)	-	(2.1)
Effect of settlement of cash flow hedge accounting	(9.9)	-	-	-	-	-	(9.9)
Profit / (loss) before tax	(13.3)	-	10.3	0.5	(30.0)	(41.1)	(73.6)
Revaluation	(50.8)	(0.7)	-	-	-	-	(51.5)
Other comprehensive income	(50.8)	(0.7)	-	-	-	-	(51.5)

In the financial year ended 31 December 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (9.9) million.

In the financial year ended 31 December 2020, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (10.0) million and bank loans in the amount of PLN (40.6) million and lease liabilities in the amount of PLN (0.2) million, which are recognized as part as of the hedge accounting applied by the Group.

2019	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Dividends and profit-sharing	-	0.3	-	-	-	-	0.3
Interest income / (expense)	(2.7)	-	6.4	0.5	(21.8)	(34.3)	(51.9)
FX differences	(0.1)	-	(1.1)	-	(1.2)	1.3	(1.1)
Impairment losses / revaluation	(0.1)	-	(6.8)	-	-	-	(6.9)
Transaction costs related to loans	-	-	-	-	(2.3)	-	(2.3)
(Profit) / loss on the sale of investments	-	0.8	-	-	-	-	0.8
Effect of settlement of cash flow hedge accounting	4.7	-	-	-	-	-	4.7
Profit / (loss) before tax	1.8	1.1	(1.5)	0.5	(25.3)	(33.0)	(56.4)
Revaluation	9.9	0.7	-	-	-	-	10.6
Other comprehensive income	9.9	0.7	-	-	-	-	10.6

In the financial year ended 31 December 2019, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN 4.7 million.

In the financial year ended 31 December 2019, 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 4.2 million and bank loans in the amount of PLN 5.7 million, recognized as part of the hedge accounting applied by the Group.

6.1 Financial instruments (cont.)

Offsetting financial assets

31/12/2020	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	588.8	588.8	(1.2)	587.6
Total	588.8	588.8	(1.2)	587.6

31/12/2019	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	594.3	594.3	(1.9)	592.4
Total	594.3	594.3	(1.9)	592.4

Offsetting financial liabilities

31/12/2020	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	349.0	349.0	(5.3)	343.7
Total	349.0	349.0	(5.3)	343.7

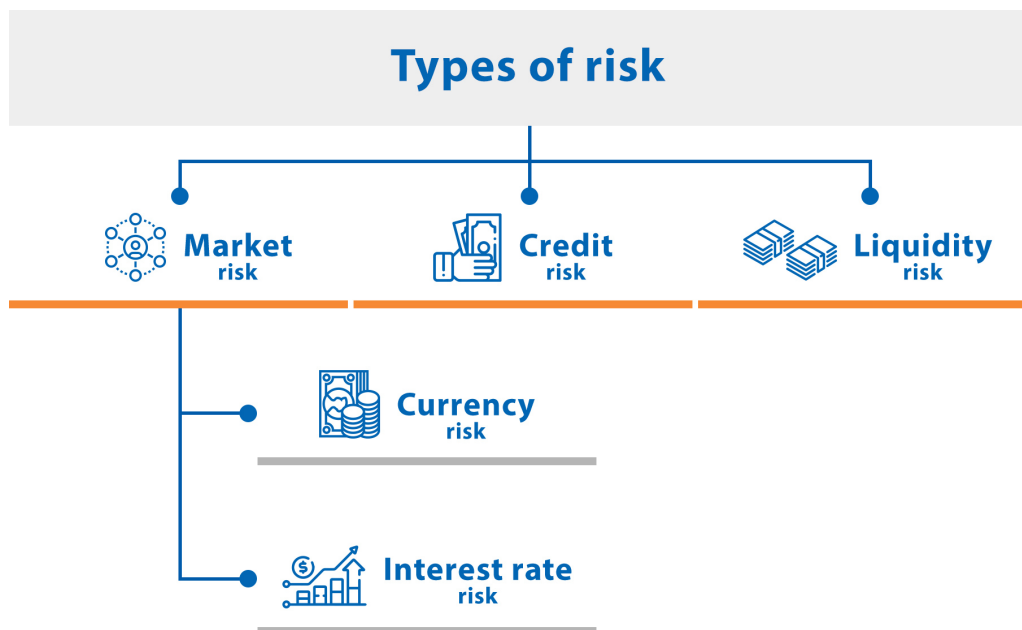
31/12/2019	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	414.9	414.9	(3.2)	411.7
Total	414.9	414.9	(3.2)	411.7

The values presented in the above tables as securing trade receivables that have not been offset in the statement of financial position are recognized under other liabilities, while the values securing trade liabilities are recognized under other assets.

6.2 Objectives and principles of financial risk management

Objectives and principles of financial risk management

In the years covered by these Consolidated Financial Statements, the Group was exposed to the following types of financial risk:



Market risk

The Group is exposed to market risks associated with changes of the exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short- and medium-term. The Group manages the market risk following from the aforementioned factors on the basis of internal procedures which define the rules of measurement of individual exposures, parameters and time horizon.

The principles of market risk management are implemented through assigned organizational units under the supervision of the Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivatives are used only to limit the risk of a change in the carrying amount and the risk of cash flow changes. Transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures.

According to the Financial Risk Management Policy in effect in the Group, in 2020, the Group applied FX risk management transactions for the EUR/PLN currency pair.



Foreign exchange risk management

As at 31 December 2020, the Group was exposed to foreign exchange risk concerning for the most part trade receivables and debt liabilities denominated in foreign currencies.

As a result of valuation of receivables and liabilities denominated in foreign currencies conducted as at the balance sheet date, and also as a result of ongoing settlements in foreign currencies, there arise positive and negative foreign exchange differences. Their values fluctuate during the year, which is caused by changes in exchange rates.

In a long-term perspective, the valuation risk matches the risk of change of cash flows, therefore the Group's cash flows are subject to hedging operations.

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 applied forward transactions for the currency pair EUR/PLN and 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.

6.2 Objectives and principles of financial risk management (cont.)

Items in foreign currencies

31/12/2020	Total value of items in PLN	EUR/PLN		CZK/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS					
Non-current assets					
Trade receivables	3.0	-	-	17.0	3.0
Other assets	0.4	-	-	2.0	0.4
Current assets					
Trade receivables	198.2	25.7	118.6	453.8	79.6
Other assets	11.3	0.6	2.6	49.4	8.7
Cash and cash equivalents	74.9	5.7	26.2	278.1	48.7
Total	287.8	32.0	147.4	800.3	140.4
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	613.7	126.6	584.0	169.3	29.7
Short-term liabilities					
Debt liabilities	194.8	41.1	189.8	28.5	5.0
Trade liabilities	96.6	9.1	41.5	314.4	55.1
Investment liabilities	14.1	-	-	80.3	14.1
Other liabilities – FX forward contracts ⁽¹⁾	2.7	18.9	2.7	-	-
Other liabilities	20.3	0.6	2.6	101.0	17.7
Total	942.2	196.3	820.6	693.5	121.6
Net currency item	(654.4)	(164.3)	(673.2)	106.8	18.8

31/12/2019	Total value of items in PLN	EUR/PLN		CZK/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS					
Non-current assets					
Trade receivables	3.0	-	-	18.3	3.0
Other assets – FX forward contracts ⁽¹⁾	1.7	17.9	1.7	-	-
Current assets					
Trade receivables	174.4	20.7	88.0	515.5	86.4
Other assets – FX forward contracts ⁽¹⁾	5.6	42.5	5.6	-	-
Cash and cash equivalents	93.8	11.6	49.4	264.6	44.4
Total	278.5	92.7	144.7	798.4	133.8
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	604.9	134.5	572.7	191.9	32.2
Short-term liabilities					
Debt liabilities	124.9	26.0	110.6	85.8	14.3
Trade liabilities	108.4	10.7	45.8	373.5	62.6
Investment liabilities	16.2	-	-	96.6	16.2
Total	854.4	171.2	729.1	747.8	125.3
Net currency item	(575.9)	(78.5)	(584.4)	50.6	8.5

⁽¹⁾ For other assets/other liabilities in the tables above, the currency column (EUR) presents the Group's exposure amount in forward transactions, while the currency column (PLN) corresponds to the fair value measurement of derivatives in PLN.

6.2 Objectives and principles of financial risk management (cont.)

Sensitivity to FX risk

The Group is exposed mainly to the foreign exchange risk associated with the EUR/PLN and CZK/PLN currency pairs in connection with its operating and financing activities. Deviations in exchange rates were calculated on the basis of the average daily volatility of each currency exchange rate in the period under analysis. Sensitivity of financial instruments to foreign exchange risk has been calculated as the difference between the original carrying amount of the financial instruments and their potential value while assuming changes to foreign exchange rates. The tables below present the Group's exposure to the foreign exchange risk in 2020 and 2019.

31/12/2020	Value of the item in PLN	Currency risk					
		EUR/PLN			CZK/PLN		
		impact on the result		impact on other comprehensive income		impact on other comprehensive income	
		+2%	-2%	+2%	-2%	+1%	-1%
ASSETS							
Non-current assets							
Trade receivables	3.0	-	-	-	-	-	-
Other assets	0.4	-	-	-	-	-	-
Current assets							
Trade receivables	198.2	2.3	(2.3)	-	-	0.8	(0.8)
Other assets	11.3	0.1	(0.1)	-	-	0.1	(0.1)
Cash and cash equivalents	74.9	0.5	(0.5)	-	-	0.5	(0.5)
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	613.7	(0.6)	0.6	(11.1)	11.1	(0.3)	0.3
Short-term liabilities							
Debt liabilities	194.8	(0.6)	0.6	(3.2)	3.2	-	-
Trade liabilities	96.6	(0.8)	0.8	-	-	(0.5)	0.5
Investment liabilities	14.1	-	-	-	-	(0.1)	0.1
Other liabilities – FX forward contracts	2.7	-	-	(1.7)	1.7	-	-
Other liabilities	20.3	(0.1)	0.1	-	-	(0.2)	0.2
Total gross effect		0.8	(0.8)	(16.0)	16.0	0.3	(0.3)

6.2 Objectives and principles of financial risk management (cont.)

31/12/2019	Value of the item in PLN	Currency risk					
		EUR/PLN			CZK/PLN		
		impact on the result		impact on other comprehensive income		impact on other comprehensive income	
		+3%	-3%	+3%	-3%	+9%	-9%
ASSETS							
Non-current assets							
Trade receivables	3.0	-	-	-	-	0.3	(0.3)
Other assets – FX forward contracts	1.7	-	-	(2.4)	2.4	-	-
Current assets							
Trade receivables	174.4	3.2	(3.2)	-	-	7.9	(7.9)
Other assets – FX forward contracts	5.6	-	-	(4.5)	4.5	-	-
Cash and cash equivalents	93.8	1.5	(1.5)	-	-	3.9	(3.9)
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	604.9	(4.7)	4.7	(12.5)	12.5	(2.9)	2.9
Short-term liabilities							
Debt liabilities	124.9	(1.7)	1.7	(1.6)	1.6	(1.3)	1.3
Trade liabilities	108.4	(1.5)	1.5	-	-	(5.5)	5.5
Investment liabilities	16.2	-	-	-	-	(1.5)	1.5
Total gross effect		(3.2)	3.2	(21.0)	21.0	0.8	(0.8)

6.2 Objectives and principles of financial risk management (cont.)

FX forward transactions

To manage the foreign exchange risk in 2020 and 2019, FX forward transactions were applied on the EUR/PLN currency pair (sale of currencies).

List of unrealized FX forward contracts

As at 31 December 2020

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of liabilities
Bank A	forward	01/2019 - 09/2019	01/2021 - 08/2021	EUR/PLN	3.5	15.8	(0.4)
Bank B	forward	01/2019 - 08/2019	01/2020 - 06/2021	EUR/PLN	5.1	22.8	(0.8)
Bank C	forward	02/2019 - 01/2020	01/2021 - 01/2022	EUR/PLN	7.9	35.4	(1.1)
Bank D	forward	02/2019 - 09/2019	01/2021 - 09/2021	EUR/PLN	2.4	10.8	(0.4)
Total					18.9	84.8	(2.7)

As at 31 December 2019

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of assets
Bank A	forward	02/2018 - 09/2019	01/2020 - 08/2020	EUR/PLN	6.9	30.8	0.8
Bank B	forward	02/2018 - 08/2019	01/2020 - 06/2021	EUR/PLN	16.4	73.1	2.1
Bank C	forward	02/2018 - 10/2019	01/2020 - 09/2021	EUR/PLN	23.6	104.8	2.8
Bank D	forward	03/2018 - 09/2019	01/2020 - 09/2021	EUR/PLN	13.0	57.7	1.6
Bank E	forward	07/2018	03/2020 - 06/2020	EUR/PLN	0.5	2.2	0.1
Total					60.4	268.6	7.4

Interest rate risk management

As at 31 December 2020, the Group was exposed to the risk of volatility of interest rate cash flows following from bank loans and lease agreements based on variable interest rates. Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M.

As part of its fixed-rate lease liabilities, the Group recognizes, for the most part, liabilities arising from lease and tenancy contracts containing price indexation provisions based on the rate of inflation. In accordance with IFRS 16, changes in future lease payments caused by price indexation will not result in a change in the discount rate applied to the measurement of such liabilities.

Interest on loan agreements was accrued at the WIBOR 1M and 3M as well as EURIBOR 3M reference rates plus the banks' margins. Interest rate risk in loan and leasing agreements is executed through revaluation of installments in monthly and quarterly periods, depending on the agreement.

The cash held by the Group as at 31 December 2020 was mainly in the form of fixed rate bank deposits which were concluded with time horizons depending on the Group's liquidity needs. In future periods, as a result of changes in the deposit interest rates, the cash position may be exposed to interest rate risk.

In 2019-2020, the Group did not use derivative instruments to hedge the interest rate risk.



6.2 Objectives and principles of financial risk management (cont.)

Financial instruments by interest rate type

Financial assets	31/12/2020			31/12/2019		
	Interest rate		Total	Interest rate		Total
	at a fixed interest rate	at a variable interest rate		at a fixed interest rate	at a variable interest rate	
Lease receivables	11.0	-	11.0	11.6	-	11.6
Receivables from sale of non-financial non-current assets	0.1	-	0.1	0.5	-	0.5
Cash and cash equivalents	306.0	-	306.0	550.4	-	550.4
Total	317.1	-	317.1	562.5	-	562.5

Financial liabilities	31/12/2020			31/12/2019		
	Interest rate		Total	Interest rate		Total
	at a fixed interest rate	at a variable interest rate		at a fixed interest rate	at a variable interest rate	
Debt liabilities	971.2	1,609.1	2,580.3	918.5	1,704.2	2,622.7
Investment liabilities	202.2	-	202.2	204.6	-	204.6
Cash pool	1.1	-	1.1	-	-	-
Total	1,174.5	1,609.1	2,783.6	1,123.1	1,704.2	2,827.3

Interest rate fluctuation sensitivity

The sensitivity analyses presented below are based on the level of exposure of financial instruments to interest rate risk as at the balance sheet date. In the case of liabilities with variable interest rates, for the needs of the analysis it is assumed that the amount of outstanding liabilities as at the balance sheet date will be unpaid for the whole year. In 2020 and 2019, the Group identified the exposure to interest rate risk mainly for WIBOR and EURIBOR. Interest rate deviations are calculated on the basis of observations of average interest rate fluctuations. The sensitivity analysis presented below does not comprise the interest accrued as at the balance sheet date. The analysis results are presented in gross terms (before tax).

31/12/2020	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result		impact on the result	
		+ 100 bps	- 100 bps	+ 25 bps	- 25 bps
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,327.8	(9.2)	9.2	(1.0)	1.0
Short-term liabilities					
Debt liabilities	280.4	(2.2)	2.2	(0.1)	0.1
Total gross effect		(11.4)	11.4	(1.1)	1.1

31/12/2019	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result		impact on the result	
		+ 50 bps	- 50 bps	+ 50 bps	- 50 bps
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,422.4	(5.0)	5.0	(2.1)	2.1
Short-term liabilities					
Debt liabilities	280.9	(1.1)	1.1	(0.3)	0.3
Total gross effect		(6.1)	6.1	(2.4)	2.4

6.2 Objectives and principles of financial risk management (cont.)

Credit risk management

The table below presents the items of the consolidated statement of financial position exposed to credit risk by financial instrument class:

	31/12/2020	31/12/2019
Trade receivables	588.8	594.3
Lease receivables	11.0	11.6
FX forwards	-	7.4
Cash and cash equivalents	306.0	550.4
Receivables from sale of non-financial non-current assets	0.1	0.5
Total	905.9	1,164.2

The Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received.

In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. Based on its internal policies, the Group grants deferred payment terms only to counterparties with acceptable standing and a positive history of cooperation. Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy.



Structure of trade receivables in terms of entity types

	31/12/2020	31/12/2019
Group of entities related to the biggest external counterparty	9.1%	8.9%
PKP Group related parties	0.5%	0.8%
State Treasury related parties	27.6%	29.6%
Other entities	62.8%	60.7%
Total	100.0%	100.0%

In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts from its customers securities in the form of, among others: receivables insurance, bank / insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes. As at 31 December 2020, 14.3% of trade receivables were secured.

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. These include domestic banks, foreign banks and branches of foreign banks with a high creditworthiness.

The concentration of risk involving cash held is presented in the table below.

Bank	Credit rating agency	Rating	31/12/2020
Bank A	Fitch	A-	55.7%
Bank B	Moody's	A2	13.1%
Bank C	Moody's	Aa3	9.6%
Bank D	Moody's	Aa3	7.4%
Bank E	Standard & Poor's	BBB	4.8%
Bank F	Moody's	A2	4.3%
Other			5.1%
Total			100.0%

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the financial year ended 31 December 2020 and the financial year ended 31 December 2019, the State Treasury was an upper level parent entity for the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the financial years ended 31 December 2020 and 31 December 2019, 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 material due to a non-standard scope or amount. In the periods covered by these 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 Azoty. In the financial year ended 31 December 2020, the Group's most important suppliers related to the State Treasury were PKN Orlen Group entities.

Transactions with PKP Group related parties

In the periods covered by this Consolidated Financial Statements the Group entered into the following commercial transactions with PKP Group related parties:

	2020		31/12/2020	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	73.3	1.2	589.4
Subsidiaries / co-subsiidiaries	5.7	14.8	0.1	1.7
Associates	8.0	0.7	-	0.2
Other PKP Group related parties	20.8	502.3	2.5	61.1

	2019		31/12/2019	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	70.7	1.1	590.2
Subsidiaries / co-subsiidiaries	4.4	15.5	0.1	0.7
Associates	0.1	0.3	-	-
Other PKP Group related parties	15.8	580.0	2.6	52.0

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

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

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

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

7.1 Related party transactions (cont.)

Remunerations of key management personnel

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

Remunerations of Management Board Members	Parent Company		Subsidiaries	
	2020	2019	2020	2019
Short-term benefits	2.4	2.6	5.8	6.2
Post-employment benefits	0.3	-	0.1	1.0
Termination benefits	0.1	-	0.1	0.2
Total	2.8	2.6	6.0	7.4

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	2020	2019	2020	2019
Short-term benefits	1.3	1.2	0.5	1.6
Total	1.3	1.2	0.5	1.6

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	2020	2019	2020	2019
Short-term benefits	6.9	6.8	17.8	19.8
Post-employment benefits	-	0.1	0.9	1.3
Termination benefits	-	0.1	-	0.3
Total	6.9	7.0	18.7	21.4

In the financial year ended 31 December 2020 and 31 December 2019, the members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan and guarantee transactions with the Group.

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

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

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

	31/12/2020	31/12/2019
Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment	856.4	1,208.9
Contractual liabilities on account of non-commenced lease contracts	5.9	-
Total	862.3	1,208.9

As at 31 December 2020, contractual liabilities relating to the purchase of non-financial non-current assets resulted mainly from the performance of agreements concluded in previous periods. The Group was awarded co-financing from aid funds of the European Union for the performance of the contractual liabilities presented as at 31 December 2020 in the amount of approx. PLN 155.7 million.

Additionally, on 6 July 2020, the Parent Company's Supervisory Board gave its consent to change the liability incurred by signing an annex to the contract with Pojazdy Szynowe PESA Bydgoszcz S.A. to conduct level five maintenance repairs and replace combustion engines in 38 ST44 diesel locomotives. As a result of the change, the number of locomotives to be repaired was reduced to 25, with the time limit for the repairs extended to 28 May 2021 and a decrease in the total liability to the contractor from PLN 176.3 million to PLN 116.0 million.

7.3 Contingent liabilities

Accounting policy applied

In compliance with the Group's accounting policy, a contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) a present obligation that arises from past events but is not recognized in the statement of financial position or in the statement of profit or loss and other comprehensive income, because it is not likely that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.



SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Contingent liability items subject to significant estimations pertain to claims brought against the Group to court. The decision on whether or not a claim should be recognized in the form of a provision or a contingent liability depends on an assessment of the probability of loss in the litigation carried out by internal legal services or external law firms. Such assessment of the estimates may change in subsequent periods as a result of future events, thus it may be necessary to establish a provision that would have an unfavorable effect on the Group's financial result.

Structure of contingent liabilities

	31/12/2020	31/12/2019
Guarantees issued on the Group's order	93.9	115.1
Other contingent liabilities	114.9	114.0
Total	208.8	229.1

Guarantees issued on the Group's order

As at 31 December 2020, 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, tender deposits and customs guarantees.

Other contingent liabilities

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

7.4 Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2020 and 31 December 2019 the Group had assets which constituted collateral for repayment of liabilities. The assets secure mainly correct performance of facility agreements.

Carrying amount of assets securing repayment of liabilities

	31/12/2020	31/12/2019
Other property, plant and equipment	237.0	247.0
Trade receivables	74.5	84.1
Cash	5.0	4.3
Total	316.5	335.4

7.5 Subsequent events

Significant events after the balance sheet date are described in [Notes 1.1, 4.2](#) and [5.9](#) of these Consolidated Financial Statements and in [Chapter 6.1](#) of the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020.

7.6 Approval of the financial statements

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 31 March 2021.

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 31 March 2021

Management Board's Report of the activities of **PKP CARGO CAPITAL GROUP** in 2020



PKP CARGO S.A.

with its registered office in Warsaw, ul. Grójecka 17, 02-021 Warsaw, registered in the District Court for the capital city of Warsaw, 12th Commercial Division under file number KRS 0000027702, with the share capital of PLN 2,239,345,850.00, paid up in full.

This document comprises the Report of the Management Board of PKP CARGO S.A. ("PKP CARGO", "Company", "Parent Company") on the activity of the PKP CARGO Group ("Group") and a report on the activity of the Parent Company.

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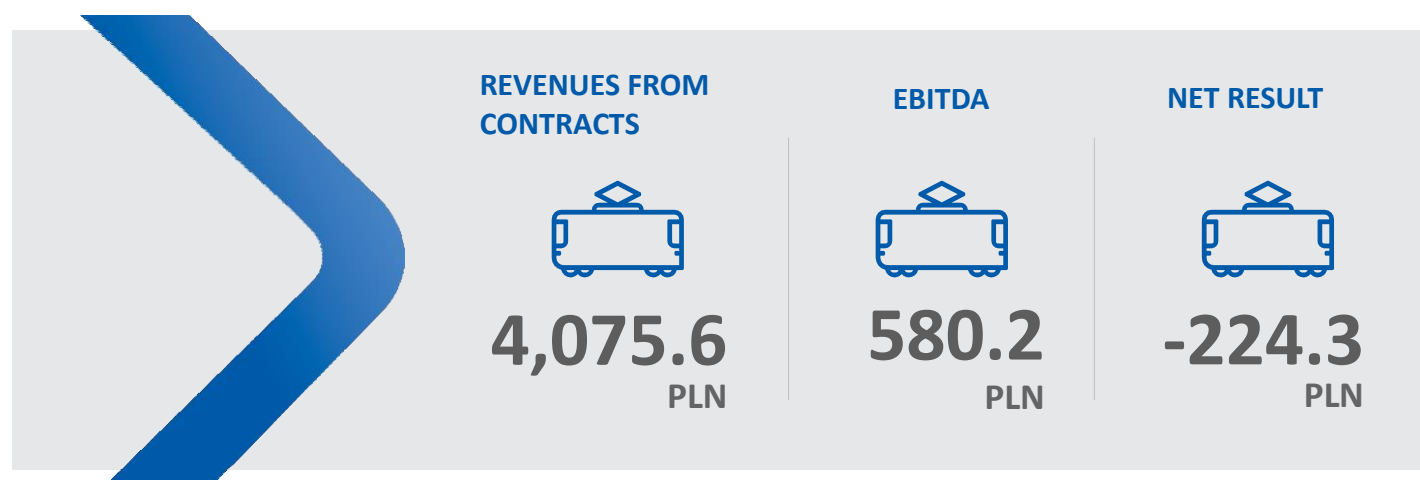
1. Introduction

Dear Stakeholders,

With the epidemic defining the situation in the transport sector in 2020, rail freight companies across Europe had to deal with unprecedented challenges. The PKP CARGO Group made every endeavor to come out of the crisis unscathed. After the difficult first half of the year, rail traffic improved in the second half and we want this trend to continue.

Throughout 2020, the PKP CARGO Group generated PLN 4.1 billion in revenues, with EBITDA at PLN 580.2 million, EBIT at PLN -186.4 million and a net loss of PLN 224.3 million.

In light of the challenging situation on the transportation market, in 2020 we made efforts to curtail losses by continuing and even intensifying savings and optimization measures across the Group.



2. Investor Relations

A key element of the effective operation of PKP CARGO S.A. as a stock exchange-listed company is the maintenance of professional communication with capital market stakeholders. A matter of priority in the Company's communication conducted within framework of its investor relations endeavors is to present to investors a reliable picture of the Company's operations, including its financial standing, to ensure equal access to information for all market participants.

In 2020, due to the coronavirus pandemic, communication with the market was seriously constrained:

Investor conferences	Inability to hold direct meetings with market representatives
Results conferences at the Company's head office	Conferences held solely online
International roadshows	Teleconference or videoconference
Shareholder Meeting at the Company's registered office	Availability of remote participation

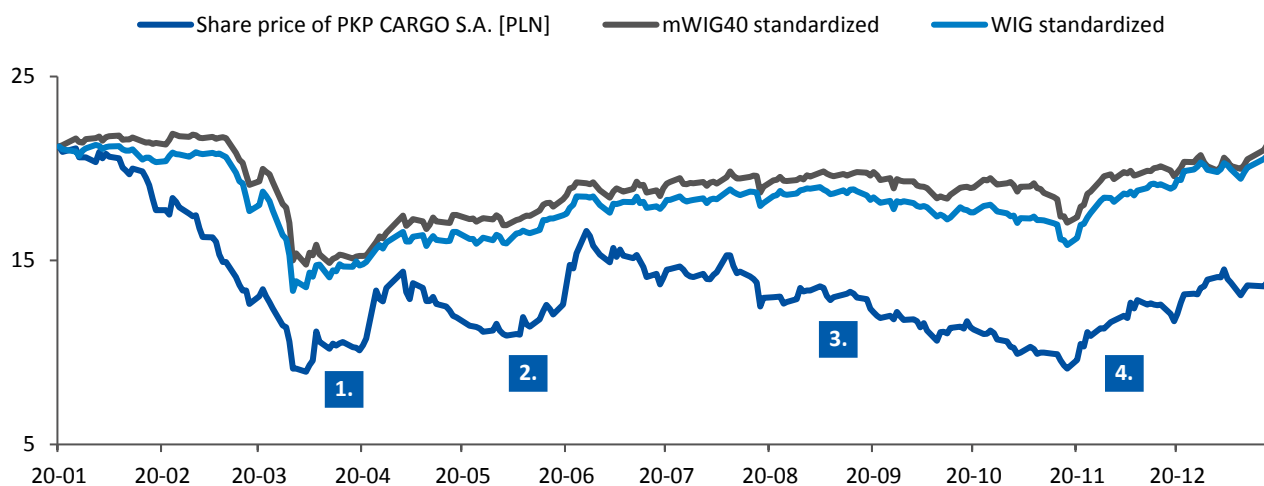
Despite the harsh market conditions in 2020, PKP CARGO S.A. managed to communicate actively with equity investors. Representatives of PKP CARGO S.A. participated in conferences and roadshows organized by professional capital market institutions. PKP CARGO S.A. organized 4 conferences to recapitulate its financial performance. The Company also held a series of meetings with representatives of Polish and international financial institutions.

PKP CARGO S.A. runs a corporate website containing a comprehensive section for investors. The "Investor Relations" section, in order to ensure equal access to information for Polish and international investors and analysts is provided and continuously updated in two languages: Polish and English.

For the purposes of conducting effective communication, the Company prepares additional materials that are published in the section dedicated to investor relations. These include: fact sheet, investor presentations and basic financial and operational data on each quarter available for download in Excel format.

The pandemic situation across the country also affected investors' confidence in companies listed on the Warsaw Stock Exchange. The following chart presents the stock exchange quotes for PKP CARGO S.A. in 2020 vis-à-vis the mWIG40 index.

Figure 1 Stock exchange quotes for PKP CARGO S.A. in 2020



Source: Proprietary material

1. Publication of 2019 results: 23 March,
2. Report for Q1 2020: 21 May,
3. Report for H1 2020: 20 August,
4. Report for the first three quarters of 2020: 20 November.

In 2020, to the Company's best knowledge, analytical reports on PKP CARGO S.A. stock were issued by eight domestic and foreign investment firms.

Table 1 Recommendations for PKP CARGO S.A. issued in 2020

Date of issue/update	Recommendation	Target price (PLN)	Price on the date of issue (PLN)	Institution
7 January 2020	Buy (upgraded)	30.60	20.90	Dom Maklerski Noble Securities
5 February 2020	Reduce (sustained)	16.40	17.50	Dom Maklerski mBanku S.A.
26 February 2020	Hold (upgraded)	13.89	13.66	Dom Maklerski mBanku S.A.
4 April 2020	Hold (downgraded)	14.20	12.90	Santander Biuro Maklerskie
5 May 2020	Hold (sustained)	12.37	11.46	Dom Maklerski mBanku S.A.
29 May 2020	Reduce (downgraded)	12.00	12.58	Santander Biuro Maklerskie
2 July 2020	Reduce (downgraded)	12.37	14.04	Dom Maklerski mBanku S.A.
2 September 2020	Hold (upgraded)	12.80	12.38	Dom Maklerski mBanku S.A.
20 November 2020	Buy (upgraded)	14.20	12.70	Santander Biuro Maklerskie
8 December 2020	Hold (sustained)	13.97	13.20	Dom Maklerski mBanku S.A.

From 2 January 2020, which was the first trading day in 2020, to 30 December 2020, which was the last trading day in 2020, the price of PKP CARGO S.A. stock fell 36.4%. 2020 was also a period of a steep decline in stock prices across the market due to the economic crisis caused by the COVID-19 pandemic. This phenomenon did not spare PKP CARGO shares. The lowest price for PKP CARGO shares, of PLN 8.95¹, was recorded on 16 March 2020. By 30 December 2020, this price rebounded by 53%, reaching PLN 13.70.² By comparison, from 12 March 2020 to 30 December 2020, the WIG index increased by 53%, and from 16 March 2020 to 30 December 2020, the mWIG40 index increased by 44%.

The Company's stock is included in the most important indices for companies listed on the regulated market operated by the Warsaw Stock Exchange, namely WIG, mWIG40, WIG-Poland and WIG-ESG. Also, the Company's stock is taken into account in the STOXX® Europe Total Market index.

¹ Reference to the values quoted at the close of the WSE trading session on the respective day

² Reference to the values quoted at the close of the WSE trading session on the respective day

3. Organization of the PKP CARGO Group

3.1. Highlights on the Company and the PKP CARGO Group³

The PKP CARGO Group is the biggest rail freight operator in Poland and one of the biggest in the European Union (“EU”). The Group’s development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport – UTK²) and it is the second largest operator on the Czech market (according to SZDC³).



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

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



³ Whenever the Report mentions:

- the Company, the Parent Company or PKP CARGO, it should be construed to mean PKP CARGO S.A.,
- the PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

² Office of Rail Transport

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

3.2. Consolidated entities

The Consolidated Financial Statements for the financial year ended on 31 December 2020 encompass PKP CARGO S.A. and 12 subsidiaries consolidated by the full method:

Table 2 Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o. (“PKP CARGO SERVICE”)	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o. (“PKP CARGOTABOR”)	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o. (“PKP CARGOTABOR USŁUGI”)	Collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of the report, the company does not conduct any operating activity.
PKP CARGO TERMINALE Sp. z o.o. (“PKP CARGO TERMINALE”) (formerly CL Medyka-Żurawica and CL Małaszewicze)	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company also has the ability to offer rail gauge switching services and as the only company on the country’s eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o. (“CARGOSPED TERMINAL BRANIEWO”)	Transshipment of goods and buying and selling of coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.
CARGOTOR Sp. z o.o. (“CARGOTOR”)	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o. (“PKP CARGO CONNECT”)	Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the Group.
PKP CARGO INTERNATIONAL a.s. (“PKP CARGO INTERNATIONAL”) (formerly Advanced World Transport a.s.)	Comprehensive handling of rail freight transport (the Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport (“last mile”). Rolling stock management in the PKP CARGO INTERNATIONAL Group.
AWT Rosco a.s. (“AWT Rosco”)	Cleaning of rail and automobile cisterns.
AWT Čechofracht a.s. (“AWT Čechofracht”)	International freight forwarding services.
AWT Rekulтивace a.s. (“AWT Rekulтивace”)	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
PKP CARGO INTERNATIONAL HU Zrt. (formerly AWT Rail HU Zrt) (“PKP CARGO INTERNATIONAL HU”)	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator’s license.

Additionally, a list of companies accounted for under the equity method is presented in [Note 5.3](#) of the Consolidated Financial Statements for the financial year ended 31 December 2020.

3.3. Organizational structure of PKP CARGO S.A.

PKP CARGO S.A.'s Management Board performs its tasks with the aid of reporting organizational units and their constituent organizational cells.

The following organizational units have been distinguished within the Company's organizational structure:

Company's Head Office

The key tasks of the Company's Head Office include supporting the operation of the Company's Management Board in the area of strategic, operational and financial management and handling the Company's affairs vis-a-vis its main clients and business partners, administration and coordination of the freight procedure. Departments of the Company's Head Office are organizational cells reporting to the President of the Management Board or individual Management Board members.

Units

The key tasks of the Units is to manage the resources in the area of their operations, organize and perform cargo deliveries in accordance with executed agreements using the rail freight procedure, transshipment, storage, transport with the use of other carriers, traction service of freights performed by the Company, lease of traction vehicles, repair of own rolling stock and provision of repair services, maintenance of technical equipment and workshop facilities and performance of the Company's objectives in the area of marketing and sales services.

The Units of the Company are as follows:

1. PKP CARGO S.A. Central Unit of the Company,
2. PKP CARGO S.A. Lower Silesian Unit of the Company
3. PKP CARGO S.A. Southern Unit of the Company
4. PKP CARGO S.A. Northern Unit of the Company
5. PKP CARGO S.A. Silesian Unit of the Company
6. PKP CARGO S.A. Eastern Unit of the Company
7. PKP CARGO S.A. Western Unit of the Company

3.4. Changes to the Company's basic management principles

In 2020, no changes were made to the basic management principles.

3.5. Description of changes in the Group's organization

In 2020, the following changes were made to the structure of capital ties:

- Effective as of 1 January 2020, there was a cross-border merger of AWT Reklivitace a.s. with its registered office in Havířov, Czech Republic (as the acquiring company) with its fully owned subsidiary AWT Reklivitace PL sp. z o.o. with its registered office in Cieszyn (as the acquired company). As a consequence, AWT Reklivitace PL sp. z o.o. was dissolved without liquidation (ended its legal existence) and, accordingly, as of 1 January 2020, ceased to be a related party of PKP CARGO.
- On 13 January 2020, an increase in the share capital of Centralny Terminal Multimodalny sp. z o.o. was registered, as a result of which the company's share capital increased to PLN 1,500,000 and, at the same time, the company's ownership structure and the distribution of votes at the Shareholder Meeting changed. Currently, the company's ownership structure is as follows: PKP CARGO S.A. holds a 99.83% stake (meaning that the company has once again become a subsidiary of PKP CARGO) and PKP S.A. holds a 0.17% stake.
- With effect as of 10 February 2020, AWT Rail HU Zrt. (a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s.) changed its business name and currently operates under the name PKP CARGO INTERNATIONAL HU Zrt. with its registered office in Budapest.
- On 13 June 2020, a final non-appealable court ruling was handed down to dissolve P.P.H.U. UKPOL Sp. z o.o. (at the time, a fully-owned subsidiary of PKP CARGO CONNECT sp. z o.o.) without conducting liquidation proceedings, as a

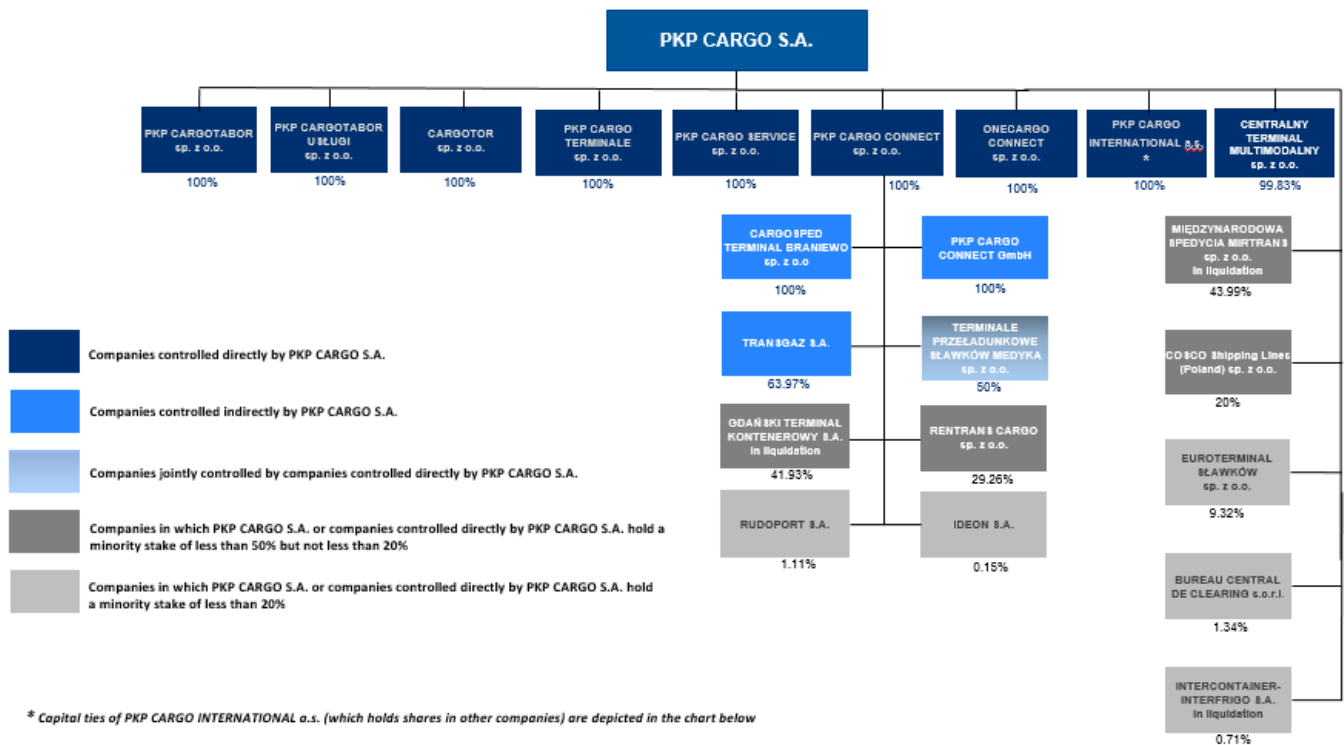
result of which the company ended its legal existence on 13 June 2020 and ceased to be a related party of PKP CARGO.

- With effect from 24 June 2020, a new name of AWT Rail SK a.s. with its registered office in Bratislava, Slovakia (a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s.) was registered in the business register of the Slovak Republic. Since 24 June 2020, the company has been operating under the business name of PKP CARGO INTERNATIONAL SK a.s. The amount of the company’s share capital and the stake in its share capital held by PKP CARGO INTERNATIONAL a.s. have not changed.

3.6. Information on capital ties of PKP CARGO

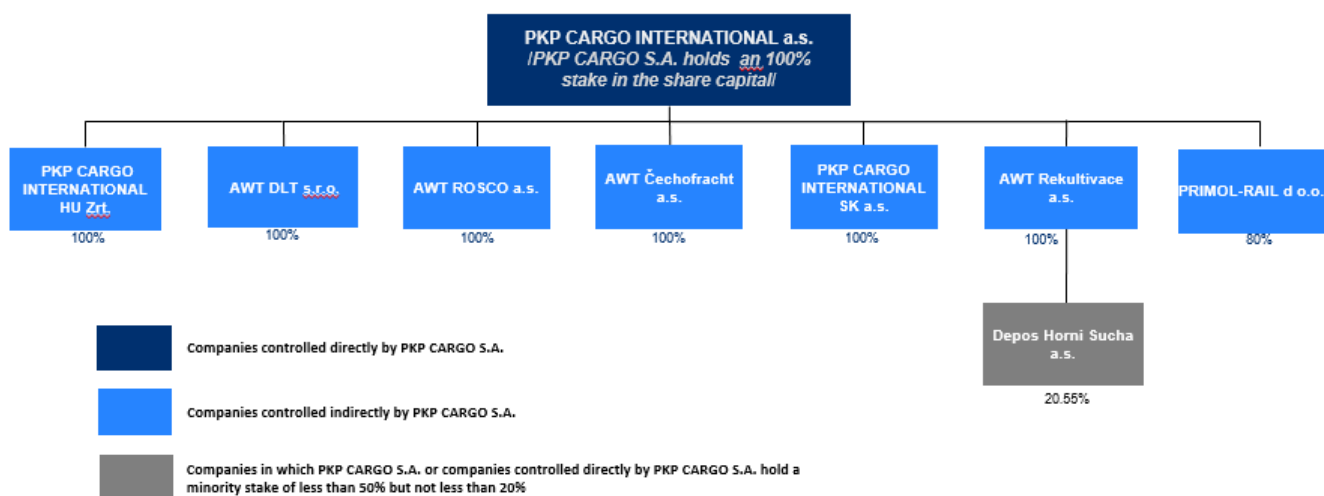
The chart below presents the structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 31 December 2020:

Figure 2 Structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 31 December 2020



Source: Proprietary material

Figure 3 Structure of the PKP CARGO INTERNATIONAL Group as at 31 December 2020



Source: Proprietary material

4. Key areas of operation of the Company and PKP CARGO Group

4.1. Macroeconomic environment



Polish economy

According to data published by Statistics Poland, in 2020 the Polish economy shrank by 2.7% yoy, preceded by a 4.5% yoy growth in 2019. It was the first year of economic recession recorded in Poland since the beginning of the 1990s.⁴ In 2020, the key factor affecting the rate of growth in GDP in Poland and in the macroeconomic environment was the COVID-19 pandemic (its evolution over time, manifesting itself not only by changes in the number of cases and hospitalizations, but also by temporary tightening or easing of restrictions on economic and social activity imposed as a counteracting measure).

According to data published by Statistics Poland, the main cause behind the decline in Poland's GDP in 2020 was domestic demand, in particular capital expenditures (-8.4% yoy, contribution to growth: -1.6 pp yoy) and household consumption (-3.0% yoy and -1.7 p.p. yoy, respectively).⁵ At the same time, the balance of inventories also made a negative contribution to GDP (-0.9 p.p. yoy). In turn, the following factors had an offsetting impact on the rate of decline in GDP: public consumption (+3.2% yoy – the only component of GDP with a positive year-over-year rate of growth, contribution to growth: +0.5 p.p. yoy) and the balance of trade (+1.0 p.p. yoy) as a result of a higher rate of decline in imports than that in exports (-0.5% yoy and -2.6% yoy, respectively).⁶

After a strong economic rebound in Q3 2020 (continuation of the “thawing” process in the economy following the lockdown period in April and May 2020, also supported by a decline in the number of infections, fiscal policy easing and improved consumer sentiments), Q4 2020 brought yet another deterioration in the economic situation and a decline in the rate of GDP growth in quarterly terms (-0.7% qoq) coupled with a deepened decline in annual terms (-2.8% yoy).⁷ This was caused, among other factors, by the restoration of restrictions on a number of sectors of the economy (trade, accommodation, food and catering, culture, entertainment, etc.) and a noticeable decrease in mobility in this period.⁸ However, the adverse impact of these restrictions on the rate of economic growth was significantly weaker than in the spring of 2020, partly due to the relative

⁴ Statistics Poland

⁵ Statistics Poland

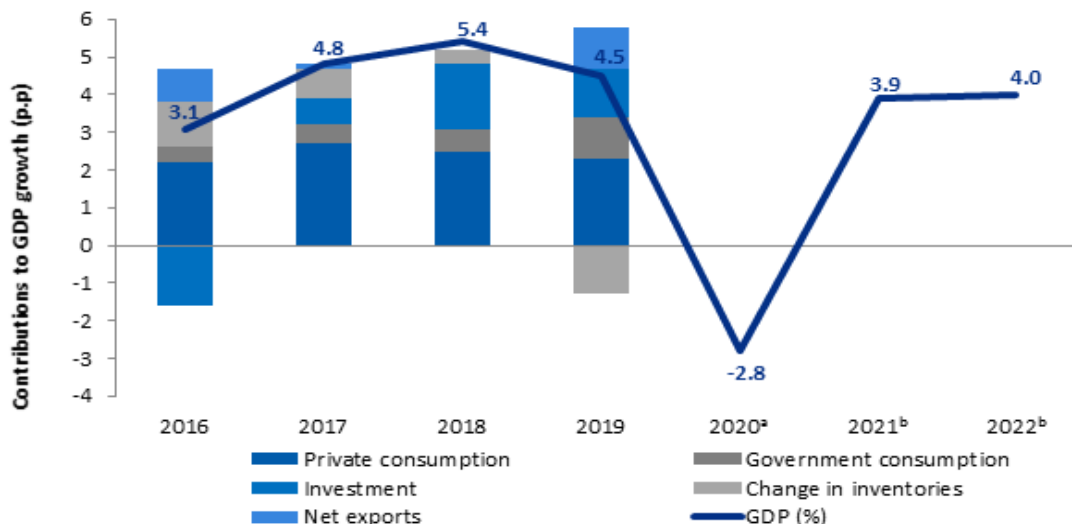
⁶ Statistics Poland

⁷ Statistics Poland

⁸ money.pl

resilience of export-oriented sectors, industry and construction (as was confirmed by clearly better-than-expected monthly data on economic activity, especially industrial output, in the period from October to December 2020).

Figure 4 Real GDP growth rate in Poland in 2016-2020, its decomposition and forecasts for 2021-2022 – data not adjusted for seasonality



a – median forecasts from the NBP’s macroeconomic survey carried out in December 2020; data without decomposition

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

According to analysts’ predictions collected in the NBP’s macroeconomic survey held in December 2020, the Polish economy is expected to return to an upward economic growth trend in 2021. On the other hand, an exacerbation of the COVID-19 pandemic, the pace of easing the restrictions imposed previously in Poland and the macroeconomic environment, and any disturbances that may occur in the vaccination process pose key risks for the assumed growth scenarios. According to the analysts surveyed by the NBP, in 2021 the rate of GDP growth in Poland is projected to reach 3.9% yoy, and in 2022 it will improve to 4.0% yoy.⁹

The key drivers of GDP growth in the coming quarters will probably include domestic demand, especially household consumption (caused by the anticipated improvement in consumers’ disposable incomes – a better situation on the labor market, a decline in the savings rate) and public consumption (e.g. an increase in health care expenditures due to the pandemic). According to analysts, a favorable contribution to GDP will also be made by the country’s balance of trade, due to a relatively high rate of growth in exports (with a good performance of the domestic industrial sector, especially in the branches with a dominant share of exports) coupled with a simultaneous decline in imports. The outlook for investments is the weakest, according to economists, with a likely low rate of growth predicted for this field (partly due to the continuing high degree of uncertainty and only a moderate rebound in demand, the currently low level of utilization of production capacity, a dampened willingness to make long-term commitments, a deteriorated financial standing of a large group of entities and the transition period between the old and the new EU budgets – expenditure perspectives for 2014-2020 and 2021-2027).¹⁰

The analysts surveyed by the NBP also expect a decline in the average annual consumer price inflation (CPI) in Poland from 3.4% yoy in 2020 to 2.5% in 2021 and 2.5% in 2022.¹¹ In their opinion, the decline in the CPI inflation rate to a level consistent with the NBP’s inflation target (2.5%) will be driven by lower demand and weaker wage pressures in the economy, translating into a decline in core inflation, stabilization of oil prices at lower levels and cheaper food (abundance of crops). In turn, factors contributing to a higher inflation will include increases in energy prices (the introduction of the capacity fee), regulated prices (including a further increase in the waste collection fee) and the introduction of the sugar levy.¹²

⁹ National Bank of Poland

¹⁰ “Gazeta Giełdy Parkiet”

¹¹ National Bank of Poland

¹² National Bank of Poland

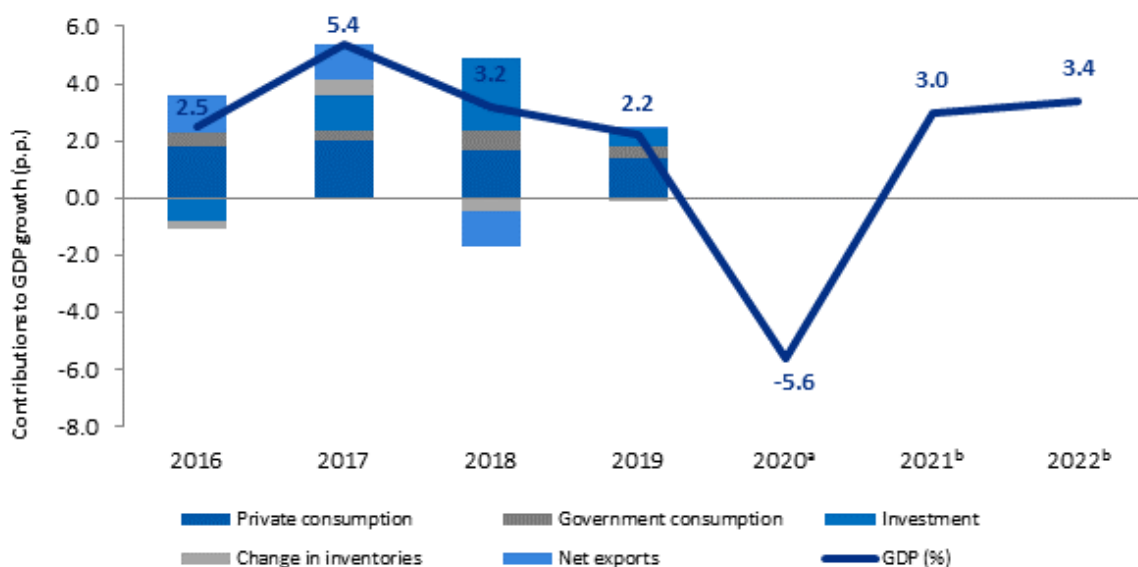
Czech economy



According to preliminary data published by the Czech Statistical Office (CZSO), in Q4 2020, the country’s rate of GDP growth was +0.3% qoq, compared to +6.9% qoq in Q3 2020.¹³ At the same time, in annual terms, the rate of decline in GDP stabilized at the Q3 2020 level of -5.0% yoy.¹⁴ Despite another strong wave of the COVID-19 pandemic, the deterioration of the epidemiological situation and the restoration of some of the previously imposed restrictions on business activity (affecting chiefly the service sectors and retail trade), the performance of the Czech economy turned out to be significantly better than the earlier forecasts of Ministry of Finance economists (-1.5% qoq and -6.8% yoy, respectively) and the market consensus.¹⁵ According to analysts, the better-than-expected GDP data in Q4 2020 resulted, without limitation, from a strong improvement in the performance of export sectors (the industrial sector in particular).¹⁶ According to data published by CZSO, throughout 2020 the Czech economy shrank by 5.6% yoy, preceded by a 2.2% yoy growth in 2019. It was the largest annual rate of decline in the whole history of CZSO data.¹⁷

The very sharp year-over-year decline in Czech GDP in Q4 2020 and the whole 2020 was largely due to the plunge in domestic demand, especially investment projects (a decline in expenditures in essentially all distinct subgroups, related to the optimization of expenditures and a high degree of uncertainty regarding the scale and the pace of recovery of future demand) and household consumption (due to a slower rate of growth in real disposable income and a sharp increase in the savings rate – to a markedly higher level than during previous crises).¹⁸ A negative contribution to GDP was also made by the balance of trade (especially in H1 2020) and inventories. In the same period, the decline in GDP was partly offset by public consumption, which was probably the only component of GDP to record a positive year-over-year rate of growth.¹⁹

Figure 5 Real GDP growth rate in the Czech Republic in 2016-2019 and forecasts for 2020-2022– data adjusted for seasonality



a – Initial CZSO estimate; b – macroeconomic forecasts of the Ministry of Finance of the Czech Republic – January 2021

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

According to the latest macroeconomic forecasts published in January 2021 by the Czech Ministry of Finance, its economists expect the economic situation to improve in 2021. In the baseline scenario, the Ministry of Finance analysts expect a gradual lifting of the previously imposed restrictions and a steady normalization of economic life in the Czech Republic starting from Q2 2021, which, in combination with the global vaccination efforts and the forecasted economic recovery across the world,

¹³ Czech Statistical Office, seasonally adjusted data
¹⁴ Czech Statistical Office, seasonally adjusted data
¹⁵ Czech Statistical Office, seasonally adjusted data
¹⁶ Czech Republic’s Ministry of Finance
¹⁷ Czech Statistical Office, seasonally adjusted data
¹⁸ Czech Republic’s Ministry of Finance
¹⁹ Czech Republic’s Ministry of Finance

should translate into a perceptible increase in the Czech GDP throughout 2021. At the same time, the Ministry of Finance economists emphasize that an exacerbation of the global pandemic situation, for instance due to delays or other difficulties in the rollout of the vaccination process will be of key significance in determining the rate of economic growth in the Czech Republic and the macroeconomic environment in the coming quarters.²⁰

In the baseline scenario, the economists of the Czech Ministry of Finance predict that the country's rate of GDP growth in 2021 will increase to 3.0% yoy. According to these analysts, the key driver of GDP growth in this period will be domestic demand, in particular individual consumption (an increase by 3.3% yoy, partly due to a reduction in the effective tax rate on personal income and the anticipated decline in the savings rate), public consumption (+2.9% yoy) and capital expenditures (+3.8% yoy, partly due to stronger demand, the need for replacement investments and the launch of public investment projects co-financed under the EU structural funds). According to analysts of the Ministry of Finance, the contribution of the balance of trade to GDP will remain slightly negative due to a higher rate of growth in imports than that in exports. According to the Ministry of Finance's economists, the Czech economy will remain on the growth path in the coming years, with GDP growing at a rate of 3.4% yoy in 2022 and 2.3% yoy in 2023.²¹

In 2020, the average annual rate of increase in CPI in the Czech Republic was 3.2%, compared to 2.8% in 2019. The higher inflation rate in this period was caused predominantly by an increase in unit labor costs, a sharp depreciation of the Czech koruna (reflected in an increase in the prices of imported goods, including raw materials) as well as increases in regulated prices (including housing maintenance costs) and food prices. In turn, lower demand pressure provided a countering force to the increase in prices. At the same time, in December 2020, the rate of increase in CPI fell significantly and stood at 2.3% yoy. For the coming quarters, economists of the Czech Ministry of Finance predict a further decline in the inflation rate towards the target rate set by the Czech National Bank (2.0% yoy). According to the forecasts presented by analysts of the Ministry of Finance, the CPI inflation rate in the Czech Republic in 2021 will be 1.9% yoy on average, partly owing to weaker demand and, especially, lower wage pressures coupled with the expected appreciation of the Czech currency. Also in the following years, economists of the Ministry of Finance expect CPI inflation to stabilize at a level close to the central bank's target, that is at 2.0% in 2022 and 1.9% in 2023.²²

Industry in Poland



According to preliminary data published by Statistics Poland, in 2020 the growth rate of total industrial output decreased by -1.7% yoy (vis-à-vis an increase by +5.1% yoy in 2019).²³ The severe downturn in the industrial sector was affected mostly by the COVID-19 pandemic and the related restrictions imposed on economic activity in Poland and abroad.

In 2020, in enterprises employing more than 9 staff, sold industrial output also declined. The impact of the pandemic on the industrial sector was particularly perceptible in the Q2 2020 data, reflecting a deep slump in industrial output (by -13.6% yoy), following a slight increase in Q1 (by +0.9% yoy). In the second half of the year, industrial output grew significantly, showing no major adverse impact of the second wave of the pandemic (+3.2% yoy in Q3 and +5.2% yoy in Q4). Ultimately, despite the impact of the COVID-19 pandemic in Poland and the macroeconomic environment, the imposition of stricter restrictions across the country and the risk of weakened demand generated by companies and consumers, industrial output in 2020 was only 1.0% lower than in 2019, when there year-over-year increase reached 4.0%.²⁴ The increase in industrial output was still largely driven by export industries (caused by the gradual recovery in global trade).

In 2020, sold industrial output was lower in year-over-year terms in most sectors, of which the largest decline, by -7.0%, was recorded in mining and quarrying (compared to an increase by 1.1% in 2019). Sales also declined in manufacturing by -1.0% yoy (this sector accounts for approx. 90% of total industrial output) and in the production and supply of electricity, gas, steam and hot water by -1.9% yoy. In this period, an increase was recorded only in water supply, sewage and waste management, and land reclamation by +6.9% yoy. In most major industrial groupings, output decreased, of which the largest decline was experienced in the production of capital goods – by -7.7% yoy. The output of energy-related goods and non-durable consumer

²⁰ Czech Republic's Ministry of Finance

²¹ Czech Republic's Ministry of Finance

²² Czech Republic's Ministry of Finance

²³ Statistics Poland

²⁴ Statistics Poland, enterprises employing more than 9 persons

goods decreased by -5.4% yoy and -0.2% yoy, respectively. Year-over-year sales grew only in the production of durable consumer goods and intermediate goods – by +3.5% and +1.1%, respectively.²⁵

Among the sectors of key importance from the perspective of potential freight services to be provided by the PKP CARGO Group, a decrease in industrial output yoy in 2020 was recorded, among others, in the manufacture of vehicles and car parts (-13.5% yoy), hard coal and lignite mining (-16.1% yoy), machinery and equipment (-11.3% yoy), metals (-11.4% yoy), coke and refined petroleum products (-9.0% yoy) and products made of other non-metallic raw materials (-0.3% yoy). Meanwhile, increases were recorded in wood products (+4.9%), chemicals and chemical products (+2.8%), paper and paper products (+2.7%), metal products (+1.8%), rubber and plastic products (+1.3%) and furniture (+1.0%).²⁶

Clear symptoms of a rebound in industrial activity in Poland were observed in the last months of 2020. In December 2020, the volume of industrial output in Poland increased by as much as 11.2% yoy (vis-à-vis an increase by 5.4% yoy in November 2020 and the spring market uncertainty with April's result at -25% yoy). In December 2020, the rate of growth in Poland's industrial sector reached the highest level since October 2017 and was higher than the expectations of analysts and the median of market forecasts (8% yoy). Although the very good level of industrial output in December 2020 was partly due to calendar factors (improvement in the ratio of work days to days off; in seasonally adjusted values, an increase in output by 7.1% yoy) and the statistical effect of a low reference base for December 2019, the economic situation in the domestic industry at yearend 2020 deserves credit, especially in the context of the ongoing economic crisis caused by the pandemic. The increase in industrial output in December 2020 was driven chiefly by the industrial processing segment (+12.8% yoy), primarily by branches with a high share of output earmarked for exports (production of furniture and electrical and electrotechnical devices), but also by industries related to construction and those selling their products predominantly on the domestic market. A year-over-year growth was also recorded in mining and extraction of raw materials (+9.7% yoy).²⁷

In December 2020, an increase in industrial output was recorded in 28 out of 34 branches of industry classified by Statistics Poland. Industries with higher year-over-year output included: wood and wood products (+22.0% yoy), metal products (+15.0% yoy), products made of other non-metallic raw materials (+12.3% yoy), chemicals and chemicals products (+10.3% yoy), and motor vehicles, trailers and semi-trailers (+9.0% yoy). Year-over-year decreases were recorded, among others, in coke production and crude oil refining products (-4.8% yoy) and the production of metals (-3.3% yoy). In December 2020, the volume of output in the construction segment increased in year-over-year terms for the first time since March 2020, with a 3.4% rate of growth yoy.²⁸

The latest values of the Purchasing Managers' Index (PMI) for industrial processing indicate a slight deterioration of the economic situation in the industrial sector in Poland and also reflect the impact of the COVID-19 pandemic on economic processes. In 2020, the PMI decreased to an average level of 47.1 points (specifically, 46.0 points in Q1, only 39.9 points in Q2 2020, as much as 51.4 points in Q3 and 51.1 points in Q4) from the average of 47.9 points in 2019 (values below 50.0 points signify an anticipated economic downturn and recession, while values above this mark are indicators of an anticipated recovery in the industrial processing sector). The worst value of the PMI in 2020 was recorded in April, when it fell to 31.9 points. On average, in H2 2020, the PMI for Poland stood at 51.3 points and in each of the period's months it was not only above the 50.0-point threshold but also above its long-term average (of 50.3 points). In December 2020, the PMI for the industrial processing sector in Poland increased to 51.7 points, from 50.8 points in November 2020. The perception by the surveyed companies of the current production problems as temporary is alluded to chiefly by the component indicating the expected level of output in the coming 12 months. In December 2020, it reached the highest value since May 2018 and at the same time was significantly above the long-term average.²⁹

In 2020, the business tendency indicator for industrial processing published by Statistics Poland (GUS) stood at -13.6 points on average compared to +3.2 points in 2019 (a value below the 0.0 point threshold means that more companies expect a downturn than improvement in the sector). After Q1 2020, the business tendency indicator for industry published by GUS was still positive (+1.2 points), but in Q2 it spiraled down to as much as -33.0 points (in April alone, it plummeted to -44.2 points, which was its lowest value ever). However, Q3 2020 brought much better results, although the trend still remained negative (-7.8 points). In Q4 2020, the business tendency indicator published by Statistics Poland for the industrial processing sector in Poland continued and even deepened its downward trend and fell to an average of -15.0 points in this period.³⁰

²⁵ Statistics Poland

²⁶ Statistics Poland

²⁷ Statistics Poland

²⁸ Statistics Poland

²⁹ Markit IHS

³⁰ Statistics Poland

However, in 2020, the situation of the domestic industry remained affected by the consequences of the COVID-19 pandemic and the related economic and social restrictions imposed in order to curb the further spread of the epidemic. The market experienced a general decline in demand, additionally exacerbated by the uncertainty of the future situation and the absence of market predictability. As the number of infections surged, the uncertainty about the future economic situation increased. The imposition of lockdowns translated directly into a reduction in household consumption and corporate investment. These factors certainly exerted an adverse impact on the rate of industrial growth and suppressed the rebound in production. Due to the restoration of restrictions in a number of sectors of the economy in Q4 2020 (including trade, accommodation and food and catering), a new economic downturn was expected in this period. However, the adverse impact of these restrictions on the rate of industrial growth was significantly weaker than in the spring of 2020, partly due to the relative resilience of export-oriented sectors and construction.

The future evolution of the COVID-19 pandemic in Poland and the global economy will remain a key determinant of the rate of growth of the Polish industry, and the degree of recovery of the industrial output level and its rate of growth will depend on how the epidemic situation develops both domestically and across the world. However, taking into account the resilience of Poland's industrial sector prior to the second wave of the COVID-19 pandemic and the launch of the vaccination campaign, it may be expected that in the coming months the positive rate of growth in industrial output in Poland will be upheld (along with its significant increases at the beginning of Q2 2021 due to record low reference base).

In 2020, other factors significantly affecting the condition of the industries of key importance (from the perspective of the PKP CARGO Group's potential business) included:



Mining industry

- decline in hard coal output in 2020 vis-à-vis 2019 by 7.2 million tons to 54.4 million tons (-11.7% yoy). The second half of the year brought only a slight drop in the noticeably negative rate of growth in hard coal extraction in Poland, which after H1 2020 was at -14.0% yoy. During the year, a positive rate of growth in output was recorded twice: in February (+3.2% yoy) and in December (+0.6% yoy). The weakest month was May, with output at a level of 3.2 million tons (-39.4% yoy – due to lockdown-related restrictions followed by temporary stoppages of mining operations), while the highest output was recorded in January (5.2 million tons), followed by March and December (5.0 million tons each);³¹
- decrease in hard coal sales in 2020 by 5.5 million tons yoy (-9.4% yoy) down to 53.0 million tons. The total sales of hard coal in this period turned out to be lower than output by 1.4 million tons, which in turn translated into an increase in inventories. From January to September 2020, sales of hard coal continued a downward trend compared to the corresponding period of 2019. Q4 brought a rebound and an increasingly stronger upturn in sales of this commodity (+0.1% yoy in October, +3.5% yoy in November and +13.0% yoy in December), which was above 5 million tons in each of these months;³²
- persistent high volume of hard coal inventories in storage yards. As at the end of December 2020, 6.2 million tons of this commodity were collected in storage yards, up 19.2% yoy from 5.2 million tons of inventories in December 2019. The volume of coal in storage yards decreased significantly at the end of the year owing to the good December results generated by the industry. In November 2020, the volume of coal in storage yards was 6.4 million tons (+32.6% yoy). In August 2020, it was even as much 7.9 million tons (+61.4% yoy), which meant that hard coal inventories in Poland increased by 1.6 million tons from the beginning of 2020 (in January 2020, they stood at 6.3 million tons).³³ Coal sales were higher than output in May and June 2020 (when the effects of the pandemic were experienced the hardest and these were the months with the historically lowest volume of coal production and sales in Poland) as well as during the last 4 months of the year, which in effect enabled a reduction in the volume of coal inventories kept in storage yards. After the first 3 quarters of 2020, coal inventories kept in mine storage yards totaled nearly 8 million tons (of which 0.5 million tons was coal purchased but not collected by the power sector). Another 13 million tons of coal was stored by power plants and cogeneration plants, and an estimated 2 million tons was stored by small buyers (accordingly, total coal inventories stood at 23.5 million tons, a volume equal to 6-month demand of the whole country);³⁴

³¹ Industrial Development Agency (ARP)

³² Industrial Development Agency (ARP)

³³ Industrial Development Agency (ARP)

³⁴ Wysokie Napięcie [High Voltage]

- very sharp decline in hard coal imports in the first 11 months of 2020, to 11.6 million tons (-22.4% yoy). From the beginning of 2020, a constant downward trend in imports continued – the largest yoy decreases were recorded in April (-54.4% yoy) and in February (-46.7% yoy), whereas since May the rate of decline clearly diminished. The only month in 2020 with a positive year-over-year growth in coal imports was September, when coal imports increased by 6.5% yoy. During this period, the commodity was imported predominantly from Russia (-14.4% yoy to 8.4 million tons, accounting for 72.3% of total imports to Poland), Australia (-50.7 % yoy to 0.8 million tons), Colombia (-5.7% yoy to 0.8 million tons) and Kazakhstan (+3.0% yoy to 0.8 million tons);³⁵
- downward trend in hard coal prices on the international market. In 2020, the average coal price in the European ARA ports (Amsterdam, Rotterdam, Antwerp) was USD 54.7 per ton (compared to USD 66.6 per ton in 2019), down 17.8% yoy. In Q1 2020, the average price of ARA coal was USD 56.2 per ton compared to USD 80.6 per ton in Q1 2019 (-30.3% yoy). In Q2 2020, it plunged to USD 49.8 per ton compared to USD 66.0 per ton in Q2 2019 (-24.6% yoy). The decrease in coal prices in 2020 was driven down, among other factors, by the misalignment of supply and demand combined with an increase in energy generation from renewable sources (chiefly wind farms), low gas prices and unfavorable forecasts as to demand for this commodity. Q3 heralded a rebound, and the average ARA coal price reached USD 54.4 per ton (-12.4% yoy). The end of the year on international markets already brought a marked improvement in market participants' sentiments, accompanied by an increase in coal prices in the European ARA ports. In Q4, for the first time in 2020, coal prices in the ARA ports increased in year-over-year terms (reaching USD 58.7 per ton, or +0.9% yoy);³⁶
- further increase in domestic coal indices for commercial power plants (PSCMI 1) and the heating industry (PSCMI 2). In 2020, the average value of PSCMI 1 was PLN 265.64 per ton (+1.6% compared to 2019 and +10.9% compared to 2018). PSCMI 2 for the heating industry in 2020 reached PLN 316.52 per ton (+2.2% compared to 2019 and +7.4% compared to 2018). In quarterly terms, in Q4 2020 alone, the average value of the domestic coal index for the power sector was PLN 258.15 per ton (-2.9% compared to the previous year). However, in Q4 2020, PSCMI 1 decreased by as much as -16.0% quarter-over-quarter. The average value of PSCMI 2 for the heating industry in Q4 2020 was PLN 300.63 per ton (-2.2% compared to Q4 of the previous year and -5.0% compared to Q3 2020);³⁷
- decrease in electricity consumption in Poland in 2020 by 2.3% yoy to 165.5 TWh (particularly conspicuous in Q2 2020, when it slid by as much as -8.5% yoy). This was related to the economic lockdown introduced to counteract the COVID-19 pandemic (causing lower demand for electricity from industrial enterprises). After the sudden slump in electricity demand in Poland in the first half of 2020, demand for electricity started to normalize in July 2020, and the rate of decline in energy consumption significantly decelerated (to -2.9% yoy in July and -1.2 % yoy in August). Starting in September 2020, in the following months of the year, year-over-year increases in electricity consumption were recorded;³⁸
- major decrease in total electricity output in 2020 by 4.1% yoy to 152.3 TWh, including in hard coal-fired commercial power plants by 8.5% yoy and in lignite-fired power plants by 8.5% yoy, with a concurrent significant increase in electricity generated from other sources, including gas-fired power plants by 15.1% yoy and wind farms by 2.0% yoy. After the first 10 months of 2020, the decrease in energy output from hard coal remained at 12%. However, the last two months of the year brought a clear rebound of this trend (an increase in energy output from hard coal by nearly 4% yoy in November and by 11% yoy in December 2020);³⁹
- changes in the national energy mix unfavorable for hard coal – decrease in the share of hard coal in total energy output in 2020 to 47.0% (-2.3 p.p. yoy);⁴⁰
- rapid increase in electricity imports, compensating for the lower domestic output. Electricity prices in neighboring countries are currently at a significantly lower level than in Poland, which translates into improved profitability of imports. In 2020, the balance of trade stood at 13.2 TWh, or +24.5% yoy. Net electricity imports to Poland were the highest ever and accounted for as much as 8.0% of the country's total energy consumption (+1.7 p.p. yoy);⁴¹

³⁵ Eurostat

³⁶ Industrial Development Agency (ARP)

³⁷ Industrial Development Agency (ARP)

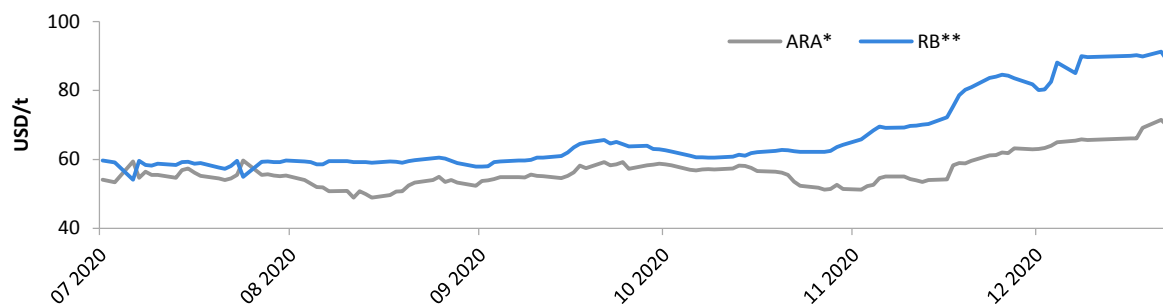
³⁸ Polskie Sieci Elektroenergetyczne

³⁹ Polskie Sieci Elektroenergetyczne

⁴⁰ Polskie Sieci Elektroenergetyczne

⁴¹ Polskie Sieci Elektroenergetyczne

Figure 6 Current and historical values of coal price indices on the European ARA* vs. RB** markets

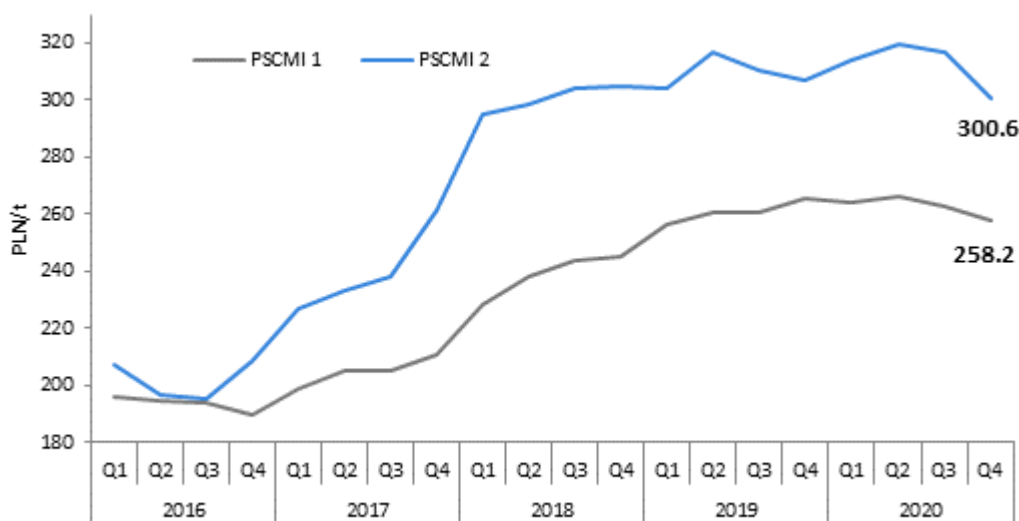


* ARA – Amsterdam, Rotterdam and Antwerp;

** RB – Richards Bay (South Africa)

Source: Proprietary material based on Virtual New Industry data

Figure 7 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



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



Construction industry

- in 2020, the country's construction and assembly output declined by approx. 2.0% yoy (preceded by an increase by 4.8% in 2019)⁴²; in entities employing more than 9 staff, the decrease was -2.2% yoy (up by 2.6% in 2019).⁴³ This was a consequence of the decline in the rate of growth, especially in the second half of the year. After three years of growth, a slowdown in the industry can clearly be seen, coupled with a weaker overall economic situation.
- in 2020, only the volume of output by entities dealing mainly with specialist works was higher than in 2019 (up 1.3% yoy). In turn, a decline in construction and assembly output was recorded in entities dealing mainly with the construction of civil engineering structures and the construction of buildings (down 2.0% and 4.9% yoy, respectively).⁴⁴ A decrease in construction and assembly output compared to 2019 was recorded in all groups of the category of works related to the construction of civil engineering structures. The largest drop in output was posted by units specializing in the construction of other civil engineering structures (-8.1% yoy), but also by the

⁴² Statistics Poland (preliminary estimate for the whole population)

⁴³ Statistics Poland

⁴⁴ Statistics Poland, enterprises employing more than 9 persons

group accounting for the largest share in this section's output, namely companies specializing in the construction of roads and railways (-1.5%).⁴⁵ In 2020, sales of renovation works were 4.0% lower than in 2019 (when such sales increased by 2.1% yoy), whereas sales of investment works dropped by 1.1% yoy (compared to an increase by 3.0% the year before).⁴⁶

- in 2020, cement production in Poland was 18.7 million tons, having remained at the same level as in 2019. The production of cement clinker increased by 1.3% yoy (to 14.4 million tons).⁴⁷ The performance of the cement industry surpassed market expectations, with Poland, Germany and other Central European countries less affected by the consequences of the pandemic in the construction industry than Western Europe. The residential construction sector was the strongest driver of demand for cement in 2020 (with 222 thousand apartments commissioned for occupancy, up 7% yoy, breaking the previous record of 200 thousand apartments set in 1980). The segment's outstanding performance were also reflected in a good situation in road and rail investments;⁴⁸
- despite the pandemic, 2020 was a relatively good year for the whole construction sector and the cement industry. Throughout 2020, the construction sector remained more resilient to the economic crisis caused by the pandemic than other industries, such as mining and metallurgy. In this period, sales of construction and assembly output for the motorway and expressway construction segment and for the rail road construction segment increased by 2.6% yoy and 8.2% yoy, respectively.⁴⁹ Demand for aggregates and other construction materials in Poland is driven by large infrastructural investment projects executed within the framework of the "National Road Construction Program" and the "National Railway Program". The segment of large infrastructural investment projects turned out to be relatively impervious to the adverse impact of the COVID-19 pandemic;
- in 2020, the General Directorate for National Roads and Motorways (GDDKiA) completed 96 projects with a total length of over 1,225 km. 138 km of new roads were commissioned for traffic. Tenders were announced for a total of 48 sections with a total length of 600 km and an estimated value of approx. PLN 21 billion (35 projects under the National Road Construction Program with a total length of 493 km and 13 ring roads under the Program for the Construction of 100 Ring Roads for 2020-2030 with a total length of 107.1 km). From 1 January to 31 December 2020, GDDKiA signed 35 contracts for the construction of roads with a total length of 450 km worth PLN 18.1 billion (including 32 projects under the National Road Construction Program with a total length of 430.2 km and a value of PLN 17.7 billion, and three ring roads under the Program for the Construction of 100 Ring Roads, with a total length of 19.9 km and a value of PLN 420 million). In 2020, 9 grant agreements were signed, and GDDKiA became the beneficiary of a total of 70 projects covered by EU funding under the Operational Program Infrastructure and Environment 2014-2020. The total value of these investment projects is in excess of PLN 79 billion. Approximately 88% of EU funds made available to GDDKiA have been allocated to investment projects for which contracts have been signed. According to GDDKiA, the COVID-19 pandemic did not exert a major impact on the progress of construction works. In 2020, a total of PLN 18.3 billion was spent on such projects, up by PLN 4.6 billion compared to 2019;⁵⁰
- in December 2020, the EU budget for 2021-2027 (along with the Reconstruction Fund) was adopted, creating an opportunity for the Polish economy to become one of its main beneficiaries. Poland is expected to receive approx. PLN 770 billion (including grants and low-interest loans from the Reconstruction Fund), of which approximately PLN 300 billion should be allocated to infrastructural investments (in road and rail projects). It will provide an opportunity for the development of the construction market across the country and an increase in the volume of freight available for transport for the construction segment;

⁴⁵ Statistics Poland, enterprises employing more than 9 persons

⁴⁶ Statistics Poland, enterprises employing more than 9 persons

⁴⁷ Statistics Poland

⁴⁸ WNP

⁴⁹ Statistics Poland

⁵⁰ General Directorate for National Roads and Motorways



Steel industry

- significantly reduced demand for steel and metallurgical products in Poland and in the macroeconomic environment, intensified by the consequences of the global pandemic, translated in 2020 into a decline in the overall production volume or the shutdown of some production units by domestic producers of coke. This caused a major decrease in the quantum of products transported for the metallurgical sector and commodities consumed in the steel production process (iron ores, coke). However, the end of the year brought a noticeable recovery in industry and the steel sector;
- decrease in global steel production in 2020 to 1,829.1 million tons (-0.9% yoy).⁵¹ Steel production in the European Union declined to 138.8 million tons (-11.8% yoy). At the same time, steel production in Asia reached 1,351.1 million tons (+1.6% yoy). In 2020, steel exporting countries generated much better results than the EU producers (steel output in China went up +5.2% yoy). However, the steel market is slowly making up for the losses caused by the lockdown. In December 2020, global steel output totaled 160.9 million tons, up +5.8% yoy (of which the European Union managed to achieve an increase in output by as much as +10.2% yoy). However, the competitiveness of the European steel industry is weakened by imports of steel products, coupled with high energy prices and additional fees imposed on the steel sector;⁵²
- decline in crude steel output in Poland in 2020 by -12.5% yoy to 8.0 million tons and, among others, in the volume of manufactured hot-rolled products by -8.3% yoy to 8.5 million tons, cold-rolled sheets by -8.6% yoy to 2.0 million tons, thin sheets by -9.1% yoy to 1.1 million tons, and bars and flat bars by -7.5% yoy to 3.4 million tons. In December, for the first time in 2020, an increase in steel output was recorded in the country (+2.6% yoy)⁵³, in line with the trend of the market's forecasted rebound;
- decline in coke production in Poland in 2020 by -12.7% yoy to 7.7 million tons. However, this area also demonstrated certain symptoms of recovery at the end of the year: in November, for the first time in 2020, coke production improved in year-over-year terms (+5.1%), whereas in December the increase was already at +16.4% year-over-year and +5.7% month-over-month;⁵⁴
- permanent shutdown of the raw material part of the Krakow steelworks (blast furnace and steel plant) by the country's largest supplier of steel products. The reason for the decommissioning of the blast furnace, in addition to the impact of the pandemic, the unfavorable economic situation on the steel market and very limited demand, was also the troubled macroeconomic situation coupled with the high costs of CO₂ emissions, rising electricity prices and the imposition of additional fees in the capacity market starting in 2021.⁵⁵
- another major factor currently affecting the output of the steel sector in Poland and the European Union is an insufficient degree of protection measures taken against imports from third countries (including the Commonwealth of Independent States) that are not subject to EU climate requirements. Of key significance for the future of the steel industry in the European Union will be the adoption of a carbon levy, which will mark a turning point for the whole European steel industry. As the costs of carbon dioxide emissions in the EU are rising at a breathtaking pace, the announced levy will involve the inclusion of carbon footprint in the prices of imported products, which will create a certain barrier for cheap products from outside the EU (for instance, from China) and will certainly form a significant advantage for Polish steel companies;
- the good industrial performance at the end of 2020, the already noticeable rebound in demand and the increases in the prices of metallurgical products are harbingers of hope for a tangible recovery in the steel market and for a major improvement in the industry's results in 2021. In Europe, certain steel-producing furnaces have been closed (e.g. the one in Kraków). For this reason, as demand starts to rebound, the market is likely to experience shortages in output (which was already noticeable in Q4 2020 and led to a sudden increase in steel prices to the levels previously recorded in 2018). The steel sector's anticipated good performance in 2021 will certainly be driven partly by state aid programs aimed at rebuilding the economy after the pandemic, which will stimulate growth in demand for steel. The situation and potential of the automotive market, which normally is a significant consumer of steel but has suffered a major blow due to the pandemic (in 2020, new car registrations plummeted by 20% in Europe),

⁵¹ World Steel Association

⁵² World Steel Association

⁵³ Statistics Poland

⁵⁴ Statistics Poland

⁵⁵ Wirtualny Nowy Przemysł [Virtual New Industry]

will likely provide a good stimulus for a noticeable growth in the steel industry. Judging by the Chinese experience, registrations should quickly return to their previous levels once the pandemic subsides, which provides an optimistic outlook for this market.

Industry in the Czech Republic



In 2020, the volume of industrial output in the Czech Republic contracted by 8.0% yoy, preceded by a 0.2% yoy decline in 2019.⁵⁶ At the same time, following the production slump in the spring of 2020, when the rate of decline in Q2 2020 was -23.5% yoy on average, as a direct result of the suspension of economic activity in response to the outbreak of the COVID-19 pandemic and the related supply problems (availability of workforce and components), in H2 2020 the situation in the industrial sector picked up gradually. This resulted not only from the initial loosening of the original restrictions, but also from the relative resilience of the industrial sector to the next wave of the pandemic in the fall of 2020 (as a result of adaptation on the part of companies to the

new reality and a stronger demand for industrial products in the macroeconomic environment, caused by a change in the structure of demand from services for durable goods). As a consequence, in Q4 2020, the rate of growth in Czech industrial output reached +0.4% yoy, which was its first yoy growth figure since Q3 2019 (a period prior to the COVID-19 pandemic).⁵⁷ Along with the expected economic recovery in the Czech Republic and the macroeconomic environment, a positive rate of growth may be expected to be maintained in 2021, coupled with a strong acceleration of Czech industrial output (an additional contributing factor will be the effect of the low statistical base for 2020).

The major year-over-year slump in the volume of industrial output in 2020 was a reflection of, among other causes, the reduced inflow of new orders, both domestic and international. In this period, the total value of new orders decreased by -8.0% yoy (domestic orders by -8.1% yoy and export orders by -7.9% yoy). At the same time, in Q4 2020, the first symptoms of economic recovery in the industry became evident, chiefly through the rate of growth in new export orders (+6.6% yoy), but also domestic orders (+3.3% yoy).⁵⁸ In both cases, it was the first period with a positive rate of growth since Q3 2019.

The severe decline in Czech industrial output in 2020 was caused predominantly by the following sectors: industrial processing (-8.0% yoy), electricity production and water and gas supply (-6.5% yoy) and, to the greatest extent, mining and quarrying of raw materials (-17.2% yoy). In Q4 2020 alone, an improvement in the economic situation was recorded, particularly in the export branches of the industrial processing sector (+1.5% yoy).⁵⁹

In 2020, a sharp yoy decrease in output was recorded in the majority of key industrial sectors (from the perspective of the potential volume of transportation services to be provided by PKP CARGO Group companies). In this period, yoy slumps in output were recorded by the following sectors: mining of hard coal and lignite (-23.5% yoy), manufacture of motor vehicles (-12.2% yoy), manufacture of metal products (-9.3% yoy), production of metals (-8.0% yoy), production of chemicals and chemical products (-4.8% yoy) and production of goods from other non-metallic commodities (-3.5% yoy). Compared to 2019, output of wood and wood products improved (+2.1% yoy). At the same time, for most of these sectors, the economic situation in Q4 improved significantly, and in some segments, such as chemicals, metallurgical and automotive, total production volume in this period was greater than in the corresponding period of 2019.⁶⁰

A gradual improvement in the Czech industrial sector is also suggested by the recent PMI values. In Q4 2020, the PMI for the Czech Republic was 54.3 points on average, compared to 48.9 points in Q3 2020 and 46.9 points throughout 2020. At the same time, in December 2020, the Czech PMI was on the rise for the eighth consecutive month and stood at 57.0 points. In this period, the PMI reached its highest level since April 2018, markedly above the 50.0-point threshold (denoting the technical boundary between recovery and recession in the industrial sector), at the same time pointing to the continuation of the strong rebound in the industrial sector after the suspension of business operations. The increase in the PMI in December 2020 was driven primarily by components related to current output and new orders (domestic and international). The employment sub-index also increased significantly. The impact of the autumn wave of the COVID-19 pandemic on the Czech industrial sector was incomparably smaller than that of the spring wave. For the coming months, the companies participating in the survey expect a further gradual rebound in demand. In December 2020, the expected output level sub-index for the next 12 months increased to its highest level since August 2018.⁶¹

⁵⁶ Czech Statistical Office

⁵⁷ Czech Statistical Office

⁵⁸ Czech Statistical Office

⁵⁹ Czech Statistical Office

⁶⁰ Czech Statistical Office

⁶¹ Markit PMI

Transport services rendered by members of the PKP CARGO Group on the Czech market involve predominantly the carriage of solid fuels (hard coal and coke), liquid fuels, chemicals and chemical products, aggregates and other construction materials, and intermodal cargo, among which particularly significant are products of the automotive sector (with a gradually increasing share in the total freight volume). As a result, changes in the economic situation in the related industrial sectors (mining, power generation and distribution, construction and automotive production, machinery) translate directly into the total volume of freight available for transport by the PKP CARGO Group companies offering transportation services in the Czech Republic.

In 2020, key factors affecting the economic situation in these industrial sectors included:

- COVID-19 epidemic and related economic processes, directly or indirectly translating into the scale of output in a lion's share of industries. The Czech economy is an important player in the European supply chain, and the share of exports and imports in the country's generation of GDP is much larger than in the case of Poland. Taking into consideration the country's not particularly absorptive internal market (limited domestic demand), a large share of the industry's output is exported. Moreover, the main segments of the Czech industrial sector include automotive production and machinery – both of them strongly affected by demand and supply-side consequences of the COVID-19 pandemic (problems with the availability of components, downtime in factories). As a result, these factors, specific to the Czech economy, translated into a strong year-over-year decline in total industrial output in 2020;
- intensification of the downward trend in hard coal mining, which was triggered, among other factors, by the temporary reduction and then complete suspension of production by all mines owned by OKD (due to new outbreaks of viral infections and a major overall slump in demand for this commodity). According to data released by the Czech Ministry of Industry and Trade, during the first 9 months of 2020, the volume of hard coal mined in the Czech Republic was 1.2 million tons (-49.5% yoy), imports decreased to 2.4 million tons (-11.1% yoy) and exports decreased to 0.5 million tons (-53.3% yoy);⁶²
- marginal increase in steel output to 4.5 million tons (+0.6% yoy), of which in Q4 2020 alone steel output was 1.2 million tons (+21.3%), returning to its pre-pandemic levels. At the same time, the expected gradual recovery in demand for products provided by the steel sector in the Czech Republic and its macroeconomic environment should contribute to maintaining output at relatively high levels in the coming months;⁶³
- decrease in the volume of construction and assembly output by 7.7% yoy (of which the branch involved in the construction of buildings decreased 10.1% yoy, while civil engineering output shrank by 1.1%).⁶⁴ At the same time, infrastructural investments (co-funded within the framework of EU funds that have either already been allocated or are planned for allocation as new EU reconstruction funds) should contribute to an economic rebound in the construction sector in the coming quarters;
- very strong decline in the volume of output generated by the automotive sector: in 2020, Czech manufacturers produced a total of 1.2 million motor vehicles of all types (passenger, trucks, buses and motorcycles), 19.2% more than in the same period of 2019. The strong year-over-year decline in the volume of output was caused not by weaker demand for motor vehicles in the Czech Republic and the macroeconomic environment, but also by supply-side problems (virus outbreaks in factories, increased absenteeism, problems with the availability of parts and components in the fact of disruptions in international supply chains). Although in Q4 2020 alone, output was already at a noticeably higher level, it was nonetheless 4.3% lower than in the corresponding period of 2019.⁶⁵

⁶² Ministry of Industry and Trade of the Czech Republic; data for the whole 2020 are not yet available

⁶³ World Steel

⁶⁴ Czech Statistical Office

⁶⁵ AutoSap

4.2. Freight transportation activity

4.2.1 Rail transport market in Poland

In 2020, a total of 84 operators were active on the Polish rail freight market under a license issued by the President of the Office of Rail Transport and providing freight transport services.⁶⁶ This means that in H2 2020 no new operator appeared on the market (after as many as 10 new operators appeared in Q2 2020 alone). Currently, 3 members of the PKP CARGO Group are active on this market: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s.⁶⁷

In 2020, rail freight operators transported a total of 223.2 million tons of cargo (-5.6% yoy) and achieved a freight turnover of 52.2 billion tkm (-6.6% yoy). The more rapid market slump in terms of freight turnover was caused by a decrease in the average haul, which in 2020 stood at 234 km, compared to 236 km in 2019 (-1.1% yoy).⁶⁸

In 2020, the rail freight market in Poland shrank in year-over-year terms. The downward trend was exacerbated by the effects of the widespread COVID-19 pandemic, the resulting recession in the industrial sector and the high degree of economic uncertainty, which resulted, among other consequences, in a sharp decline in the consumption of energy and, as a result, in lower demand for energy carriers, reduced output of the metallurgical sector and persisting weak economic situation in the construction industry and in other industries of major significance for the transport of cargo by rail.⁶⁹ However, the closing months of last year brought a noticeable improvement in the situation and a rebound on the rail transport market – after the first 3 quarters of the year marked by significant losses compared to the results generated in the corresponding period of 2019, Q4 2020 alone turned out to be better than both the previous quarters and the results generated in Q4 2019 (+4.1% yoy in both monitored transport parameters). This enabled the market to recover somewhat vis-à-vis the previous year's results (after the first 9 months of 2020, the market loss was still -8.8% yoy in terms of freight volume and -10.1% yoy in terms of freight turnover).⁷⁰ This was largely caused by the gradual return of the country's economic life to normal after the spring lockdown caused by the COVID-19 pandemic and the absence of a significant impact of the second wave of the pandemic on the performance of the industrial sector.

The best months for rail freight transport in 2020 were October and November (when the value of transported freight volume surpassed 20 million tons). Only the last 2 months of 2020 turned out to be better in terms of the quantum of transported loads compared to the corresponding months of the previous year: after the first 10 months of the year marked by a year-over-year decrease in freight volume, November and December 2020 brought a rebound to the market, reflected in increases in freight volume (by +3.6% yoy and +13.2% yoy, respectively). The largest decrease in freight volume compared to 2019 was recorded in April (-16.7% yoy) and May (-14.4% yoy). Importantly, throughout the tough year of 2020, rail transport services were rendered not only on domestic routes but also on international routes, which to a large extent enabled the achievement of market performance similar to that of 2015-2016.

At yearend 2020, the economic situation in the rail freight market and in the domestic industry was relatively good, especially in the context of the ongoing economic crisis in the pandemic reality. Ultimately, despite the impact of the COVID-19 pandemic in Poland and the macroeconomic environment, the imposition of stricter restrictions across the country and the risk of weakened demand generated by companies and consumers, industrial output in 2020 was only 1.0% lower than in 2019, which translated noticeably into an improvement in the situation of the rail transport sector and an optimistic outlook for 2021.

In the first 11 months of 2020, a yoy decline in rail freight volume was recorded in most cargo categories identified by Statistics Poland⁷¹, of which the strongest was in:

- hard coal (down 12.3% yoy to 72.7 million tons). The yoy slump in the quantum of hard coal transport services was caused by a variety of factors, which included a steep decline in electricity consumption in Poland and the resulting lower demand for this commodity generated by power plants, a temporary reduction and the subsequent suspension of mining activity in some Silesian mines (with a view to preventing the spread of the COVID-19 pandemic), a persistently high level of inventories, lower volume of imports than in 2019 and periodic overhauls of generating units in power plants and cogeneration plants;

⁶⁶ Office of Rail Transport, the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating on the market under an international license, including a PKP CARGO Group entity, PKP CARGO International (formerly AWT a.s.)

⁶⁷ Office of Rail Transport

⁶⁸ Office of Rail Transport

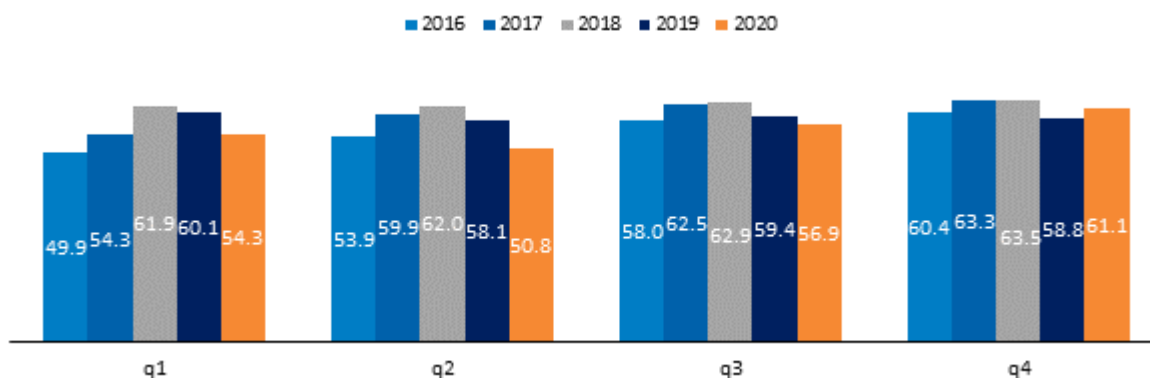
⁶⁹ Statistics Poland, Polskie Sieci Elektroenergetyczne

⁷⁰ Office of Rail Transport

⁷¹ Statistics Poland – data for the first 11 months of 2020. Data for December and the whole 2020 will be available at the end of February 2020.

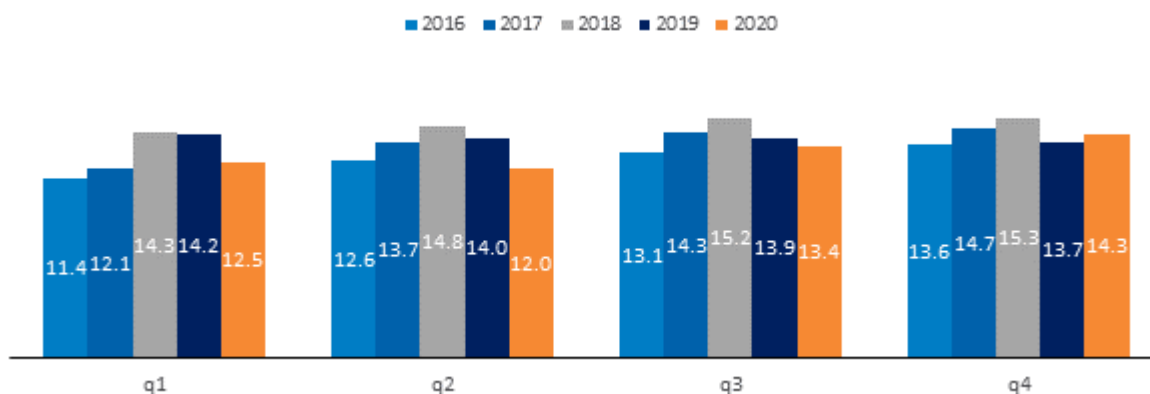
- aggregates, stone, sand and gravel (down 8.9% yoy to 41.9 million tons). The persisting weak economic situation in the construction industry during the year and the plunge in demand generated by buyers executing large infrastructural investments under the National Road Construction Program and the National Railway Program (partly as a result of excessive inventories, delays caused by attempts to renegotiate the value of their previously signed contracts and difficulties in conducting and completing new tenders) translated into a year-over-year decrease in the volume of transported aggregates. Moreover, supply-side problems related to the COVID-19 pandemic were observed, manifesting themselves by temporary limitations in the extraction and production of aggregates by producers and lower throughput at loading and unloading sites due to the imposed epidemiological requirements;
- iron ore (down 36.5% yoy to 5.7 million tons), metals and metal products (-3.3% yoy to 8.2 million tons) and coke (-7.0% yoy to 8.7 million tons). The major slump in demand for steel and steel products in Poland and its macroeconomic environment translated into a significant reduction in the overall output volume (due to, for instance, the temporary shutdown of certain production units by domestic producers of coke), which in turn caused a decrease in the quantum of transported steel products and raw materials used in the steel production process (iron ores, coke). Steel-intensive industries (including automotive and machinery production) were among the sectors of the country's economy most severely affected by the COVID-19 pandemic. The major decrease in the volume of ores available for rail transport was caused by ArcelorMittal Poland's suspension of the operation of the blast furnace in its steel mill in Kraków;
- refined petroleum products (down 7.8% yoy to 14.9 million tons). The slump in the transport of liquid fuels was caused chiefly by the decline in demand related to the COVID-19 epidemic.

Figure 8 Rail freight volumes in Poland broken down by quarter in 2016-2020 (million tons)



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

Figure 9 Rail freight turnover in Poland broken down by quarter in 2016-2020 (billion tkm)

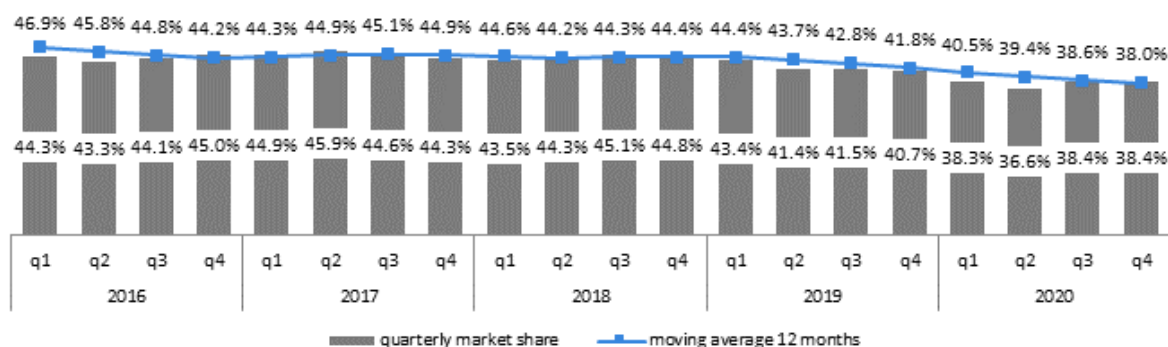


Source: Proprietary material based on the Office of Rail Transport's data

4.2.2 Position of the PKP CARGO Group and the Parent Company in the rail transport market in Poland

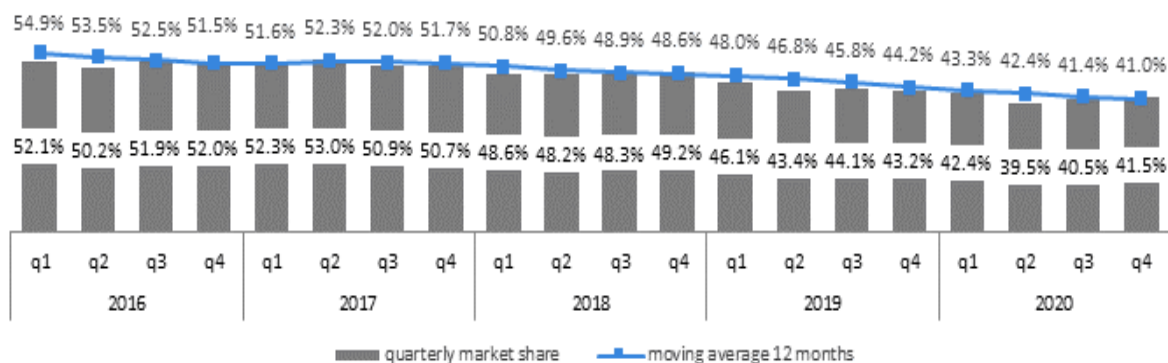
Despite the decline in yoy market shares, in 2020, the PKP CARGO Group⁷² retained its strong leading position on the rail freight transport market in Poland with a 38.0% market share (-3.8 p.p. yoy) in terms of freight volume and a 41.0% market share in terms of freight turnover (-3.2 p.p. yoy). In Q4, the PKP CARGO Group once again managed to improve its performance compared to the previous reporting period, both in terms of freight volume and freight turnover (+0.2 p.p. in both cases – compared to the result generated in the first 9 months of 2020 of 37.8% (-4.3 p.p. yoy) and 40.8% (-3.8 p.p. yoy), respectively). The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 36.6% (-3.7 p.p. yoy) and 40.7% (-3.3 p.p. yoy), respectively, in 2020.⁷³

Figure 10 Share of the PKP CARGO Group in total freight volume in Poland in 2016-2020



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

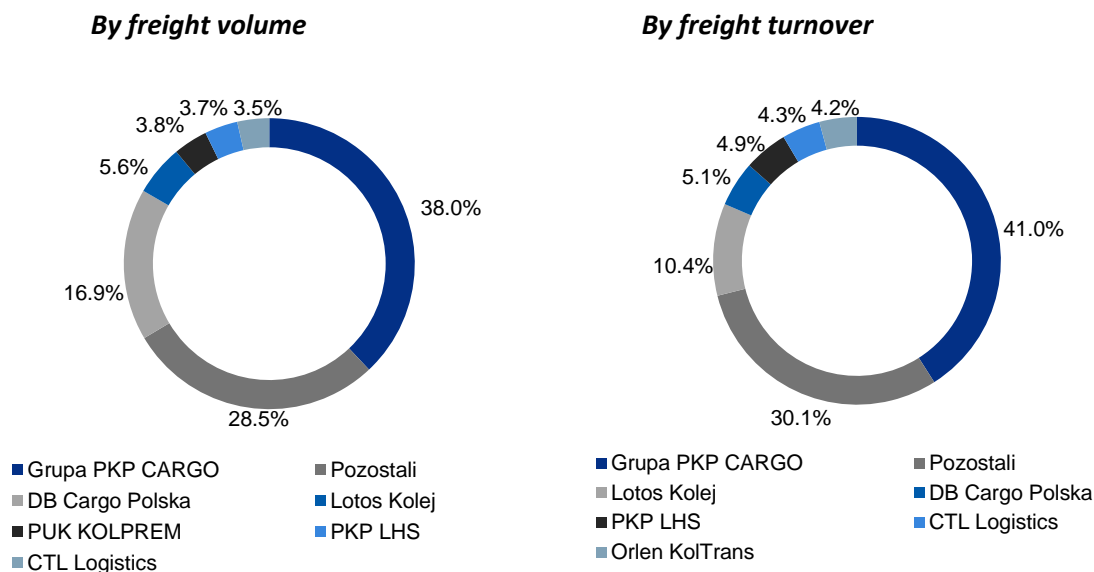
Figure 11 Share of the PKP CARGO Group in total freight turnover in Poland in 2016-2020



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

⁷² The freight volume of the PKP CARGO Group also takes into account the cargo transported by PKP CARGO International a.s. in Poland.
⁷³ Office of Rail Transport

Figure 12 Market shares of the largest rail operators in Poland in 2020



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

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

In 2020, the PKP CARGO Group's competitors transported a total of 138.5 million tons of freight (+0.6% yoy). In this period, the largest freight volume was transported by DB Cargo Polska companies (37.7 million tons, down 5.7% yoy), Lotos Kolej (12.6 million tons, down 1.9% yoy) and PUK Kolprem (8.5 million tons, up 8.2% yoy).⁷⁴

At the same time, in 2020, freight turnover generated by operators competing with the PKP CARGO Group shrank 1.2% yoy, down to 30.8 billion tkm. In this period, the largest freight turnover was achieved by the following competitive rail operators: Lotos Kolej (5.4 billion tkm, down 1.2% yoy), DB Cargo Polska (2.7 billion tkm, down 16.0% yoy) and PKP LHS (2.6 billion tkm, down 15.1% yoy).⁷⁵

In 2020, the decrease in transport services of competitive rail operators in terms of freight turnover was caused by a decline in their average haul in this period, which stood at 223 km (compared to 227 km in 2019, or -1.8% yoy).⁷⁶

In terms of freight volume, the following competitors of the PKP CARGO Group recorded the largest yoy decreases in market share in 2020: PKP LHS (-0.5 p.p. yoy, freight volume down by 15.9% yoy), STK in restructuring (-0.4 p.p. yoy, freight volume down by 78.5% yoy), Captrain Polska (-0.2 p.p. yoy, freight volume down by 20.3% yoy) and Logistics & Transport (-0.2 p.p. yoy, freight volume down by 44.2% yoy). In terms of freight turnover, the market shares of the following companies decreased the most in year-over-year terms: STK in restructuring (-0.8 p.p. yoy, freight turnover down by 90.1%), DB Cargo Polska (-0.6 p.p. yoy, freight turnover down by 16.0% yoy), PKP LHS (-0.5 p.p. yoy, freight turnover down by 15.1% yoy), Logistics & Transport (-0.4 p.p. yoy, freight turnover down by 48.6% yoy), Pol Miedz-Trans (-0.4 p.p. yoy, freight turnover down by 25.2% yoy), Captrain Polska (-0.4 p.p. yoy, freight turnover down by 23.1% yoy) and Rail Polska (-0.3 p.p. yoy, freight turnover down by 21.2% yoy).⁷⁷

The market shares of small rail operators (with a unit share of less than 0.5%) increased significantly on a yoy basis. Moreover, the role of recent entrants into the rail transport market also seems to be growing.

In the tough 2020 market, successful market players were for the most part companies that conducted and expanded the scale of operations in the intermodal segment, such as: Eurasian Rail Carrier, Ecco Rail, PCC Intermodal, Metrans Polonia and LTE

⁷⁴ Proprietary material based on Office of Rail Transport data

⁷⁵ Proprietary material based on Office of Rail Transport data

⁷⁶ Proprietary material based on Office of Rail Transport data

⁷⁷ Proprietary material based on Office of Rail Transport data

Polska. It is validated by the transport results of the rail intermodal transport in the first 9 months of 2020 (no data is yet available for Q4 2020), where the services were provided by as many as 21 operators (of which as many as 14 have gone above the threshold of 0.5% of market share in terms of freight volume). The intermodal transport market saw operators developing new routes within transport corridors and the New Silk Road (a high increase of activity between certain destinations). According to the Office of Rail Transport, the share of intermodal transport in total rail transport in 2020 will reach the highest value in history, i.e. 10-11% in terms of freight volume and about 14% in terms of freight turnover.⁷⁸

A year-over-year increase in the quantum of transport services and shares was also recorded by the majority of specialized companies (subsidiaries of a large corporate group focused on servicing the freight volume ordered by the parent company), such as PUK Kolprem, Orlen KolTrans, Railpolonia and JSW Logistics.⁷⁹

4.2.3 Rail freight transport market in the Czech Republic

During the first 9 months of 2020, a total of 406.3 million tons of cargo was transported in the Czech Republic (-11.2% yoy) and freight turnover stood at 52.5 billion tkm (+30.3% yoy). In this period, a yoy decrease in freight volume was recorded in all transport segments, whereas freight turnover increased on a yoy basis only in the road transport segment. The increase in freight turnover for the whole transport sector, coupled with a simultaneous sharp decline in freight volume, resulted from a significant extension of the average haul for all transportation segments. During the first 9 months of 2020, the average haul in the Czech Republic increased by as much as 46.6% yoy and reached 129 km, as part of which the road transport segment recorded an extension of the average haul by as much as 70.1% yoy to 120 km (compared to 70 km in the corresponding period of 2019). Despite its strong yoy growth, the average haul in the case of road transport services remains below that for other modes of transport, including rail.⁸⁰

Table 3 Freight transport market in the Czech Republic in 9M 2020

	Freight volume			Freight turnover			Average haul		
	Quantity (million tons)	Change yoy	Change % yoy	Quantity (billion tkm)	Change yoy	Change in % yoy	Haul (km)	Change yoy	Change in % yoy
Total market	406.3	-51.0	-11.2%	52.5	12.2	30.3%	129.1	41.1	46.6%
Road transport	332.2	-38.4	-10.4%	39.8	13.7	52.5%	119.8	49.4	70.1%
Rail transport	66.0	-8.6	-11.6%	11.1	-1.1	-8.9%	168.2	5.0	3.1%
Other transport segments	8.1	-4.0	-33.2%	1.6	-0.4	-21.7%	192.6	28.2	17.2%

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

During the first 9 months of 2020, rail transport in the Czech Republic recorded a yoy drop in freight volume to 66.0 million tons (-11.6% yoy) and freight turnover to 11.1 billion tkm (-8.9% yoy). This translated into a decrease in the share of rail transport in total freight volume (-0.1 p.p. yoy) and freight turnover (-9.1 p.p. yoy).⁸¹

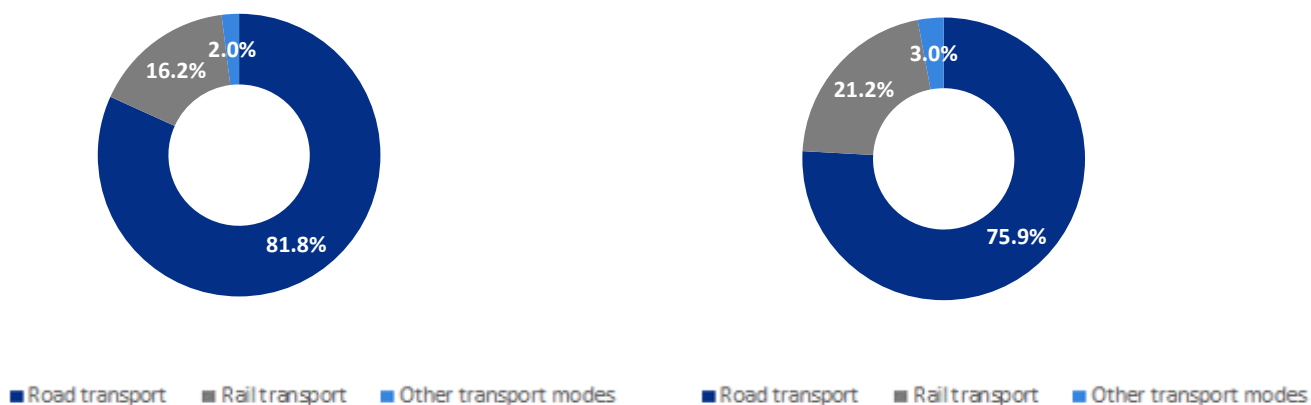
⁷⁸ Office of Rail Transport

⁷⁹ Proprietary material based on Office of Rail Transport data

⁸⁰ Ministry of Transport of the Czech Republic

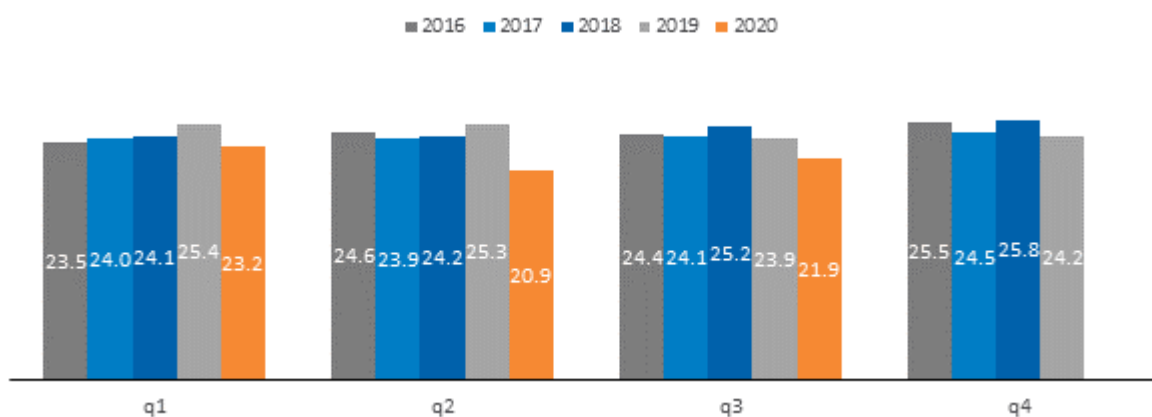
⁸¹ Ministry of Transport of the Czech Republic

Figure 13 Shares of various modes of transport in the transport market in the Czech Republic in 9M 2020: freight volume (L) and freight turnover (R)



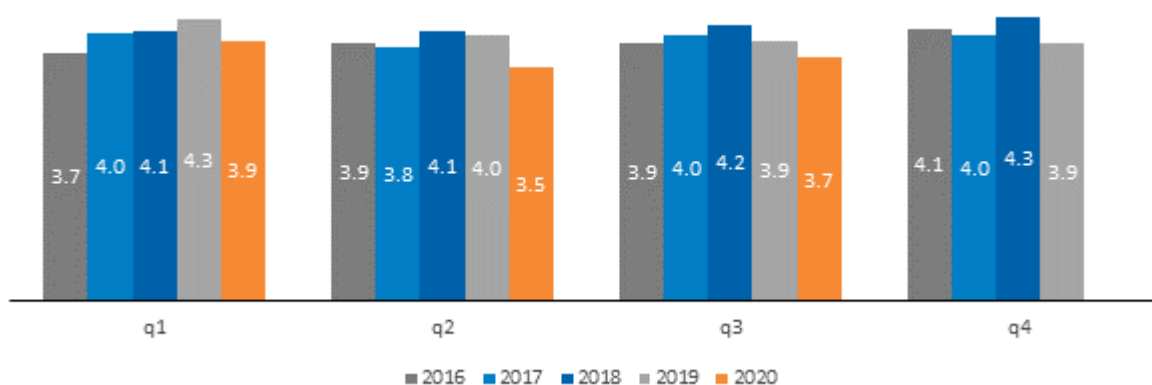
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 14 Quarterly rail freight transport in the Czech Republic by freight volume in 2016-2020 (million tons)



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

Figure 15 Quarterly rail freight transport in the Czech Republic by freight turnover in 2016-2020 (billion tkm)



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

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

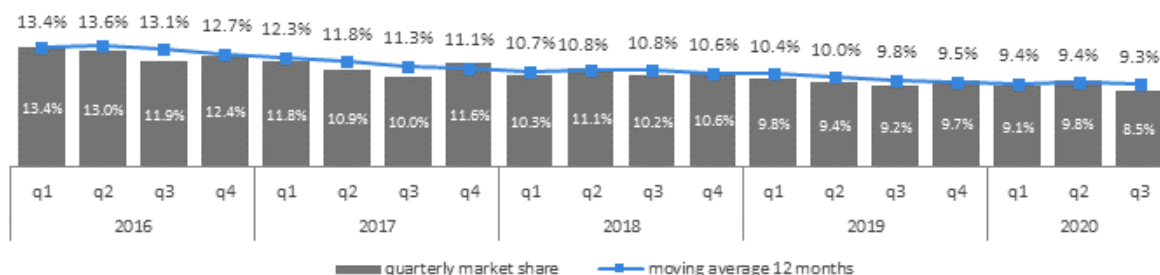
According to data published by the Czech rail infrastructure manager (SŽDC), in 2020, 123 operators were licensed in Q1 2020 to provide rail freight services in this country, including 2 members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s.⁸²

In 2020, PKP CARGO International a.s. transported 8.2 million tons of freight (-12.9% yoy) and achieved a freight turnover of 1.1 billion tkm (-5.9% yoy). In the same period, the average haul of PKP CARGO International increased to 130 km (+8.1% yoy). The drivers of the rapid increase in the average haul in this period included the improvement in relative significance of such cargo categories as liquid fuels, wood and wood products and intermodal cargo (characterized by an above-average haul), in the total volume of cargo transported by PKP CARGO International.⁸³

According to SŽDC data, despite the yoy decrease in freight turnover in 2020, PKP CARGO International’s competitive position on the Czech market did not diminish, but, rather, its share increased by 0.1 p.p. yoy to 7.3%. As a result, the company solidified its position as the third largest carrier on the Czech market.⁸⁴

In 2020, the consequences of the COVID-19 pandemic and the related economic recession in the Czech Republic and its macroeconomic environment exerted a strong adverse impact on the transport performance of PKP CARGO International. In this period, the company reported a yoy decrease in its quantum of transport services, including for such cargo categories as hard coal (-19.9% yoy to 3.0 million tons), chemicals and chemical products (-22.2% yoy to 0.4 million tons), coke and lignite (-16.0% yoy to 1.5 million tons) and aggregates and construction materials (-29.5% yoy to 0.3 million tons).⁸⁵ Besides the economic factors reflecting the impact of the pandemic (including a lower energy consumption and a slump in demand for products of the steel sector), the reduction in freight performance for certain cargo categories was also caused by initiatives taken by the company to change the qualitative mix of its transport services (and, as a result, to increase their profitability and efficiency). In 2020, transport services provided by PKP CARGO International grew in year-on-year terms in the liquid fuels segment (+43.7% to 0.9 million tons) and the intermodal segment (+1.4% yoy to 1.5 million tons).⁸⁶

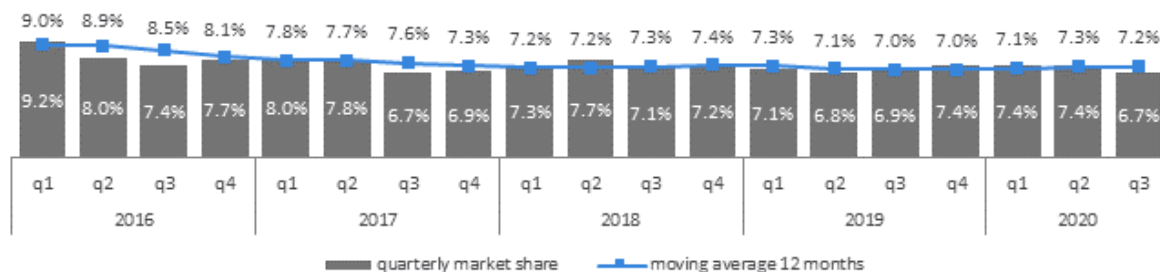
Figure 16 PKP CARGO International’s quarterly market shares in total freight volume in the Czech Republic in 2016-2020*



* data for Q4 2020 will be available at the turn of Q2 2021

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

Figure 17 PKP CARGO International’s quarterly market shares in terms of freight turnover in the Czech Republic in 2016-2020*



* data for Q4 2020 will be available at the turn of Q2 2021

⁸² SŽDC

⁸³ PKP CARGO International’s own statistics

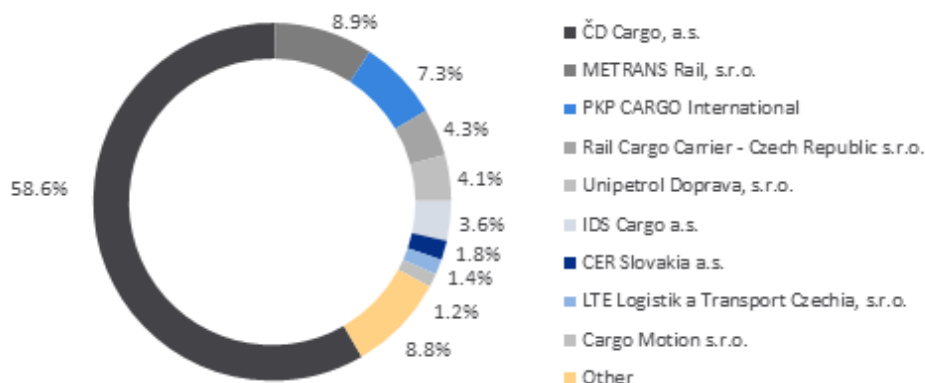
⁸⁴ SŽDC

⁸⁵ PKP CARGO International’s own statistics

⁸⁶ PKP CARGO International’s own statistics

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

Figure 18 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 2020 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

In 2020, ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market, although in the same period its market share was in a downward yoy trend, having fallen to 58.6% (-1.6 p.p. yoy). Also smaller than in 2019 were the market shares of Unipetrol Doprava (-0.2 p.p. yoy to 4.1%, the operator focuses its business on the fuel transport segment), IDS Cargo (-0.3 p.p. yoy to 3.6%) and SD – Kolejová doprava. In 2020, the largest increases in year-over-year market shares were recorded by Rail Cargo Carrier – Czech Republic (+0.9 p.p. yoy to 4.3%) and Metrans Rail (+0.5 p.p. yoy to 8.9%) – the business model of these companies is based on the provision of comprehensive logistics services for container transport in the countries of the Three Seas Initiative. The latter company solidified its position as the second largest rail freight carrier in the Czech Republic. A major increase in the market share was also achieved by small rail operators. Due to their individual shares falling below the market threshold, they are not specified by name in the statistics (+0.8 p.p. yoy to 8.8%). At the same time, the market share of PKP CARGO International also increased on a year-over-year basis (+0.1 p.p. yoy to 7.3%).⁸⁷

The list of the largest rail operators on the Czech market in 2020 published by SŽDC does not include PKP CARGO S.A. In 2020, year-over-year decreases were recorded in ore transport services provided by PKP CARGO S.A. from Polish seaports to the territory of the Czech Republic and Slovakia (due to lower demand generated by the metallurgical sector and the loss of a portion of transport services to the benefit of competitors), wood in transit from Poland and the east to Slovakia and Romania, metals in transit from Hungary and Slovakia to Poland and imports to the Czech Republic via Gdynia, automotive transit from Italy to Poland and the transit of chemical products between Poland and Slovakia and from Bosnia and Herzegovina to Poland. At the same time, in year-over-year terms, transport of hard coal from Polish ports and Silesia to the Czech Republic and transit from Silesia to Slovakia, calcium flux imports from Poland to the Czech Republic, coke exports from the Czech Republic via the Gdańsk port and transit from Poland to Bosnia and Herzegovina, and sugar transit from Poland to Macedonia and Serbia increased due to the taking over of certain contracts from competitors.⁸⁸

4.2.5 Rail transport business of the Company and the PKP CARGO Group

The data on the transport activity conducted by the PKP CARGO Group in 2019 and 2020 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and PKP CARGO International. Transport services are rendered by 6 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., PKP CARGO International a.s., PKP CARGO International HU Zrt., PKP CARGO International SK a.s. and Primol Rail d.o.o.

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

PKP CARGO S.A. accounts for 93% of the PKP CARGO Group’s freight turnover.

⁸⁷ SŽDC
⁸⁸ PKP CARGO S.A.’s own statistics

Table 4 PKP CARGO Group's freight turnover in 2016-2020

Item	2020	2019	2018	2017	2016	Change		
						2020/2019	%	
	(million tkm) ⁸⁹							
Solid fuels ¹	8,621	10,015	10,931	11,515	12,542	-1,394	-13.9%	
<i>of which hard coal</i>	7,112	8,502	9,313	10,155	11,070	-1,389	-16.3%	
Aggregates and construction materials ²	4,509	5,208	7,185	5,882	4,636	-698	-13.4%	
Metals and ores ³	1,980	2,742	3,732	4,027	3,436	-761	-27.8%	
Chemicals ⁴	1,937	2,068	2,204	2,357	2,078	-131	-6.3%	
Liquid fuels ⁵	681	1,071	1,165	1,340	1,091	-390	-36.4%	
Timber and agricultural produce ⁶	984	1,052	1,384	1,764	1,562	-68	-6.4%	
Intermodal transport	4,290	4,060	4,072	3,235	2,474	230	5.7%	
Other ⁷	646	656	718	891	703	-10	-1.5%	
Total	23,649	26,870	31,390	31,011	28,521	-3,221	-12.0%	

Source: Proprietary material

Table 5 PKP CARGO Group's freight turnover in Q4 of 2016-2020

Item	Q4 2020	Q4 2019	Q4 2018	Q4 2017	Q4 2016	Change		
						Q4 2020/ Q4 2019	%	
	(million tkm)							
Solid fuels ¹	2,415	2,517	2,889	2,924	3,339	-103	-4.1%	
<i>of which hard coal</i>	1,998	2,142	2,437	2,589	2,971	-144	-6.7%	
Aggregates and construction materials ²	1,192	1,213	1,760	1,644	1,368	-21	-1.7%	
Metals and ores ³	579	419	931	1,010	825	160	38.3%	
Chemicals ⁴	584	491	524	581	525	93	18.9%	
Liquid fuels ⁵	124	326	320	309	272	-202	-61.9%	
Timber and agricultural produce ⁶	256	285	374	491	477	-28	-9.9%	
Intermodal transport	1,204	1,031	1,146	889	721	173	16.8%	
Other ⁷	173	189	161	229	180	-16	-8.4%	
Total	6,528	6,471	8,105	8,076	7,707	57	0.9%	

Source: Proprietary material

PKP CARGO S.A. accounts for 87% of the PKP CARGO Group's freight volume.

Table 6 PKP CARGO Group's freight volume in 2016-2020

Item	2020	2019	2018	2017	2016	Change		
						2020/2019	%	
	(million tons)							
Solid fuels ¹	47.3	53.3	56.6	57.7	59.8	-6.1	-11.4%	
<i>of which hard coal</i>	42.5	47.9	51.2	51.7	53.7	-5.4	-11.3%	
Aggregates and construction materials ²	17.9	20.4	26.0	22.2	18.2	-2.5	-12.2%	
Metals and ores ³	6.2	9.3	12.6	13.0	11.3	-3.1	-33.1%	
Chemicals ⁴	5.8	6.3	6.8	7.0	6.3	-0.6	-9.2%	
Liquid fuels ⁵	2.0	3.7	3.9	4.5	3.0	-1.7	-45.9%	
Timber and agricultural produce ⁶	2.8	3.7	4.0	4.5	4.4	-0.9	-25.2%	
Intermodal transport	9.7	9.5	9.2	7.6	6.5	0.2	2.3%	
Other ⁷	2.0	2.3	2.7	2.6	2.0	-0.4	-16.3%	
Total	93.6	108.6	121.9	119.1	111.5	-15.0	-13.8%	

Source: Proprietary material

⁸⁹ In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

Table 7 PKP CARGO Group's freight volume in Q4 of 2016-2020

Item	Q4 2020	Q4 2019	Q4 2018	Q4 2017	Q4 2016	Change	
						Q4 2020/ Q4 2019	%
<i>(million tons)</i>							
Solid fuels ¹	13.4	13.4	14.5	14.8	16.1	0.0	-0.3%
<i>of which hard coal</i>	12.1	12.1	13.1	13.2	14.5	0.0	0.1%
Aggregates and construction materials ²	4.6	4.9	6.4	6.3	5.5	-0.2	-5.1%
Metals and ores ³	1.7	1.7	3.1	3.3	3.0	0.0	1.2%
Chemicals ⁴	1.7	1.5	1.6	1.8	1.6	0.2	13.1%
Liquid fuels ⁵	0.4	1.0	1.1	1.0	0.8	-0.7	-66.1%
Timber and agricultural produce ⁶	0.8	0.9	1.1	1.3	1.2	-0.2	-16.8%
Intermodal transport	2.8	2.3	2.6	2.0	1.9	0.4	18.6%
Other ⁷	0.5	0.6	0.7	0.7	0.5	-0.1	-18.5%
Total	25.8	26.4	31.2	31.1	30.6	-0.6	-2.3%

Source: Proprietary material

During 2020, the average haul of freight transported by rail by the PKP CARGO Group was 253 km (+2.1% yoy).

In 2020 and Q4 2020, the average haul of freight transported by PKP CARGO S.A. was 270 km.

Table 8 PKP CARGO Group's average haul in 2016-2020

Item	2020	2019	2018	2017	2016	Change	
						2020/2019	%
<i>(km)</i>							
Solid fuels ¹	182	188	193	200	210	-5	-2.9%
<i>of which hard coal</i>	167	177	182	196	206	-10	-5.7%
Aggregates and construction materials ²	252	255	276	265	255	-3	-1.4%
Metals and ores ³	318	295	296	309	304	24	8.0%
Chemicals ⁴	336	326	325	337	329	10	3.2%
Liquid fuels ⁵	343	292	298	295	359	51	17.6%
Timber and agricultural produce ⁶	357	286	346	390	356	72	25.0%
Intermodal transport	442	428	440	425	382	14	3.3%
Other ⁷	331	281	264	339	346	50	17.7%
Total	253	248	258	260	256	5	2.1%

Source: Proprietary material

Table 9 PKP CARGO Group's average haul in Q4 of 2016-2020

Item	Q4 2020	Q4 2019	Q4 2018	Q4 2017	Q4 2016	Change	
						Q4 2020/Q4 2019	%
<i>(km)</i>							
Solid fuels ¹	180	187	199	198	208	-7	-3.8%
<i>of which hard coal</i>	165	177	186	196	205	-12	-6.8%
Aggregates and construction materials ²	258	249	275	263	250	9	3.6%
Metals and ores ³	344	252	296	306	275	92	36.7%
Chemicals ⁴	347	330	324	326	327	17	5.2%
Liquid fuels ⁵	352	313	297	325	322	39	12.4%
Timber and agricultural produce ⁶	332	307	329	377	390	26	8.3%
Intermodal transport	433	439	435	440	389	-7	-1.5%
Other ⁷	349	310	232	327	331	38	12.4%
Total	253	245	260	260	252	8	3.2%

Source: Proprietary material

¹ Includes hard coal, coke and lignite.

² Includes all kinds of stone, sand, bricks and cement.

³ Includes ores and pyrites, as well as metals and metal products.

⁴ Includes fertilizers and other chemicals.

⁵ Includes crude oil and petrochemical products.

⁶ Includes grain, potatoes, sugar beets, other produce, wood and wooden products.

⁷ Includes other freight.

Key factors affecting the volume of transport in various cargo categories in 2020:



solid
fuels

- lower sales of hard coal;
- failure by the power sector to collect contracted hard coal volumes and an increase the inventories of the raw material stored in mine coal yards;
- decline in electricity generation in hard coal-fired commercial power plants;
- increased significance of gas-fired power plants, renewable fuels and wind farms;
- growing share of electricity imports;
- decrease in sales of coarse coal to individual customers and local heating plants;
- decrease in transports of coal from seaports to customers in Poland, the Czech Republic and Slovakia;
- overhauls of power plants and delays in the commissioning of new coal-fired units;
- takeover by competitive rail operators of a portion of transport orders;
- impact of anti-smog resolutions on the market for the sale of solid fuels;
- increase in the volume of coke transport services in spite of the periodic fall in Q2 and Q3 because of the suspension or limitation of the operation of steel mills and coking plants in Poland and Europe;
- lower coal production in OKD in the Czech Republic (in Q3, there was a stoppage in the operation of the mines);
- decrease in the average haul of coal in Poland (limited imports of coal via ports designated both for Polish and foreign customers) and a decline in the average haul of PKP CARGO International – no transports to Linz, Austria;
- increase in the average haul of coke (a greater share of transports to seaports) and an increase in the average haul of coke by PKP CARGO International (more transports from the Czech Republic to Germany);



aggregates and
construction
materials

- lower demand generated by customers for construction stone due to the completion of construction projects executed in 2019, a smaller scale of projects currently underway and increasing prices of construction materials and labor;
- deterioration of liquidity among construction companies and lower profitability of investments;
- delays in the execution of road construction projects in Q2 resulting from the epidemic situation in Poland (restrictions on stone extraction, problems experienced by unloading firms at loading points, staff shortages, changes in the organization of construction sites);
- reduced deliveries of limestone to German power plants caused by strong supply of wind energy and shutdowns of two power units;
- high degree of competition due to the development of transportation capacity by other rail operators previously operating on few routes;
- fewer transports of PKP CARGO International to the aggregate processing plant in Hungary (stoppage in Q4);



metals
and ores

- reduction in iron ore transport services from Ukraine to Kraków due to a key client's decision to diminish steel production in Poland and other EU countries;
- drop in steel output in Poland and lower demand of customers for finished products, high volume of scrap inventories;
- temporary shutdown of steel mills in Europe, suspension of scrap metal supplies, reduced output due to a decrease in orders for metal products and scrap inventories as well as staff shortages associated with COVID-19;
- taking over scrap metal deliveries by road transport operators – strong price competition;
- reduced orders associated with suspended manufacturing operations in car factories;
- lower volume of slag transported from steel mills due to difficulties in obtaining it;
- increase in the average haul of PKP CARGO International – transports to the ports in Koper (Slovenia) and Rotterdam (the Netherlands);



intermodal

- rebound of transport services provided within the framework of the New Silk Road (NSR) after the decline in H1 2020 – in Q4, there was an increase in the number of trains starting to go to Germany, Italy, the Netherlands, France and Belgium;
- gradual development of transport services provided on the east-west route, the north-south route and foreign sections with the company's own traction or in cooperation with foreign rail freight operators;
- continuation of container transport from/to Romania – pursuit of the expansion strategy in the area of the Three Seas Initiative;
- decrease in the volume of transported woodchips (full storage yards), and in Q4, a gradual return to the volumes of transports from before the pandemic, new freight routes;
- limitation of bulk freight in containers – lower volumes of steel and fodder in containers;
- temporary decrease in exports and imports between seaports and terminals located in the country's interior (transport of wood in containers, of semi-finished furniture, household appliances) – in Q4, a gradual return to the volumes of transports from before the pandemic, disturbed by operational problems and limitation of capacity because of repairs of the rail infrastructure in Gdańsk;
- increase in containerized wood transports in transit (from the Czech Republic to China);



chemicals

- decline in transport of hydrocarbons in imports from the east caused by a slump in demand, partly due to the coronavirus epidemic;
- decreased sulfur exports (prices below the profitability threshold for the sales of the raw material);
- lye freight services commissioned by a key client and provided by a rail operator belonging to its group;
- in the second half of the year, an increase in transports of nitrogen fertilizers (in domestic transports and in exports through seaports);



liquid fuels

- lower volume of transport orders caused by a significant reduction in fuel imports due to the coverage of demand with domestic production;
- decrease in freight volume and change in the supply logistics at the PKP CARGO Group's largest client in this segment – due to changes resulting from the current demand and supply situation and the provision of transport services by an operator from the client's own group;
- transportation of fuels (petroleum coke) in exports to Slovakia;
- increased volume of transport services provided by PKP CARGO International from Slovakia to Poland and Germany and inside the Czech Republic;
- longer average haul in the transport of liquid fuels due to a change in the structure of freight routes;



timber and agricultural produce

- no exports of timber to the Czech Republic, Romania or Hungary (customers purchased timber in the Czech Republic obtained from, among others, felling in forests threatened by the bark beetle);
- temporary shutdown of furniture factories due to the spread of the pandemic (COVID-19);
- temporary suspension of timber exports to China due to COVID-19;
- absence of cane sugar imports through sea ports (because renovation of the wharf and the rail line is in progress, the client switched to road transport services);
- decrease in imports of timber and boards from Belarus (lower output due to COVID-19);
- lower freight volumes of grain and molasses transported by PKP CARGO International;
- increase in the average haul resulting from a change in the structure of freight routes (replacement of sea imports with overland imports) and acquisition of orders for transport of rapeseed animal feed;



others

- lower quantities of sulfides and salt transported from Belarus (lower demand for the commodity due to COVID-19);
- lower quantities of cars transported due to the suspension of manufacturing operations in the automotive industry as a result of the COVID-19 epidemic;
- increase in the volume of ash transported domestically;
- lower volume of military transport services (restrictions imposed on the transport of freight to military training grounds due to COVID-19);
- in Q4, lower volumes in the automotive industry transported by PKP CARGO International;
- increased average haul in transport of other cargo in Poland due to a change in the structure of freight routes.

4.3. Other services

The PKP CARGO Group does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Group. The Group conducts its business within one main segment – domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the Group’s Consolidated Financial Statements. The Group additionally provides services related to rolling stock repairs, infrastructure maintenance and land reclamation services, but they are not material for the Group’s business and therefore are not treated as separate operating segments.



4.4. Information on selling markets and sources of supply

Key clients

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 financial year ended 31 December 2020 and 31 December 2019 did not exceed 15% of total revenues from contracts with customers. There is no single geographic area (outside of Poland) which generated more than 8% of revenues from contracts with customers.

In the financial year ended 31 December 2020, no sales to any group represented more than 10% of total revenues from contracts with customers. In the financial year ended 31 December 2019, sales of services at the Company to the Arcelor Mittal Group represented 10.2%.

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.

In the financial year ended 31 December 2020 and 31 December 2019, the Group’s revenue from any single Group client did not exceed 10% of the total revenues from contracts with customers.

The Group’s revenues generated by external clients by geographic area are presented in [Note 2.1 to the Consolidated Financial Statements](#) and the Company’s revenues – in [Note 2.1 to the Standalone Financial Statements](#).

Key suppliers

As they operate on the freight transport market, both the PKP CARGO Group and Parent Company are dependent on the largest supplier of access services to rail infrastructure in Poland, namely PKP Polskie Linie Kolejowe S.A. (PKP PLK). This company is a domestic supplier that provides access to the prevalent portion of rail infrastructure in Poland in accordance with the price list approved annually by the President of the Office of Rail Transport. This infrastructure is made available for a fee on the same terms to all rail operators offering passenger and cargo rail transport. PKP PLK renders services to the PKP CARGO Group that include the provision of access to rail infrastructure, the provision of access to traction network equipment, the directing and carrying of traffic and access to train handling equipment. PKP PLK's percentage of procurement costs in 2020 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 34.0% in the PKP CARGO S.A., while it was 29.7% in the Group.

Moreover, the Group's main supplier for traction fuel and traction energy is PKP Energetyka S.A. This supplier specializes in selling and supplying electricity, selling liquid fuels and providing electrical energy-related services. PKP Energetyka S.A.'s percentage of procurement costs in 2020 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 30.7% in the PKP CARGO S.A., while it was 26.8% in the Group.

4.5. Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 2016-2020 is provided below.

Table 10 Headcount in 2016-2020 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Headcount as at:					Change 2020- 2019	% change
	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016		
PKP CARGO Group	21,766	23,571	23,643	23,253	23,144	-1,805	-7.6%
<i>including: PKP CARGO S.A.</i>	<i>15,771</i>	<i>17,140</i>	<i>17,308</i>	<i>17,043</i>	<i>17,429</i>	<i>-1,369</i>	<i>-8.0%</i>

Source: Proprietary material

Table 11 Average headcount in FTEs in 2016-2020 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Average headcount in FTEs					Change 2020-2019
	12 months	12 months	12 months	12 months	12 months	
	2020	2019	2018	2017	2016	
PKP CARGO Group	22,279	23,657	23,385	23,278	23,441	-1,378
<i>including: PKP CARGO S.A.</i>	<i>16,185</i>	<i>17,293</i>	<i>17,135</i>	<i>17,177</i>	<i>17,698</i>	<i>-1,108</i>

Source: Proprietary material

Table 12 Average headcount in persons in 2016-2020 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Average headcount in persons					Change 2020-2019
	12 months	12 months	12 months	12 months	12 months	
	2020	2019	2018	2017	2016	
PKP CARGO Group	22,818	23,710	23,431	23,305	23,465	-892
<i>including: PKP CARGO S.A.</i>	<i>16,616</i>	<i>17,309</i>	<i>17,146</i>	<i>17,182</i>	<i>17,702</i>	<i>-693</i>

Source: Proprietary material

Table 13 Headcount structure in 2016-2020 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Headcount as at:					Change 2020-2019	Change %
	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016		
White-collar positions – the Group	5,079	5,439	5,379	5,281	5,272	-360	-6.6%
<i>including: PKP CARGO S.A.</i>	<i>3,644</i>	<i>3,936</i>	<i>3,886</i>	<i>3,805</i>	<i>3,825</i>	<i>-292</i>	<i>-7.4%</i>
Blue-collar positions – the Group	16,687	18,132	18,264	17,972	17,872	-1,445	-8.0%
<i>including: PKP CARGO S.A.</i>	<i>12,127</i>	<i>13,204</i>	<i>13,422</i>	<i>13,238</i>	<i>13,604</i>	<i>-1,077</i>	<i>-8.2%</i>
Total	21,766	23,571	23,643	23,253	23,144	-1,805	-7.7%
<i>including: PKP CARGO S.A.</i>	<i>15,771</i>	<i>17,140</i>	<i>17,308</i>	<i>17,043</i>	<i>17,429</i>	<i>-1,369</i>	<i>-8.0%</i>

Source: Proprietary material

A comparison of 2020 with 2019 reveals a significant decline in the headcount in the PKP CARGO Group by 1,805 people (by 1,369 people in PKP CARGO S.A. alone). The headcount structure in the Group was adjusted to the changing market environment.

4.6. The Company's and the PKP CARGO Group's investments

4.6.1 Capital expenditures

PKP CARGO S.A.

In 2020, the Company incurred capital expenditures for 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 P3 periodic inspections⁹⁰) of PLN 587.9 million, and recognized right-of-use assets of PLN 20.8 million. In 2020, the Company's total capital expenditures were PLN 608.7 million, i.e. less by 50% compared to the performance in 2019, including capital expenditures abroad, namely those for purchasing flat wagons for transporting containers and multi-system locomotives, amounted to PLN 195.8 million.

Most of capital expenditures in the Company in 2020 were allocated for the execution of investment tasks associated with the rolling stock, mainly for repairs and periodic inspections of the rolling stock (the number of periodic repairs and periodic inspections performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantity of rolling stock maintained as fit for operation as required for the provision of transportation services), the purchase of 2 multi-system locomotives, modernization of 23 locomotives, the purchase of 400 flat wagons for transporting containers for a total of PLN 568.9 million (or 93.5% of total capital expenditures). Moreover, the Company incurred capital expenditures in the IT area, in particular to purchase hardware and ICT equipment along with intangible assets (software) for the total amount of PLN 7.4 million (chiefly for the roll-out of IT systems and the purchase of ICT hardware), for investment construction in the amount of PLN 9.9 million, namely the construction and modernization of buildings, mainly replacement of sources of heat and lighting for LED lighting and the acquisition of machinery and equipment and workshop and office fit-out in the amount of PLN 1.7 million. In addition, the Company incurred capital expenditures for right-of-use assets in the amount of PLN 20.8 million, including mostly real property lease agreements.

⁹⁰ P3 – maintenance operations performed on specialist control posts, when the vehicle is withdrawn from service, with partial dismantling of sub-assemblies

P4 – maintenance operations performed in plants fitted with technical facilities and measurements stations, encompassing planned replacement or repairs of sub-assemblies

P5 – renovation of the vehicle, encompassing dismantling of sub-assemblies and their replacement with new or regenerated ones

Table 14 Capital expenditures in PKP CARGO S.A. in 2016 – 2020 (PLN million)

Item	2020	2019	2018	2017	2016	Change 2020-2019	Change 2020/2019 in %
Investment construction activity	9.9	7.0	13.1	5.5	4.5	2.9	41.4%
Purchases of locomotives	33.0	65.3	43.4	53.0	199.4	-32.3	-49.5%
Modernization of locomotives	123.4	252.0	146.3	64.2	35.4	-128.6	-51.0%
Purchases of wagons	162.8	69.9	11.1	12.5	0.0	92.9	132.9%
Workshop machinery and equipment	1.5	8.5	6.8	4.3	2.8	-7.0	-82.4%
ICT development	7.4	11.4	12.2	14.5	16.5	-4.0	-35.1%
Other	0.2	1.2	0.7	0.5	2.2	-1.0	-83.3%
Components in overhaul, including:	249.7	617.1	594.8	356.7	185.0	-367.4	-59.5%
<i>Repairs and periodic inspections of locomotives</i>	61.5	162.2	160.2	76.5	45.0	-100.7	-62.1%
<i>Repairs and periodic inspections of wagons</i>	188.2	454.9	434.6	280.2	140.0	-266.7	-58.6%
Right-of-use assets	20.8	185.4				-164.6	-88.8%
Total	608.7	1217.8	828.4	511.2	445.8	-609.1	-50.0%

Source: Proprietary material

The funding mix of capital expenditures towards property, plant and equipment, intangible assets and right-of-use assets in the Company was as follows: PLN 479.2 million of own funds, PLN 52.0 million of debt funds, PLN 20.8 million of lease funds, PLN 56.7 million of co-financing from the EU.

Also, expenditures of PLN 113.6 million incurred in 2019 were refinanced in 2020 as follows: co-financing from the EU in the amount of PLN 11.3 million for purchasing 50 flat wagons for transporting containers and a loan of PLN 102.3 million for purchasing and repairing rolling stock.

In turn, capital expenditures incurred in 2020 for the purchase of 148 flat wagons for transporting containers, financed with own funds of PLN 49.4 million, will be 50% refinanced in 2021 with an EU grant.

PKP CARGO Group

In 2020, the Group incurred capital expenditures for 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 P3 periodic inspections) of PLN 686.1 million, and recognized right-of-use assets of PLN 68.4 million. Total expenditures of the PKP CARGO Group in 2020 reached PLN 754.5 million, i.e. less by 55.9% against the performance in 2019.

The majority of the capital expenditures in the Group in 2020 was allocated for the execution of investment tasks associated with rolling stock, mainly for periodic repairs and periodic check-ups of rolling stock (the number of periodic repairs and periodic check-ups performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services) and the acquisition and modernization of locomotives and wagons – for a total amount of PLN 610.0 million (i.e. 80.0% of the total capital expenditures). Moreover, the Group incurred expenditures on computerization, i.e. purchases of computer hardware in the form of computers and ICT equipment as well as intangible assets (software) in the amount of PLN 10.8 million, for investment construction activity in the amount of PLN 50.8 million, chiefly to modernize container terminals, modernize and construct storage yards, repair rail infrastructure and modernize buildings and structures, including workshop buildings, mainly with regard to replacement of sources of heat and lighting, and purchase and modernize machinery, plant and tools in container terminals and workshop buildings in the amount of PLN 12.0 million, to purchase office equipment and vehicles for PLN 2.5 million and right-of-use assets for PLN 68.4 million, including real estate for PLN 36.8 million, rolling stock for PLN 24.1 million and in other areas for PLN 7.5 million, mostly for leasing vehicles and purchase tools in container terminals and workshop buildings, ICT equipment, containers financed by leasing.

Table 15 Capital expenditures in the PKP CARGO Group in 2016 – 2020 (PLN million)

Item	2020	2019	2018	2017	2016	Change 2020-2019	Change 2020/2019 in %
Investment construction activity	50.8	39.5	48.1	32.1	19.1	11.3	28.6%
Purchases of locomotives	33.0	65.3	43.8	53.0	200.2	-32.3	-49.5%
Modernization of locomotives	132.0	258.5	147.9	67.0	40.5	-126.5	-48.9%
Purchases of wagons	162.9	69.9	11.1	13.3	0.0	93.0	133.0%
Wagon upgrades	5.6	2.0	0.0	1.7	3.6	3.6	180.0%
Workshop machinery and equipment	12.0	26.6	26.3	17.6	14.4	-14.6	-54.9%
ICT development	10.8	14.1	16.6	16.3	20.1	-3.3	-23.4%
Other	2.5	4.8	1.9	2.4	4.2	-2.3	-47.9%
Components in overhaul, including:	276.5	632.0	598.4	358.6	230.6	-355.5	-56.3%
<i>Repairs and periodic inspections of locomotives</i>	73.7	167.1	171.7	77.3	72.1	-93.4	-55.9%
<i>Repairs and periodic inspections of wagons</i>	202.8	464.9	426.7	281.3	158.5	-262.1	-56.4%
Right-of-use assets*	68.4	237.6				-169.2	-71.2%
Total	754.5	1,350.3	894.1	562.0	532.7	-595.8	-44.1%

* Expenditures for right-of-use assets for 2020 do not include increases of PLN 8.2 million resulting from leaseback of rolling stock.

Source: Proprietary material

4.6.2 Assessment of the capacity to execute investment plans

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

Additionally, a cash pooling system is in place in the PKP CARGO Group which comprises, as at 31 December 2020, 8 Group companies.

PKP CARGO S.A. has been efficiently managing the cash management cycle by matching the maturity of receivables and liabilities. To hedge the possible risk of a short-term cash shortage, PKP CARGO S.A. has in place two agreements for overdraft facilities with the total limit of PLN 200 million (as at 31 December 2020).

5. Analysis of the Company's and the PKP CARGO Group's financial standing and assets

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

Table 16 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million ⁹¹					EUR million				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Exchange rates (PLN/EUR)						4.4742	4.3018	4.2669	4.2447	4.3757
Operating revenue	3,062.0	3,601.4	3,939.2	3,588.0	3,250.5	684.4	837.2	923.2	845.3	742.8
Operating profit / loss	-214.6	40.2	318.2	149.7	-31.1	-48.0	9.3	74.6	35.3	-7.1
Profit / loss before tax	-221.5	19.2	320.7	125.5	-70.7	-49.5	4.5	75.2	29.6	-16.2
Net profit / loss from continuing operations	-173.9	-8.3	254.0	94.0	-68.6	-38.9	-1.9	59.5	22.1	-15.7
Comprehensive income	-251.6	-37.4	228.2	87.3	-53.9	-56.2	-8.7	53.5	20.6	-12.3
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	-3.88	-0.19	5.67	2.10	-1.53	-0.87	-0.04	1.33	0.49	-0.35
Diluted earnings / loss per share (PLN/EUR)	-3.88	-0.19	5.67	2.10	-1.53	-0.87	-0.04	1.33	0.49	-0.35
Net cash flow from operating activities*	417.1	649.4	709.7	478.4	237.5	93.3	151.0	166.3	112.7	54.3
Net cash flow from investing activities	-559.1	-693.4	-536.3	-780.2	-440.6	-125.0	-161.2	-125.7	-183.8	-100.7
Net cash flow from financing activities	-57.5	201.6	-246.9	-14.3	731.0	-12.9	46.9	-57.9	-3.4	167.1
Movement in cash and cash equivalents	-199.5	157.6	-73.5	-316.1	527.9	-44.6	36.6	-17.2	-74.5	120.6
	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
Exchange rates (PLN/EUR)						4.6148	4.2585	4.3000	4.1709	4.4240
Non-current assets	5,948.9	6,030.5	4,902.5	4,562.6	4,445.2	1,289.1	1,416.1	1,140.1	1,093.9	1,004.8
Current assets	705.4	989.8	1,079.8	1,178.5	1,106.4	152.9	232.4	251.1	282.6	250.1
Non-current assets classified as held for sale	12.7	-	-	-	6.0	2.7	-	-	-	1.4
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	485.2	525.8	520.8	536.9	506.2
Equity	2,958.8	3,210.4	3,314.6	3,088.9	3,001.6	641.2	753.9	770.8	740.6	678.5
Non-current liabilities	2,646.7	2,659.0	1,652.6	1,748.7	1,713.9	573.5	624.4	384.3	419.3	387.4
Current liabilities	1,061.5	1,150.9	1,015.1	903.5	842.1	230.0	270.2	236.1	216.6	190.3

Source: Proprietary material

Data of non-recurring events reflecting completely the financial standing of PKP CARGO S.A. are presented in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2020.

⁹¹ In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

Table 17 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million					EUR million				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Exchange rates (PLN/EUR)						4.4742	4.3018	4.2669	4.2447	4.3757
Operating revenue	4,235.9	4,865.5	5,237.5	4,733.0	4,411.3	946.7	1,131.0	1,227.5	1,115.0	1,008.1
Operating profit / loss	-186.4	143.4	277.6	153.4	-132.1	-41.7	33.3	65.1	36.1	-30.2
Profit / loss before tax	-266.9	73.5	243.8	116.5	-150.9	-59.7	17.1	57.1	27.4	-34.5
Net profit / loss	-224.3	36.0	183.9	81.7	-133.8	-50.1	8.4	43.1	19.2	-30.6
Total comprehensive income attributable to the owners of the parent company	-279.5	4.2	170.7	73.8	-91.1	-62.5	1.0	40.0	17.4	-20.8
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	-5.01	0.80	4.11	1.82	-2.99	-1.12	0.19	0.96	0.43	-0.68
Diluted earnings / loss per share (PLN/EUR)	-5.01	0.80	4.11	1.82	-2.99	-1.12	0.19	0.96	0.43	-0.68
Net cash flow from operating activities*	553.1	806.5	863.0	600.7	380.0	123.6	187.5	202.2	141.5	86.9
Net cash flow from investing activities	-655.1	-814.8	-612.0	-740.0	-568.6	-146.4	-189.4	-143.4	-174.3	-129.9
Net cash flow from financing activities	-145.9	111.4	-322.9	-99.4	663.9	-32.6	25.9	-75.7	-23.4	151.7
Movement in cash and cash equivalents	-247.9	103.1	-71.9	-238.7	475.3	-55.4	24.0	-16.9	-56.2	108.6
	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Exchange rates (PLN/EUR)						4.6148	4.2585	4.3000	4.1709	4.4240
Non-current assets	6,397.4	6,503.8	5,187.2	4,951.5	4,964.2	1,386.3	1,527.3	1,206.3	1,187.2	1,122.1
Current assets	1,149.3	1,487.5	1,619.1	1,694.2	1,547.9	249.1	349.3	376.5	406.2	349.9
Non-current assets classified as held for sale	12.7	-	-	-	-	2.7	-	-	-	-
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	485.2	525.8	520.8	536.9	506.2
Equity attributable to the owners of the parent company	3,143.8	3,423.3	3,483.5	3,317.2	3,243.4	681.2	803.9	810.1	795.3	733.1
Equity attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Non-current liabilities	3,029.5	3,115.9	1,969.1	2,110.9	2,092.6	656.5	731.7	457.9	506.2	473.0
Current liabilities	1,386.1	1,452.1	1,353.7	1,217.6	1,176.1	300.4	341.0	314.8	291.9	265.8

Source: Proprietary material

Data of non-recurring events reflecting completely the financial standing of the PKP CARGO Group are presented in the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020.

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 Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020:

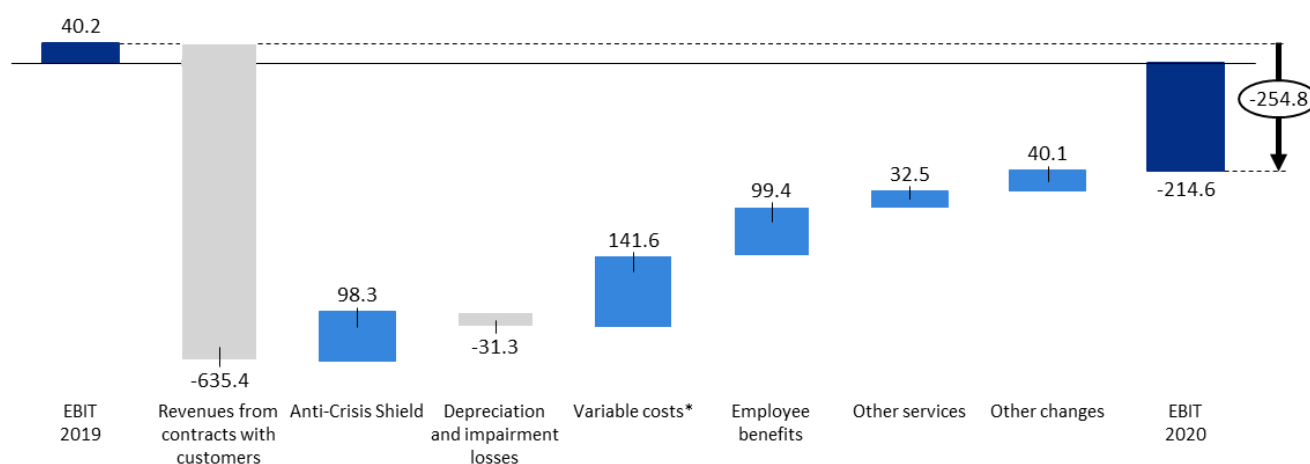
- exchange rate applicable on the last day of the reporting period: 31 December 2020: EUR 1 = PLN 4.6148; 31 December 2019: EUR 1 = PLN 4.2585
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in the respective period: 1 January – 31 December 2020: EUR 1 = PLN 4.4742, 1 January – 31 December 2019: EUR 1 = PLN 4.3018.

5.2. PKP CARGO S.A.'s economic and financial highlights

5.2.1 PKP CARGO S.A.'s statement of comprehensive income

In the period of 12 months of 2020, EBIT reached PLN -214.6 million, having declined by PLN 254.8 million compared to the corresponding period of the previous year.

Figure 19 EBIT in the 12 months of 2020 as compared to the corresponding period in 2019 (PLN million)



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

Source: Proprietary material

The most significant changes affecting EBIT in the 12 months of 2020 as compared to the 12 months of 2019 are discussed below:

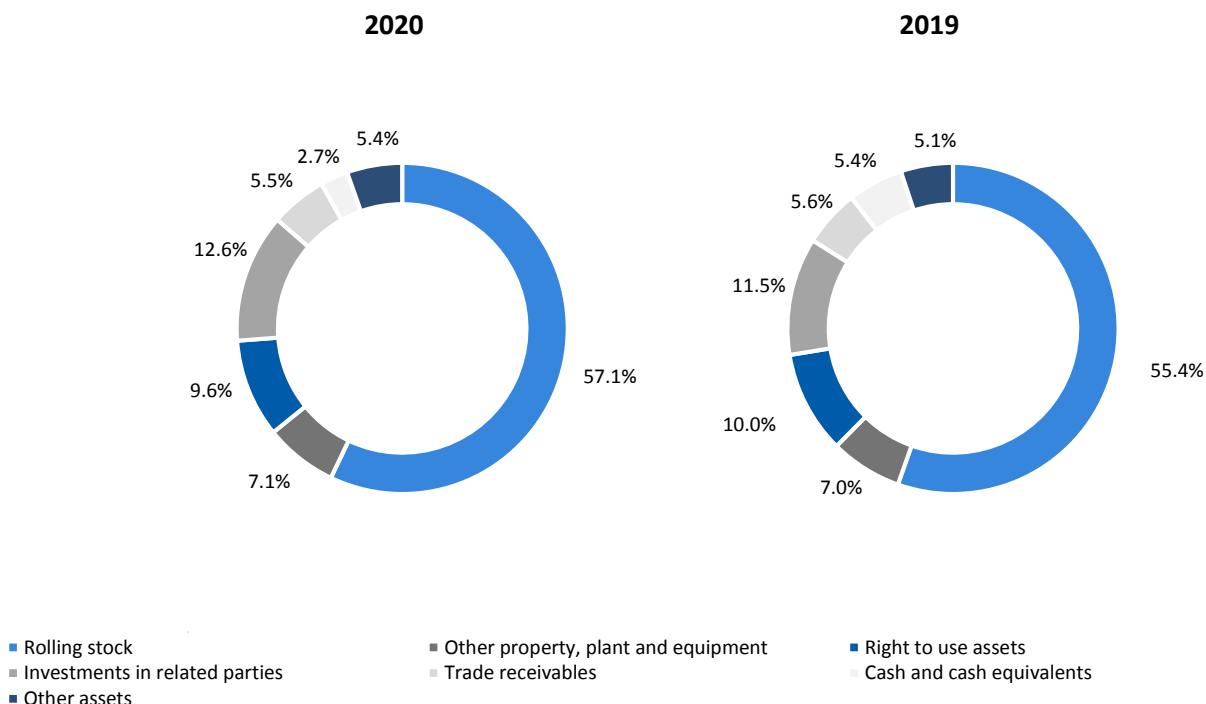
- decrease in revenues from contracts with customers (chiefly revenue from transportation services and freight forwarding services) which resulted directly from lower transport performance (decrease in freight turnover by 12.6%), and lower transportation unit prices.
- increase in depreciation costs and impairment losses in connection with high capital expenditures (including capital expenditures on rolling stock) in 2019, and an update of the residual value of rolling stock as at 31 December 2019;
- decrease in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 12.8%, mainly as a result of a 12.6% decrease in freight turnover;
- decrease in the costs of other services, chiefly in the line item of costs of renovation and maintenance services for non-current assets and rents and fees for the use of real properties and rolling stock, in relation to lower freight turnover as well as ongoing activities to rationalize operating costs;
- decrease in the costs of employee benefits due to a decline in headcount and a temporary reduction in working time. The above measures resulted in headcount fall by 1,108 FTEs yoy. Detailed information on the reduction in the FTE working time is presented in section [8.1 Impact of the COVID-19 pandemic on the Group's business](#), and detailed information on the changes in headcount is presented in section [4.5 Headcount](#);
- fall in the remaining items, mainly due to a lower consumption of materials and costs of business travel, lower freight turnover and lower value of materials sold following a decline in revenues from sales of materials.

5.2.2 Description of the structure of assets and liabilities of PKP CARGO S.A.

ASSETS

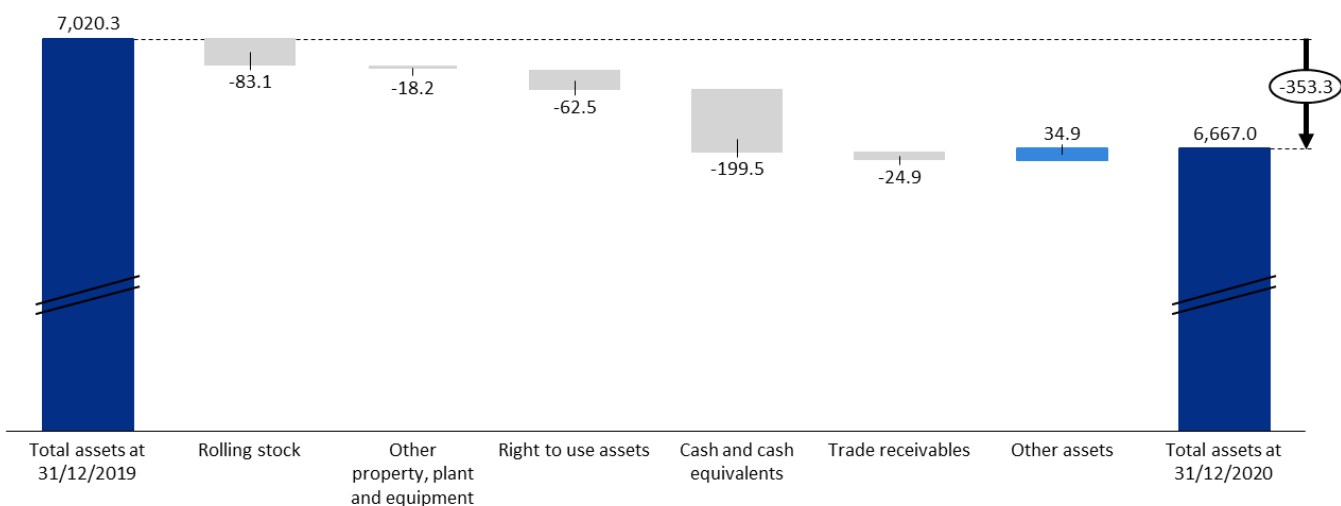
As at 31 December 2020, rolling stock represented the largest share in the structure of assets, accounting for 57.1% of total assets, compared to 55.4% as at 31 December 2019. The largest share in the structure of current assets as at 31 December 2020 was attributable to trade receivables, which represented 5.5% of the Company's total assets.

Figure 20 Structure of the Company’s assets – as at 31 December 2020 and 31 December 2019



Source: Proprietary material

Figure 21 Movement in the Company’s assets in the 12 months of 2020 (PLN million)



Source: Proprietary material

The most significant changes affecting the value of assets as at 31 December 2020 as compared to 31 December 2019 are discussed below:

- the decrease in the value of rolling stock and other non-current assets was mainly attributable to the Company’s decisions to sell and liquidate some of the rolling stock not required for efficient operations. Furthermore, the period under analysis saw higher depreciation than capital expenditures;

- the decrease in the right-of-use assets resulted from the higher cost of depreciation under IFRS 16 than capital expenditures under IFRS 16;
- the decrease in the value of trade receivables resulted chiefly from decrease in revenue from freight turnover (smaller freight volume), coupled with the extension of payment due dates for some counterparties as part of commercial concessions;
- the decrease in cash and cash equivalents resulted predominantly from the cost of acquisition of non-financial non-current and intangible assets in the amount of PLN 667.6 million, and the repayment of loans, borrowings and leasing liabilities, including interests, in the amount of PLN 402.1 million, with the concurrent proceeds from operating activities in the amount of PLN 417.1 million, a bank loan of PLN 285.6 million, proceeds from dividends in the amount of PLN 58.3 million, from subsidies received in the amount of PLN 68.1 million, and proceeds from the sale of non-financial non-current assets in the amount of PLN 47.1 million;
- the increase in the value of other assets, resulting from, among others, increase of deferred tax assets by PLN 64.3 million attributable to the current tax loss and movement in temporary differences in non-financial non-current assets, increase in investments in related parties assets by PLN 33.0 million (recapitalization of a subsidiary) and the reclassification, referred to above, of some non-current assets into non-current assets held for sale, as well as reclassification of a part of redundant rolling stock designated for scrapping to inventories. At the same time, a decline in income tax receivables was noted, of PLN 49.0 million, due to the refund by the Tax Office of advances for corporate income tax paid by the Tax Group for 2019;

Table 18 Days in inventory in 2016-2020

Item	2020	2019	2018	2017	2016	Change 2020-2019	Rate of change 2020/2019
Days in inventory*	184.7	94.6	96.8	128.9	110.6	90.1	95.2%

* Days in inventory calculated for 360 days and depletion on a year-to-date basis since the beginning of the reporting year

Source: Proprietary material.

As at the end of December 2020, the days in inventory ratio was 184.7, up by 90, i.e. 95.2% compared to 2019. This significant growth resulted from the following factors:

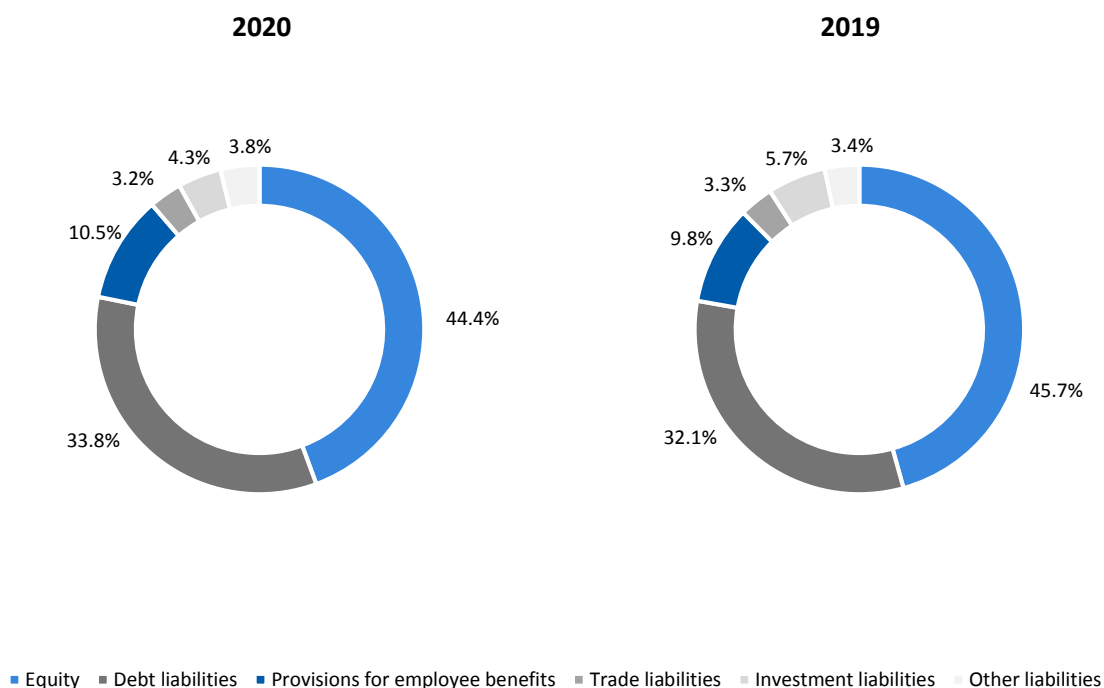
- increased inventories compared to 2019, by PLN 15.8 million;
- expenditures reduced by PLN 115.9 million relative to 2019, including lower consumption of materials by PLN 104.6 million and lower value of materials sold by PLN 11.0 million;

The level of inventories is adapted mainly to the level of the rolling stock maintenance and repair. Detailed information regarding the level of inventories is presented in [Note 5.4 to the SFS](#).

EQUITY AND LIABILITIES

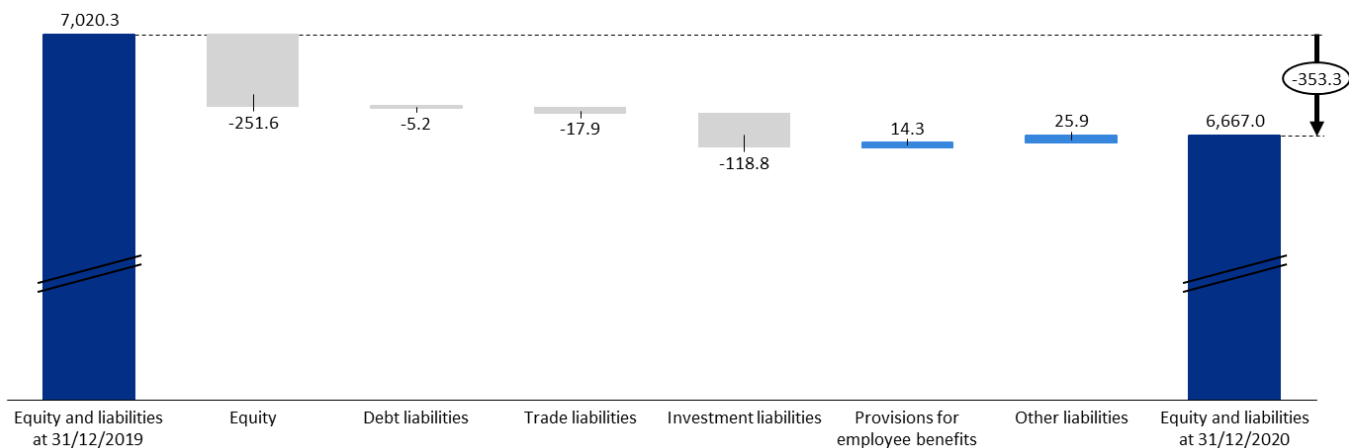
The largest share of equity and liabilities was equity, which as at 31 December 2020 represented 44.4% of total equity and liabilities, compared to 45.7% as at 31 December 2019. Debt liabilities accounted for 33.8% of total equity and liabilities, compared to 32.1% as at 31 December 2019.

Figure 22 Structure of the Company's equity and liabilities as at 31 December 2020 and 31 December 2019.



Source: Proprietary material

Figure 23 Movement in the Company's equity and liabilities in the 12 months of 2020 (PLN million)



Source: Proprietary material

The most significant changes affecting the value of equity and liabilities as at 31 December 2020, as compared to 31 December 2019, are discussed below:

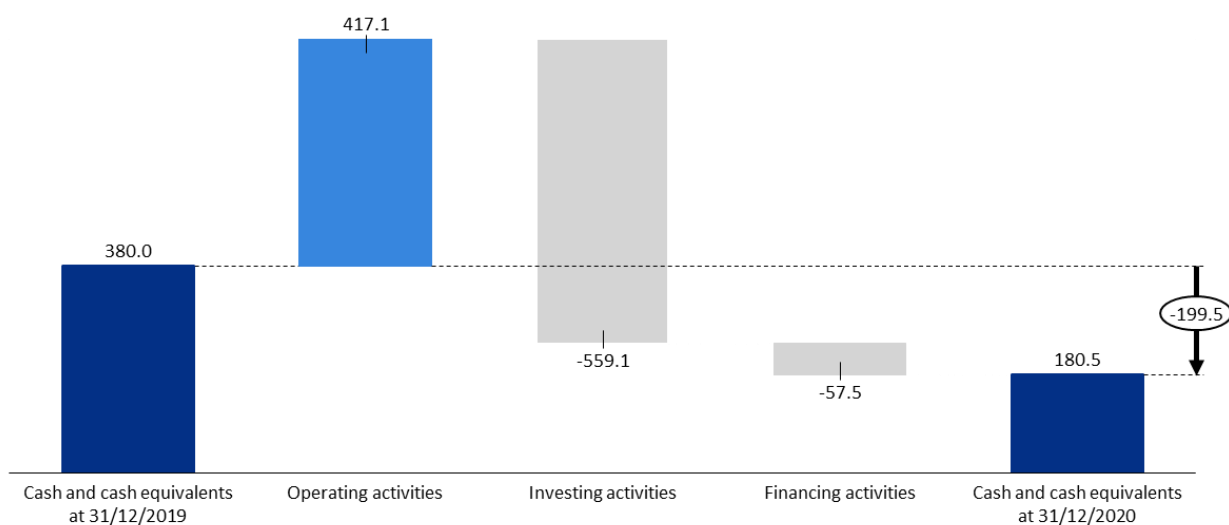
- the decrease in the value of equity, chiefly as a result of lower retained earnings (a negative financial result generated by the Company in 2020) and a decrease in the value of other items of equity, mainly in connection with the valuation of actuarial provisions for employee benefits and a negative measurement of hedging instruments under hedge accounting;

- the decrease in debt liabilities, attributable primarily to lower lease liabilities. Concurrently, an increase in loans and borrowings liabilities was noted, mainly due to higher foreign currency exchange rates and the resulting negative balance sheet measurements thereof,
- the decrease in trade payables linked to the lower volume of freight and, consequently, variable operating expenses;
- the decrease in investment liabilities, chiefly due to a decline in liabilities on account of the purchase of rolling stock in the amount of PLN 107.5 million (lower capital expenditure than in 2019), with a simultaneous increase in investment liabilities related to real properties by PLN 0.9 million, and a decrease in other investment liabilities by PLN 12.2 million (mainly a decrease in liabilities related to IT and machinery and equipment indirectly related to the transportation process);
- the increase in provisions for employee benefits, mainly in connection with a change in the discount rate and a change in the basis for calculating provisions for the Company Social Benefits Fund for old-age and disability pensioners (provisions for the Company Social Benefits Fund);
- the increase in the remaining items results mainly from higher other liabilities by PLN 45.8 million, including for the acquisition of interests in related entities (described in the asset section) and for security (security deposits, bid deposits, guaranties);

5.2.3 Cash flow statement of PKP CARGO S.A.

The value of cash and cash equivalents as at 31 December 2020 decreased by PLN 199.5 million compared to 31 December 2019.

Figure 24 Cash flows in the Company in 2020 (PLN million)



Source: Proprietary material

- Cash flows from operating activities were generated on the loss before tax of PLN 221.5 million and depreciation and impairment losses of PLN 615.1 million. Furthermore, higher cash flows from operating activity were noted in connection with the refund by the Tax Office of advances for corporate income tax paid by the Tax Group for 2019;
- the cash flows from investing activities resulted predominantly from capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 667.6 million, with proceeds from dividends from subsidiaries in the amount of PLN 58.3 million and from the sale of non-financial non-current assets of PLN 47.1 million as a result of a decision to sell assets unnecessary for the efficient conduct of operating activities;
- cash flow from financing activities resulted chiefly from the repayment of loans and leases with interests in the amount of PLN 402.1 million, offset by inflows of PLN 285.6 million from new loans and PLN 68.1 million from new subsidies.

5.2.4 Selected financial and operating ratios of PKP CARGO S.A.

The table below presents PKP CARGO S.A.'s key financial and operating ratios in the period of 2016-2020.

Table 19 Selected financial and operating ratios of PKP CARGO S.A. in 2016-2020

Item	2020	2019	2018	2017	2016	Change	
						2020 - 2019	Rate of change 2020 - 2019
EBITDA margin ¹	13.1%	17.3%	19.6%	16.5%	13.7%	-4.2 p.p.	-24.5%
Net profit margin ²	-5.7%	-0.2%	6.4%	2.6%	-2.1%	-5.5 p.p.	-
ROA ³	-2.6%	-0.1%	4.2%	1.6%	-1.2%	-2.5 p.p.	-
ROE ⁴	-5.9%	-0.3%	7.7%	3.0%	-2.3%	-5.6 p.p.	-
Average distance covered per locomotive (km per day) ⁵	230.2	234.3	262.9	256.8	249.5	4.1	-1.7%
Average gross train tonnage per operating locomotive (tons) ⁶	1,462.0	1,469.0	1,489.0	1,485.0	1,502.0	-7.0	-0.5%
Average running time of train locomotives (hours per day) ⁷	14.7	15.0	16.1	15.6	15.1	-0.3	-2.0%
Freight turnover per employee (thousands tkm/employee) ⁸	1,404.2	1,459.2	1,728.8	1,702.5	1,516.3	-55.0	-3.8%

Source: Proprietary material

1. Calculated as the ratio of the operating result without amortization and depreciation (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 quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO S.A.'s vehicles in the given period) and vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period).
6. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
7. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO S.A.'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 the Company's freight turnover to the average headcount (in FTEs) at PKP CARGO S.A. in the given period.

To assess the performance of PKP CARGO S.A., 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.

- The key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were lower for the reasons described in section **5.2 PKP CARGO S.A.'s economic and financial highlights**.
- the lower average daily haul of locomotives resulted from a decrease in freight volume and was caused by copious track closures and operational difficulties on the PKP PLK network;
- the lower average gross train tonnage per operating locomotive also resulted from the decrease in mass freight services, the change in the structure of transported cargo and the simultaneous copious track closures and operational difficulties on the PKP PLK network;
- the lower average daily operating time of locomotives was also caused by the decrease in freight volume and copious track closures and operational difficulties on the PKP PLK network;
- the decrease in the freight turnover per employee ratio was caused predominantly by a fall in freight turnover.

5.2.5 Time series of PKP CARGO S.A.'s financial data

The table below presents time series of the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows.

Table 20 Time series of the statement of profit or loss and other comprehensive income of PKP CARGO S.A. in 2016-2020

	PLN million				
	2020	2019	2018	2017	2016
Revenues from contracts with customers	2,936.6	3,572.0	3,910.8	3,563.6	3,219.0
Consumption of electricity and traction fuel	-446.9	-527.8	-549.7	-484.6	-456.8
Infrastructure access services	-516.2	-576.9	-733.6	-714.5	-658.1
Other services	-289.5	-322.0	-430.0	-450.7	-420.4
Employee benefits	-1,239.6	-1,339.0	-1,265.2	-1,150.7	-1,089.1
Other expenses	-147.7	-182.9	-170.2	-164.0	-153.9
Other income and operating expenses	103.8	0.6	9.1	-8.8	3.1
Operating profit before depreciation (EBITDA)	400.5	624.0	771.2	590.3	443.7
Depreciation and impairment losses	-615.1	-583.8	-453.0	-440.6	-474.8
Profit / loss on operating activities (EBIT)	-214.6	40.2	318.2	149.7	-31.1
Financial income and expenses	-6.9	-21.0	2.5	-24.2	-39.6
Profit (loss) before tax	-221.5	19.2	320.7	125.5	-70.7
Income tax	47.6	-27.5	-66.7	-31.5	2.1
NET PROFIT (LOSS)	-173.9	-8.3	254.0	94.0	-68.6
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	-49.8	9.4	-22.5	25.4	-4.7
Income tax	9.6	-1.8	4.3	-4.8	0.9
Other comprehensive income subject to reclassification to profit or loss, total	-40.2	7.6	-18.2	20.6	-3.8
Actuarial gains / (losses) on employee benefits	-45.4	-46.2	-9.4	-33.6	22.8
Income tax	8.6	8.8	1.8	6.3	-4.3
Measurement of equity instruments at fair value	-0.7	0.7	-	-	-
Other comprehensive income not subject to reclassification to profit or loss, total	-37.5	-36.7	-7.6	-27.3	18.5
Total other comprehensive income	-77.7	-29.1	-25.8	-6.7	14.7
TOTAL COMPREHENSIVE INCOME	-251.6	-37.4	228.2	87.3	-53.9
Earnings / (losses) per share (PLN per share)					
Weighted average number of common shares (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share	-3.88	-0.19	5.67	2.10	-1.53
Diluted earnings / losses per share	-3.88	-0.19	5.67	2.10	-1.53

Source: Proprietary material.

Table 21 Time series of the statement of balance sheet situation of PKP CARGO S.A. in 2016-2020

	PLN million				
	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
ASSETS					
Rolling stock	3,809.2	3,892.3	3,425.7	3,056.0	2,982.4
Other property, plant and equipment	474.7	492.9	543.1	555.2	579.6
Right-of-use assets	641.5	704.0	-	-	-
Investments in related parties	840.0	807.0	805.5	804.7	738.0
Lease receivables	24.4	19.7	-	-	-
Financial assets	4.9	7.4	5.7	8.6	6.3
Other assets	22.6	39.9	35.3	44.1	58.8
Deferred tax assets	131.6	67.3	87.2	94.0	80.1
Total non-current assets	5,948.9	6,030.5	4,902.5	4,562.6	4,445.2
Inventories	95.0	79.2	84.2	86.4	59.7
Trade receivables	366.5	391.4	479.4	461.0	407.9
Lease receivables	2.8	1.2	-	-	-
Income tax receivables	1.8	50.8	2.9	-	1.3
Financial assets	2.3	4.8	203.4	281.6	-
Other assets	56.5	82.4	87.5	53.6	26.8
Cash and cash equivalents	180.5	380.0	222.4	295.9	612.0
Total current assets	705.4	989.8	1,079.8	1,178.5	1,106.4
Non-current assets classified as held for sale	12.7	-	-	-	6.0
TOTAL ASSETS	6,667.0	7,020.3	5,982.3	5,741.1	5,557.6
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	744.7	744.7	596.7	589.2	589.2
Other items of equity	-139.5	-61.8	-32.7	6.0	12.7
Retained earnings	114.3	288.2	511.3	254.4	160.4
Total equity	2,958.8	3,210.4	3,314.6	3,088.9	3,001.6
Debt liabilities	1,897.6	1,920.0	999.9	1,214.5	1,206.4
Investment commitments	143.0	153.6	109.7	-	0.6
Provisions for employee benefits	606.1	585.4	528.8	520.0	490.5
Other financial liabilities	-	-	-	-	-
Other provisions	-	-	14.2	14.2	16.4
Total non-current liabilities	2,646.7	2,659.0	1,652.6	1,748.7	1,713.9
Debt liabilities	353.7	336.5	231.3	250.4	221.3
Trade payables	215.6	233.5	292.6	276.1	228.7
Investment commitments	141.3	249.5	225.5	127.8	70.3
Provisions for employee benefits	93.7	100.1	92.6	85.9	84.8
Other financial liabilities	2.7	2.2	1.7	-	59.0
Other provisions	13.0	33.4	19.4	16.9	11.6
Other liabilities	241.5	195.7	152.0	146.4	166.4
Total current liabilities	1,061.5	1,150.9	1,015.1	903.5	842.1
Total liabilities	3,708.2	3,809.9	2,667.7	2,652.2	2,556.0
TOTAL EQUITY AND LIABILITIES	6,667.0	7,020.3	5,982.3	5,741.1	5,557.6

Source: Proprietary material

Table 22 Time series of the statement of cash flows of PKP CARGO S.A. in 2016-2020

	PLN million				
	2020	2019	2018	2017	2016
Net cash from operating activities	417.1	649.4	709.7	478.4	237.5
Net cash from investing activities	-559.1	-693.4	-536.3	-780.2	-440.6
Net cash from financing activities	-57.5	201.6	-246.9	-14.3	731.0
Net increase/decrease in cash and cash equivalents	-199.5	157.6	-73.5	-316.1	527.9
Cash and cash equivalents at the beginning of the reporting period	380.0	222.4	295.9	612.0	84.1
Cash and cash equivalents at the end of the reporting period	180.5	380.0	222.4	295.9	612.0

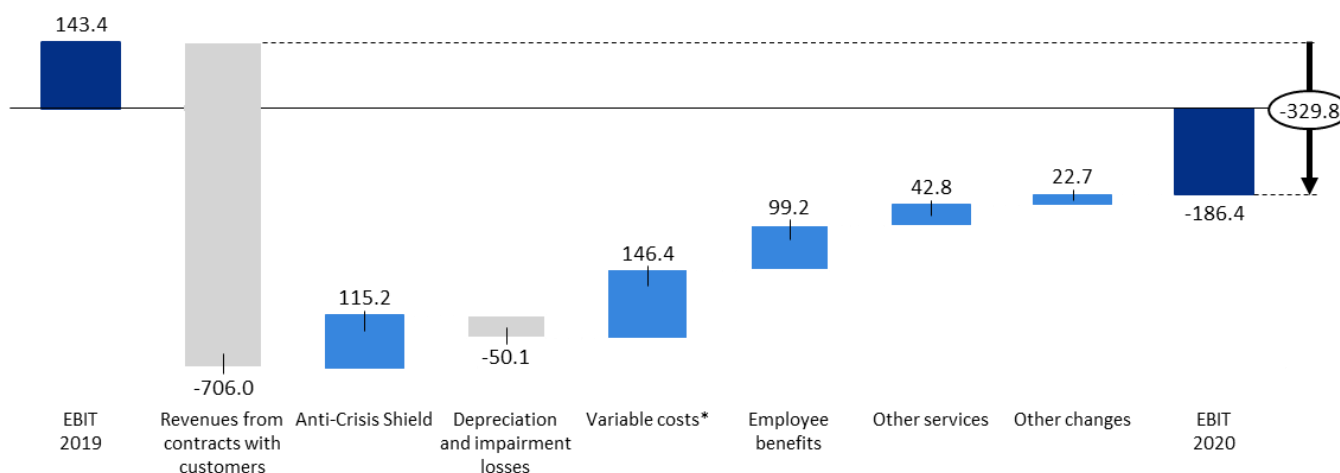
Source: Proprietary material.

5.3. Key economic and financial figures of PKP CARGO Group

5.3.1 Statement of comprehensive income of the PKP CARGO Group

In the period of 12 months of 2020, EBIT reached PLN -186.4 million, having gone down by PLN 329.8 million compared to the corresponding period of the previous year.

Figure 25 EBIT in the 12 months of 2020 as compared to the corresponding period in 2019 (PLN million)



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

Source: Proprietary material

The most significant changes affecting EBIT in the 12 months of 2020, as compared to the 12 months of 2019, are described below:

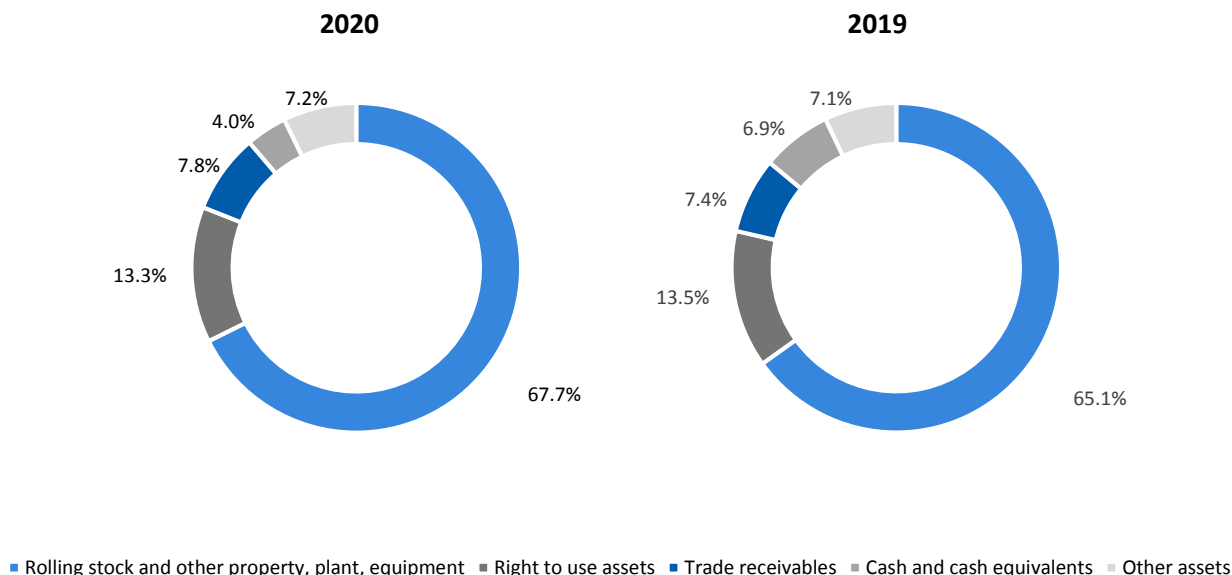
- the decrease in revenues from contracts with customers (chiefly revenue from transportation services and freight forwarding services) which resulted directly from lower transport performance (decrease in freight turnover by 12.0%). The details pertaining to the PKP CARGO Group's transport services are described in section [4.2.5 PKP CARGO Group's rail transport business](#);
- within the framework of the anti-crisis shield, funds were obtained for the co-funding of payroll expenditures from the Guaranteed Employee Benefits Fund in the total amount of PLN 115.2 million (classified as other operating revenue);
- the increase in depreciation costs and impairment losses in connection with high capital expenditures (including capital expenditures on rolling stock) in 2019, and an update of the residual value of rolling stock as at 31 December 2019;
- the decrease in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 12.7% as a result of a 12.0% decrease in freight turnover;
- the decrease in the costs of employee benefits due to a decline in headcount and a temporary reduction in working time in PKP CARGO S.A., PKP CARGO CONNECT Sp. z o.o. and PKP CARGOTABOR sp. z o.o. The above measures resulted in headcount fall by 1,378 FTEs yoy. Detailed information on the reduction in the FTE working time is presented in section [8.1 Impact of the COVID-19 pandemic on the Group's business](#), and detailed information on the changes in headcount is presented in section [4.5 Headcount](#);
- the decrease in the line item "other services" by PLN 42.8 million, attributable to reduction in the costs of rents and fees for the use of real properties and rolling stock by PLN 24.7 million (including a decrease in the costs of short-term rental of wagons resulting from the decrease in freight turnover) and a lower cost of reclamation services by PLN 15.4 million due to less activity in this area.

5.3.2 Description of the structure of assets and equity and liabilities of the PKP CARGO Group

ASSETS

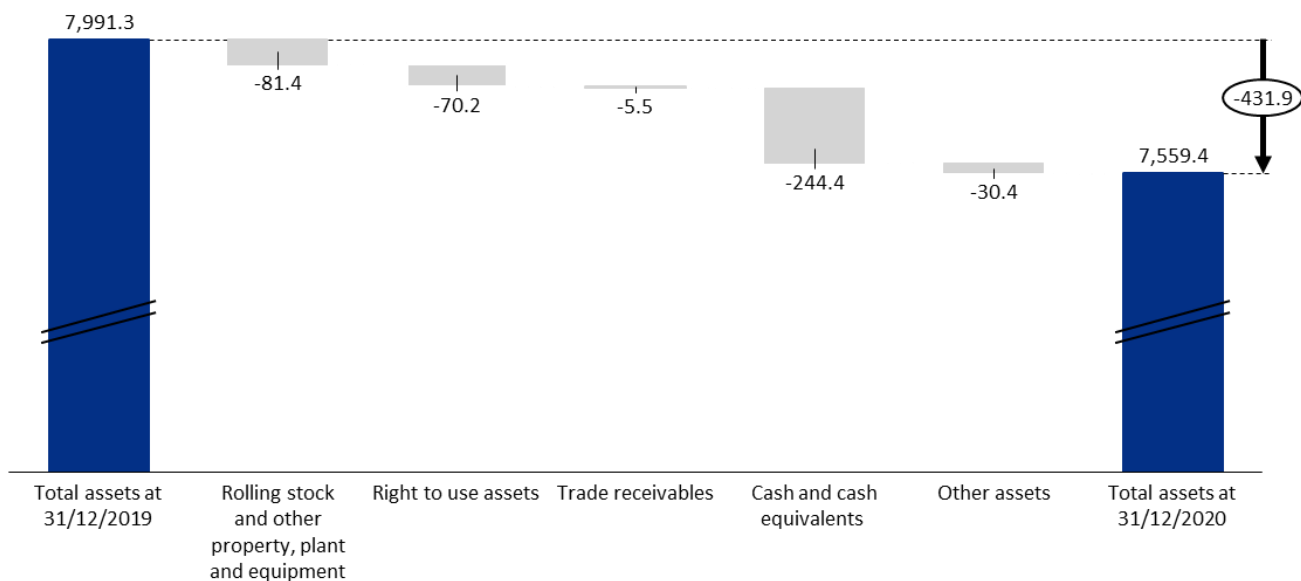
As at 31 December 2020, the largest asset items of PKP CARGO Group were: rolling stock and other property, plant and equipment. They accounted in aggregate for 67.7% of total assets, compared to 65.1% as at 31 December 2019. In current assets, the largest share in total assets as at 31 December 2020 were trade receivables, which represented 7.8% of total assets.

Figure 26 Structure of the Group’s assets – as at 31 December 2020 and 31 December 2019



Source: Proprietary material

Figure 27 Movement in the PKP CARGO Group’s assets in the 12 months of 2020 (PLN million)



Source: Proprietary material

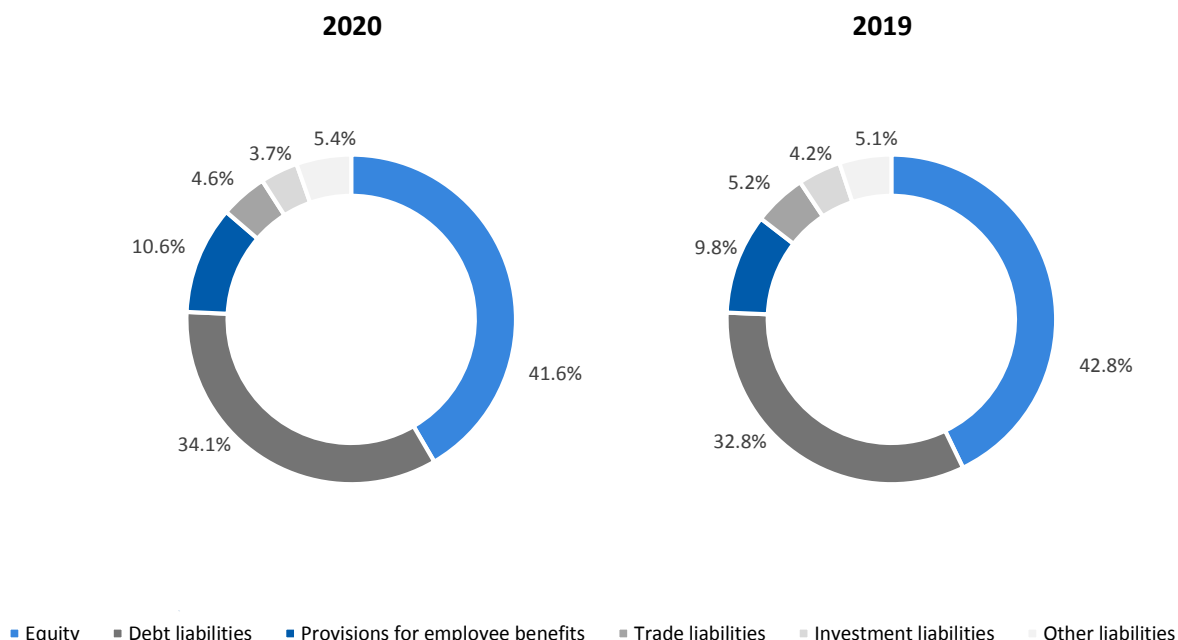
The most significant changes affecting the value of assets as at 31 December 2020 as compared to 31 December 2019 are discussed below:

- the decrease in the value of rolling stock and other property, plant and equipment was mainly attributable to the Company’s decisions to sell and liquidate some of the rolling stock required for efficient operations;
- the decrease in right-of-use assets as a result of the higher cost of depreciation under IFRS 16 than capital expenditures of IFRS 16;
- the decrease in the value of trade receivables, mainly resulting from a decrease in operating revenue (lower (smaller freight volume));
- the decrease in cash and cash equivalents, due among others to the acquisition of non-financial non-current assets for PLN 719.0 million, with PLN 553.1 million in cash generated on operating activities. Furthermore, a negative cash balance of PLN 145.9 million was generated on financing activities, resulting chiefly from the repayment of loans and leases with interests in the amount of PLN 502.7 million, offset by inflows of PLN 285.7 million from new loans and PLN 74.7 million from new subsidies.
- the decrease in the value of other assets resulted chiefly from a decrease in income tax receivables by PLN 48.5 million due to the refund by the Tax Office of advances for corporate income tax paid by the Tax Group for 2019 with a simultaneous decrease in VAT settlements by PLN 32.9 and concurrent increase in deferred tax assets by PLN 64.1 million resulting mainly from the current tax loss and movement in temporary differences linked to non-financial non-current assets items.

EQUITY AND LIABILITIES

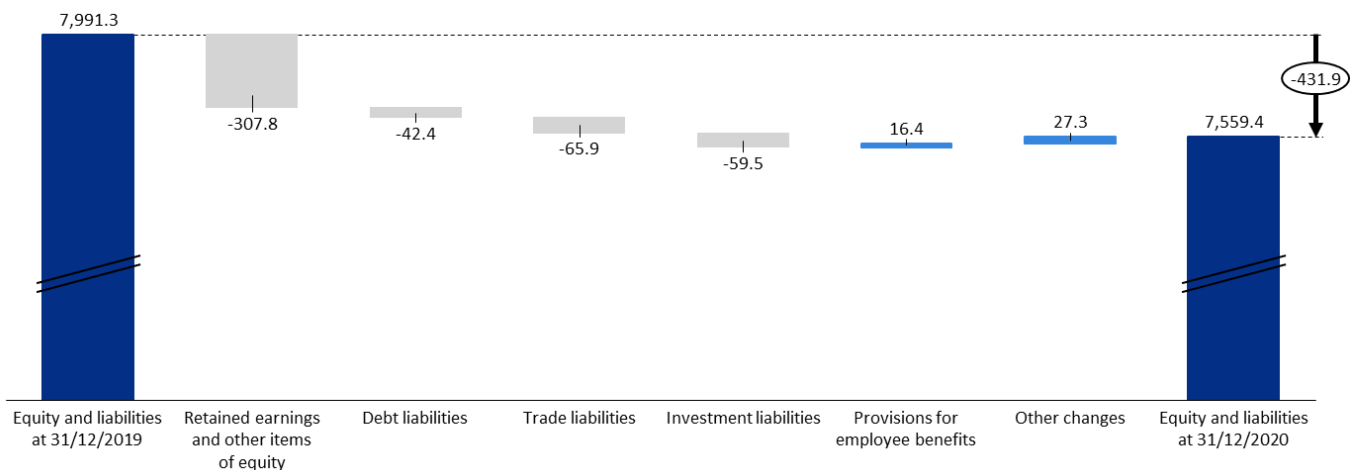
The largest share of equity and liabilities of the PKP CARGO Group was equity, which as at 31 December 2020 represented 41.6% of total equity and liabilities, compared to 42.8% as at 31 December 2019. Total debt liabilities accounted for 34.1% of total equity and liabilities, compared to 32.8% as at 31 December 2019.

Figure 28 Structure of the Group’s equity and liabilities as at 31 December 2020 and 31 December 2019



Source: Proprietary material

Figure 29 Change in the Group's equity and liabilities in the 12 months of 2020 (PLN million)



Source: Proprietary material

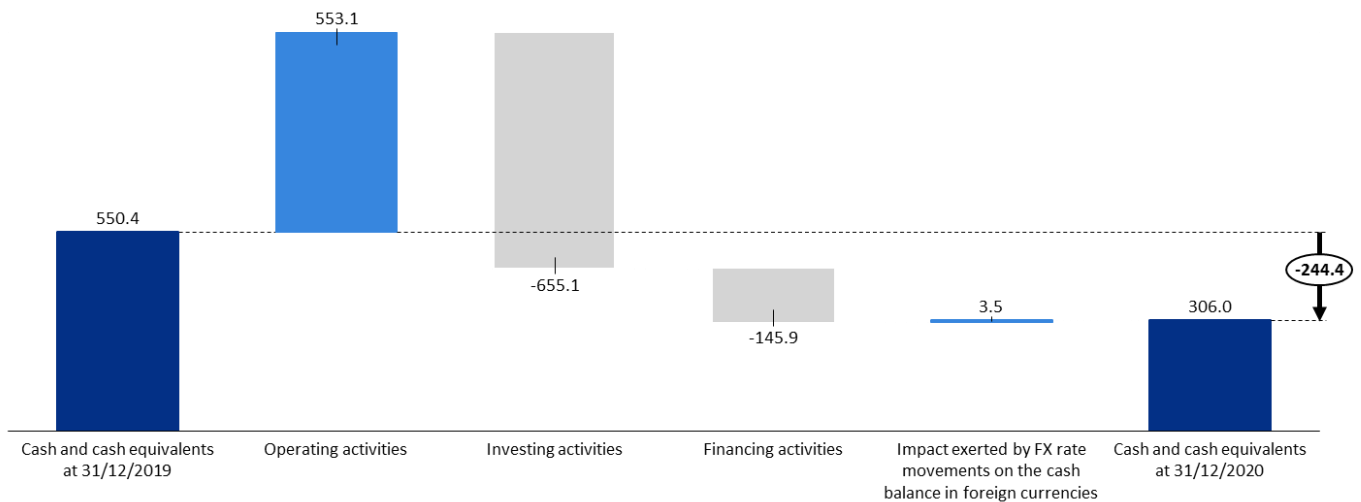
The most significant changes affecting the value of equity and liabilities as at 31 December 2020, as compared to 31 December 2019, are discussed below:

- the decrease in retained earnings and other items of equity due the PKP CARGO Group posting a negative financial result in 2020, actuarial losses related to employee benefits (as a result of an increase in employee provisions) and negative measurement of hedging instruments;
- the decrease in debt liabilities, mainly as a result of repayments of leases, with a concurrent increase in loans and borrowings liabilities, attributable primarily to negative balance sheet measurement caused by growing foreign currency exchange rates;
- the decrease in trade payables, mainly due to lower operating expenses (a smaller freight volume) and a decrease in liabilities in PKP CARGOTABOR Sp. z o.o. caused by a reduction in repairs of wagons and locomotives;
- the decrease in investment liabilities, chiefly due to a decline in liabilities on account of the purchase of rolling stock in the amount of PLN 43.5 million, with a simultaneous decrease in investment liabilities by PLN 12.9 million (mainly a decrease in liabilities related to IT and machinery and equipment indirectly related to the transportation process);
- the increase in provisions for employee benefits, mainly in connection with a fall in the discount rate and a change in the basis for calculating provisions for the Company Social Benefits Fund for old-age and disability pensioners (provisions for the Company Social Benefits Fund), which translated into increased long-term provisions.
- the increase in the other items was due among others to the increased exchange rate differences arising from FX differences from translation of financial statements of foreign operations, by PLN 27.3 million.

5.3.3 Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 December 2020 decreased by PLN 244.4 million compared to 31 December 2019.

Figure 30 Cash flows in the PKP CARGO Group in 2020 (PLN million)



Source: Proprietary material

- cash flows from operating activities generated on the loss before tax of PLN 266.9 million and depreciation and impairment losses of 766.6 million PLN. Furthermore, higher cash flows from operating activity were noted in connection with the refund by the Tax Office of advances for corporate income tax paid by the Tax Group for 2019.
- cash flows from investing activities resulted predominantly from capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 719.0 million, with proceeds from the sale of non-financial non-current assets of PLN 60.3 million as a result of a decision to sell assets unnecessary for the efficient conduct of operating activities;
- cash flows from financing activities resulted chiefly from the repayment of loans and leases with interests in the amount of PLN 502.7 million, offset by inflows of PLN 285.7 million from new loans and PLN 74.7 million from new subsidies.

5.3.4 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the key financial and operating ratios of the PKP CARGO Group in 2016-2020.

Table 23 Selected financial and operating ratios of the PKP CARGO Group in 2016-2020

Item	2020	2019	2018	2017	2016	Change	Rate of change
						2020 - 2019	2020 - 2019
EBITDA margin ¹	13.7%	17.7%	17.3%	14.8%	11.1%	-4.0 p.p.	-22.5%
Net profit margin ²	-5.3%	0.7%	3.5%	1.7%	-3.0%	-6.0 p.p.	-
ROA ³	-3.0%	0.5%	2.7%	1.2%	-2.1%	-3.5 p.p.	-
ROE ⁴	-7.1%	1.1%	5.2%	2.5%	-4.1%	-8.2 p.p.	-
Average distance covered per locomotive (km per day) ⁵	216.8	222.3	250.1	244.7	238.4	-5.5	-2.5%
Average gross train tonnage per operating locomotive (tons) ⁶	1,434.0	1,447.0	1,463.0	1,460.0	1,436.0	-13.0	-0.9%
Average running time of train locomotives (hours per day) ⁷	14.2	14.6	15.8	15.2	14.8	-0.4	-2.7%
Freight turnover per employee (thousands tkm/employee) ⁸	1,061.5	1,135.8	1,342.3	1,332.2	1,216.7	-74.3	-6.5%

Source: Proprietary material

1. Calculated as the ratio of the operating result without amortization and depreciation (EBITDA) to total operating revenue.
2. Calculated as the ratio of net result to total operating revenue.
3. Calculated as the ratio of net result for the last 12 months to total assets.
4. Calculated as the ratio of net result for the last 12 months to equity.
5. Calculated as the ratio of vehicle-kilometers (i.e. the distance covered by the Group's vehicles in the given period) to vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
6. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
7. Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of the Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
8. Calculated as the ratio of freight turnover to the average headcount (in FTEs) in the Group in the given period.

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

- the key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were lower on a yoy basis for the reasons described in section **5.3 Key economic and financial figures of PKP CARGO Group**.
- the lower average daily haul of locomotives resulted from a decrease in freight volume and was caused by copious track closures and operational difficulties on the PKP PLK network;
- the lower average gross train tonnage per operating locomotive also resulted from the decrease in mass freight services, the change in the structure of transported cargo and the simultaneous copious track closures and operational difficulties on the PKP PLK network;
- the decrease in the average daily operating time of locomotives for the reasons described above;
- the decrease in the freight turnover per employee ratio was caused predominantly by a fall in freight turnover.

5.3.5 Time series of the PKP CARGO Group's financial data

The table below presents time series of the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows.

Table 24 Time series of the statement of profit or loss and other comprehensive income of the PKP CARGO Group in 2016-2020

	PLN million				
	2020	2019	2018	2017	2016
Revenues from contracts with customers	4,075.6	4,781.6	5,183.0	4,689.1	4,372.0
Consumption of electricity and traction fuel	-492.7	-583.8	-615.1	-544.8	-514.5
Infrastructure access services	-517.3	-572.6	-732.0	-717.6	-668.6
Transport services	-340.5	-363.3	-463.1	-450.6	-431.7
Other services	-365.8	-408.6	-529.6	-450.6	-472.8
Employee benefits	-1,638.1	-1,737.3	-1,651.4	-1,510.3	-1,442.3
Other expenses	-264.6	-292.8	-298.9	-297.3	-274.3
Other income and operating expenses	123.6	36.7	14.1	-17.6	-78.3
Operating profit before depreciation (EBITDA)	580.2	859.9	907.0	700.3	489.5
Depreciation and impairment losses	-766.6	-716.5	-629.4	-546.9	-621.6
Profit / loss on operating activities (EBIT)	-186.4	143.4	277.6	153.4	-132.1
Financial income and expenses	-82.2	-71.6	-42.0	-37.7	-22.3
Share in the profit / loss of entities accounted for under the equity method	1.7	1.7	3.7	0.8	3.5
Result on the sale of shares in entities accounted for under the equity method	-	-	4.5	-	-
Profit (loss) before tax	-266.9	73.5	243.8	116.5	-150.9
Income tax	42.6	-37.5	-59.9	-34.8	17.1
NET PROFIT (LOSS)	-224.3	36.0	183.9	81.7	-133.8
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	-50.8	9.9	-23.4	27.9	-3.9
Income tax	9.7	-1.9	4.4	-5.3	0.7
FX differences from translation of financial statements	27.3	1.7	16.5	-0.6	28.5
Other comprehensive income subject to reclassification to profit or loss, total	-13.8	9.7	-2.5	22.0	25.3
Actuarial gains / (losses) on employee benefits	-50.2	-52.2	-13.2	-36.9	21.5
Income tax	9.5	10.0	2.5	7.0	-4.1
Measurement of equity instruments at fair value	-0.7	0.7	-	-	-
Other comprehensive income not subject to reclassification to profit or loss, total	-41.4	-41.5	-10.7	-29.9	17.4
Total other comprehensive income	-55.2	-31.8	-13.2	-7.9	42.7
TOTAL COMPREHENSIVE INCOME	-279.5	4.2	170.7	73.8	-91.1
Net profit (loss) attributable:					
Net profit / (loss) attributable to the owners of the parent company	-224.3	36.0	183.9	81.7	-133.8
Non-controlling interests			-	-	-
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the parent company	-279.5	4.2	170.7	73.8	-91.1
Non-controlling interests			-	-	-
Earnings / (losses) per share (PLN per share)					
Weighted average number of common shares (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Basic and diluted earnings / (losses) per share	-5.01	0.80	4.11	1.82	-2.99

Source: Proprietary material

Table 25 Time series of the statement of financial position the PKP CARGO Group in 2016-2020

	PLN million				
	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
ASSETS					
Rolling stock	4,245.0	4,329.6	3,997.0	3,750.4	3,734.6
Other property, plant and equipment	875.6	872.4	949.9	937.6	966.0
Right-of-use assets	1,008.6	1,078.8	-	-	-
Investments in entities accounted for under the equity method	42.0	40.4	47.3	53.6	58.2
Trade receivables	3.0	3.0	0.7	1.8	2.2
Lease receivables	10.3	10.9	-	-	-
Other assets	35.1	55.0	56.7	70.4	91.7
Deferred tax assets	177.8	113.7	135.6	137.7	111.5
Total non-current assets	6,397.4	6,503.8	5,187.2	4,951.5	4,964.2
Inventories	165.8	161.0	161.7	148.5	121.2
Trade receivables	585.8	591.3	684.6	687.0	613.8
Lease receivables	0.7	0.7	-	-	-
Income tax receivables	2.9	51.4	3.0	0.1	2.8
Deposits above 3 months	-	-	201.1	253.8	-
Other assets	88.1	132.7	121.4	88.0	54.2
Cash and cash equivalents	306.0	550.4	447.3	516.8	755.9
Total current assets	1,149.3	1,487.5	1,619.1	1,694.2	1,547.9
Non-current assets classified as held for sale	12.7	-	-	-	-
TOTAL ASSETS	7,559.4	7,991.3	6,806.3	6,645.7	6,512.1
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	782.4	781.4	628.2	619.3	618.7
Other items of equity	-160.2	-77.7	-44.2	-1.6	5.7
Exchange differences resulting from conversion of financial statements of foreign operations	104.8	77.5	75.8	59.9	60.5
Retained earnings	177.5	402.8	584.4	400.3	319.2
Total equity	3,143.8	3,423.3	3,483.5	3,317.2	3,243.4
Debt liabilities	2,101.8	2,201.4	1,156.5	1,403.7	1,414.5
Trade payables	1.5	2.7	0.5	1.3	1.3
Investment commitments	145.5	157.0	109.8	-	0.6
Provisions for employee benefits	684.3	657.1	591.5	575.7	542.1
Other provisions	5.7	5.4	20.5	22.5	26.4
Deferred tax liability	90.7	92.3	88.5	107.4	106.7
Other liabilities	-	-	1.8	0.3	1.0
Total non-current liabilities	3,029.5	3,115.9	1,969.1	2,110.9	2,092.6
Debt liabilities	478.5	421.3	270.5	297.7	376.0
Trade payables	347.5	412.2	499.4	445.9	376.0
Investment commitments	133.5	181.5	177.6	79.1	45.8
Provisions for employee benefits	116.3	127.1	115.5	108.5	103.5
Other provisions	24.1	45.6	56.9	59.7	25.0
Other liabilities	286.2	264.4	233.8	226.7	249.8
Total current liabilities	1,386.1	1,452.1	1,353.7	1,217.6	1,176.1
Total liabilities	4,415.6	4,568.0	3,322.8	3,328.5	3,268.7
TOTAL EQUITY AND LIABILITIES	7,559.4	7,991.3	6,806.3	6,645.7	6,512.1

Source: Proprietary material

Table 26 Time series of the statement of cash flows of the PKP CARGO Group in 2016-2020

	PLN million				
	2020	2019	2018	2017	2016
Net cash from operating activities	553.1	806.5	863.0	600.7	380.0
Net cash from investing activities	-655.1	-814.8	-612.0	-740.0	-568.6
Net cash from financing activities	-145.9	111.4	-322.9	-99.4	663.9
Net increase/decrease in cash and cash equivalents	-247.9	103.1	-71.9	-238.7	475.3
Cash and cash equivalents at the beginning of the reporting period	550.4	447.3	516.8	755.9	276.2
Impact of FX rate movements on the cash balance in foreign currencies	3.5	-	2.4	-0.4	4.4
Cash and cash equivalents at the end of the reporting period	306.0	550.4	447.3	516.8	755.9

Source: Proprietary material.

5.4. Information about production assets

5.4.1 Rolling stock

PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5⁹² and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and sub-assemblies for other owners.

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

In 2020, the number of locomotives and wagons used by the Group decreased. The PKP CARGO Group keeps purchasing new locomotives and wagons and at the same time carries out the disposal process of its oldest rolling stock.

The most modern part of our fleet is 21 multi-system locomotives (powered by DC or AC voltage), which can cross country borders without stopping to allow change of the power system (which gives electricity savings). Out of these locomotives, 20 are brand new, purchased in the past 3 years. The Company also has 3 modern six-axle electric Dragon (ET25) locomotives and 7 Dragon 2 (ET26) locomotives, including 7 locomotives equipped with combustion modules. In the Company's rail car fleet, 3,376 are intermodal platforms (out of which 400 were purchased in 2020). More such platforms will be purchase in the upcoming years.

Moreover, locomotives are modernized – during the 12 months of 2020, 7 overhauls were performed with modernization of a series ET41 locomotive, 10 overhauls were performed with modernization of series SM48 locomotives (with the series designation changed to ST48) and 6 overhauls were performed with modernization of series ST44 locomotives.

The tables below present the structure of the locomotives and wagons used in 2016-2020.

Table 27 Structure of locomotives used by the Group and PKP CARGO S.A., by traction type

Item	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016	Change 2020-2019
diesel locomotives	1,103	1,261	1,286	1,272	1,398	-158
<i>of which in PKP CARGO S.A.</i>	912	1,065	1,077	1,076	1,200	-153
electric locomotives	968	1,079	1,066	1,062	1,173	-111
<i>of which in PKP CARGO S.A.</i>	949	1,059	1,049	1,048	1,161	-110
Total	2,071	2,340	2,352	2,334	2,571	-269
<i>of which in PKP CARGO S.A.</i>	1,861	2,124	2,126	2,124	2,361	-263

Source: Proprietary material

Table 28 Structure of the wagons used by the PKP CARGO Group and PKP CARGO S.A.

Item	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016	Change 2020-2019
Wagons owned and leased	58,453	62,330	64,151	64,760	65,686	-3,877
<i>of which in PKP CARGO S.A.</i>	53,619	57,272	59,127	60,268	60,954	-3,653

Source: Proprietary material

⁹² P1 – scheduled inspection operations performed before the vehicle's admission to the line, when the vehicle is in motion or after the completion of the ride, provision of consumables, assessment of the main components and vehicle systems

P2 – scheduled inspection operations performed without disassembling any components during breaks in the operation of the vehicle

P3 – maintenance operations performed on specialist control posts, when the vehicle is withdrawn from service, with partial dismantling of sub-assemblies

P4 – maintenance operations performed in plants fitted with technical facilities and measurements stations, encompassing planned replacement or repairs of sub-assemblies

P5 – renovation of the vehicle, encompassing dismantling of sub-assemblies and their replacement with new or regenerated ones

5.4.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. The majority of real estate held by the Group is used on the basis of long-term lease and rental agreements. The table below presents changes in real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2016-2020.

Table 29 Real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2016-2020

Item	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016	Change 2020-2019
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,415	1,449	1,479	1,573	1,584	-34
<i>of which in PKP CARGO S.A.</i>	520	517	536	566	578	3
Buildings - owned, leased and rented from other entities [sqm]	693,213	723,962	738,392	749,492	781,998	-30,749
<i>of which in PKP CARGO S.A.</i>	535,910	539,554	542,337	564,091	585,690	-3,644

Source: Proprietary material

The decrease in the size of the land and buildings used (owned, leased and rented from other entities) results from the ongoing verification of the quantum of assets necessary for the Parent Company and its subsidiaries and adjusting it to the scale and profile of conducted activity. In the analyzed period, the most important factor was discontinuation by the PKP CARGO International Group of a rental of real estate in Prague and Havirov, of the total area of 19,860 m² and sale of a building in Rychvald (-6 155 m²).

5.5. Key information about the financial standing of the Company and the PKP CARGO Group

5.5.1 Information on loan and borrowing agreements executed and terminated

In 2020, no loan agreement with the Company was terminated.

On 7 May 2020, the Parent Company executed an Investment Loan Agreement with the European Investment Bank up to a maximum value of EUR 200 million (EURIBOR or WIBOR + margin), with the proviso that disbursement of a loan amount under the EIB agreement above EUR 60 million requires each time the consent of the PKP CARGO S.A. Supervisory Board. The loan has been granted to finance and/or refinance the investment plan.

On 20 May 2020, the Parent Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to the maximum amount of PLN 100 million, which amends the loan terms in that it extends the loan availability until 24 May 2021.

On 25 June 2020, a Company of the PKP CARGO Group entered into an agreement with Bank Polska Kasa Opieki S.A. for current account overdraft up to the amount of PLN 10 million (WIBOR + margin), with the availability term of 12 months.

On 18 September 2020, a Company of the PKP CARGO Group entered into an Investment Loan Agreement with Bank Polska Kasa Opieki S.A. for the amount of PLN 10 million (WIBOR + margin), with the availability term until 31 May 2021.

5.5.2 Information about granted loans

In 2020, the Parent Company did not grant any loans, and no loans were granted by its subsidiaries.

5.5.3 Information about granted and received sureties and guarantees

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.

5.5.4 Issues, redemptions and repayments of debt securities and equity securities

In the analyzed period, in PKP CARGO S.A. there were no issues, redemptions and repayments of debt securities and equity securities.

5.5.5 Assessment of management of financial resources

PKP CARGO S.A. and the Group have been efficiently managing the cash management cycle by matching the maturity of its receivables and payables, in order to mitigate a potential risk of short-term cash shortage. In 2020, PKP CARGO S.A. had two current account overdraft agreements with the total limit of PLN 200 million.

Internal financial risk management policy, allowing for optimization of the maturities and types of investment instruments and the liquidity reserve level, is an element supporting efficient management of the Company's and the Group's finances. Excess cash generated by the Company and the Group was invested in fixed rate bank deposits with maturities depending on the Group's liquidity needs. Decisions made with regard to bank deposits are based on maximizing the rate of return and current assessment of the financial standing of the banks. The structure of assets, including cash and short-term investments, secured the Company's and the Group's ability to settle their liabilities in a timely manner.

The finance management system in PKP CARGO Group companies is efficiently supplemented by the cash pooling mechanism, which makes it possible to reduce the costs incurred in connection with the use of short-term external financing sources and maximize the financial revenues in connection with available cash surpluses.

In 2020, the Company entered into bank guarantee limit agreements, on the basis of which it is possible to issue guarantees on the order of any company from the PKP CARGO Group, which made it possible to reduce the costs incurred in connection with obtained guarantees.

In 2020, the Group companies had full capacity to settle their liabilities at maturity.

5.5.6 Description of the structure of key equity investments or key investments made within the Company and the PKP CARGO Group

Most financial investments made by the Company and the Group in 2020 were bank deposits, which were executed mainly for a period from a few days up to 3 months, depending on the liquidity needs.

5.5.7 Current and forecasted financial standing of the Company and the PKP CARGO Group

As is described in more detail in [Note 4.1 to the SFS](#) and [Note 4.1 to the CFS](#), due to exceeding the net debt to EBITDA ratios, the Parent Company obtained a one-off waiver from the lenders from the obligation to keep these ratios at the contractually agreed level. Apart from this, as at 31 December 2020, there were no other events causing a significant deterioration of the financial standing of the PKP CARGO Group. Risks associated with the ongoing COVID-19 pandemic persist, and if materialized - may have an impact on the financial standing of the PKP CARGO Group.

The Management Board of PKP CARGO S.A. takes relevant actions to limit the negative effects of the COVID-19 pandemic, and so ensure safe continuation of the PKP CARGO Group's operation.

The financial position of the PKP CARGO Group is stable. The PKP CARGO Group has full capacity to settle its liabilities at maturity.

5.6. Key risk factors and threats

5.6.1 Description of the key threats and risks



Risks related to the economic and market environment

Risk resulting from the macroeconomic situation – Poland and the Czech Republic are important links in the European and global trade and the European supply chain.⁹³ As a result, the economic situation in Poland and the Czech Republic is shaped not only by domestic factors, but also the macroeconomic trends in their environment (in particular in the other EU member states, to whom the economic ties are the strongest). Therefore, any trend of economic revival or

⁹³ Polish Development Fund, Bank Societe Generale

slowdown has a direct impact on the potential volume of freight available for transportation in Poland and the Czech Republic, and consequently on the operating performance and revenues of PKP CARGO Group companies.

In 2020, the global economy suffered an unprecedented drop in GDP in the wake of the COVID-19 pandemic and the economic results of business and social restrictions introduced to prevent its spread. According to the most recent estimated of the International Monetary Fund (IMF), in 2020 the global GDP shrunk by -3.5% yoy (a revision by +0.9 p.p. relative to the previous projections, in view of the clearly data reported by economies in the second half of 2020), whereby in developed economies it fell by 4.9% yoy, and in developing economies - by 2.4% yoy. At the same time, according to the IMF economists, in the upcoming quarters one can expect a gradual revival in the global economy, with an average annual GDP growth rate at 5.5% in 2021 and 4.2% in 2022. IMF's analysts believe that the scale of this revival will vary greatly among individual countries, and the GDP growth rate in developed economies (4.3% yoy in 2021, and 3.1% yoy in 2022) will be clearly slower than in developing economies (6.3% yoy in 2021 and 5.0% yoy in 2022). IMF's economists underline that for very many economies the level of production (GDP) as at the end of 2022 will still be much below the 2019 level (i.e. pre-COVID-19).⁹⁴

At the same time, according to both international institutions' (IMF) and national analysts (National Bank of Poland), the balance of risks for the above described growth scenarios remains clearly negative, and the key driving factor of any future GDP growth path is the ultimate scale of impacts ensuing from the global COVID-19 pandemic and its course, including

- the persisting high number of infections or a potential stronger wave of the pandemic in the individual economies, requiring longer or stricter measures to curb business or social activity⁹⁵;
- the slower than expected or unevenly distributed rollout of vaccinations, between, among others, developed and developing countries (being then reflected in a slower removal of restrictions in the global context) ⁹⁶;
- emergence of new COVID-19 virus strains, which may be at least partly resistant to the currently available vaccines⁹⁷;
- supply side problems (employee absenteeism, disruption to supply chains), translating into lower productivity and higher operating costs of businesses⁹⁸;
- a persistently high level of uncertainty in the economy, having an impact on investment levels and consumer sentiments (postponed spending on purchases of durable goods) ⁹⁹;
- permanent changes in people's economic behavior (following the requirements of limiting social contact and social distancing), which will re-shape the demand for certain good and services¹⁰⁰;
- an increase in autarkic tendencies (slower pace of globalization), intensification of trade conflicts between the USA, European Union or China¹⁰¹;
- potentially deteriorated sentiments and higher volatility on financial markets, heightened risk aversion and, as a consequence, capital outflow from emerging markets (entailing the tightening of financial conditions and an increase in public debt servicing costs), which, when combined with tougher access to funding and weaker demand in general, may lead to macroeconomic imbalances in many developing economies¹⁰²;

In a negative scenario, materialization of even only some of the risks described above may lead to permanent constriction of the global economy's production potential, including Polish and Czech economies, and result in a decline in investment in businesses, permanent unemployment rate growth, weaker professional activity or slower productivity growth rate in the upcoming quarters and years.

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

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

⁹⁴ International Monetary Fund

⁹⁵ International Monetary Fund

⁹⁶ International Monetary Fund

⁹⁷ International Monetary Fund

⁹⁸ International Monetary Fund

⁹⁹ International Monetary Fund

¹⁰⁰ International Monetary Fund

¹⁰¹ International Monetary Fund

¹⁰² International Monetary Fund

The economic recession brought about by the COVID-19 pandemic has landed a heavy blow to the industrial sector. In absolute terms, the level of industrial output in Poland spiraled down at the beginning of the pandemic to the lowest level since 2013, after which the sector started to gradually make up for the decline, reaching the pre-pandemic production volume at the end of 2020¹⁰³. As a result, the future evolution of the epidemiological situation and the speed with which the Polish and Czech economies end up returning to the growth path will be the key drivers of industrial production growth, and - indirectly - of the scale of the PKP CARGO Group's transport business in the coming quarters.

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

- expected decrease in the consumption of steam coal as an energy carrier in Poland and the Czech Republic, exacerbated by the risk that the COVID-19 pandemic may further accelerate the rate of decline in the share of this commodity in the energy mix. The reduction in the quantity of hard coal consumption in the economy will be caused both by supply-side factors (gradual decline in the profitability of mines in Poland and their anticipated shutdowns in the Czech Republic) and demand-side factors (growing significance of other energy sources following the implementation of the EU's climate policy, decreasing price competitiveness of energy generation from coal caused by hefty charges for CO₂ emissions and a general increase in energy efficiency); ¹⁰⁴ Adoption in February 2021 by the Polish government of the policy paper "Poland's Energy Policy until 2040" (PEP) is a step on the path towards gradual reduction of hard coal consumption in the Polish economy in the upcoming years, whereby it is stressed that this process should ensure fair transformation and respect for the interests of all stakeholders. Pursuant to the PEP, in 2030 the share RES in the final gross energy consumption should reach a minimum of 23%. Moreover, further development of wind energy is planned, and - after 2030 - a startup of a nuclear power plant in Poland.
- In the coming years, coal consumption will decline in both electricity and heat sector, as well as in industry. The Ministry of Climate and Environment has also announced the planned shutting down of about 70% of coal-fired units in Poland over the next 20 years. On 1 January 2021, old coal-fired units, of the total capacity of 1,645, have been decommissioned from the grid (in Tauron Group and in the PGE and ZE PAK Groups). Until the end of 2023, the PGE Group will shut down units of the total capacity of 900 MW (450 MW as early as in August 2021).¹⁰⁵ At the same time, signing of an agreement between miners and the government on the principles and timing of transformation of the mining industry envisages an option of the reduction of mining in 2021 by about 2 million tons yoy ¹⁰⁶. Noteworthy, so far the real growth rate of coal production and demand have consistently proven higher than all the priorly adopted transformation plans.
- the plan to shut down the hard coal mining industry in the Czech Republic assumes that hard coal (mainly coking coal) mining operations will cease by the end of 2022 at the latest. On the one hand, this situation represents a risk of falling transport volumes for PKP CARGO Group companies in the Czech territory (characterized by a large share of hard coal), yet on the other hand creates an opportunity for new export markets to emerge for Polish mines (Poland is the leading exporter of coke and coking coal to the EU countries). In September 2020, coke was again recognized by the EU as a strategic raw material, and an economic revival once the pandemic is over should be conducive to good demand for this input raw material for steel production. Consequently, the future situation in the Czech Republic creates prospects for JSW (the largest producer of coking coal in the EU with an annual output of approx. 11 million tons) and Polska Grupa Górnicza (e.g. the Bielszowice and Halemba mines, where coking coal accounts for approx. 40% of total output), and the risks seem to be mutually balanced. ¹⁰⁷
- a strong impact of the pandemic on the steel production industry, whose development will be largely dependent on the epidemiologic situation in the world. Any new wave of the pandemic may translate into continued relatively low demand for products of the metallurgical sector and, as a result, also for the commodities consumed in the production process (iron ore and coke). Steel-intensive industries (including automotive and machinery production) are among the branches of the country's economy most severely affected by the COVID-19 pandemic.¹⁰⁸ Introduction of additional charges in the power market and increase in the energy commodity market from 2021,

¹⁰³ Statistics Poland

¹⁰⁴ Poland's Energy Policy until 2040, WysokieNapiecie.pl

¹⁰⁵ Wirtualny Nowy Przemysł [Virtual New Industry]

¹⁰⁶ wysokienapiecie.pl

¹⁰⁷ Wirtualny Nowy Przemysł [Virtual New Industry]

¹⁰⁸ moto.rp.pl

which are one of the causes of the permanent shutdown of the raw material part of the Krakow steelworks (blast furnace and steel plant) by the country's largest supplier of steel products, will also have an adverse impact on the competitiveness of Polish steel industry. Moreover, in view of the factors that had already adversely affected the competitiveness of the Polish and European steel industries (hefty charges on CO₂ emissions or growing imports of steel and steel products from outside the EU)¹⁰⁹, in the upcoming quarters the demand for steel products will remain uncertain.

- the commissioning, in the upcoming quarters, of new pipeline sections (Boronów-Trzebinia and the second thread of Gdańsk-Płock), and the strive to lower emission levels produced by the economy (including motor vehicles), reducing the demand for liquid fuel transport services¹¹⁰;
- high dependence of the chemical sector and liquid fuels demand on the changes in economic trends in Poland (the growth rate of chemicals and chemical products production is correlated with the GDP growth rate, given that products of the chemical industry are most often consumed in manufacturing processes in other sectors of the economy);
- increase in autarkic trends and potential long-term reduction in global trade, which would also indirectly result in, among others, reduced transshipment operations in seaports and a likely decrease in demand for container transport services;
- negative impact of the investment slowdown in local authorities (already struggling with the cost of combating the pandemic) on the construction sector, and negative influence of weather factors on the construction sector performance in the Q1 of 2021 (i.e. a relatively harsh winter as compared to the previous years);
- growing exports from the countries east of Poland have a negative impact on the cement market. In 2020, the import from Belarus, Ukraine and Turkey (i.e. countries that do not incur the cost of CO₂ emissions allowances) was about 0.5 million tons - with the imports from Belarus practically doubling, from 247 thousand tons in 2019 to 414 thousand tons after 11 months of 2020. In 2021, a large number of investment projects pursued in the east of Poland (e.g. Via Carpatia, Via Baltica or Rail Baltica) may encourage producers from across Poland's eastern border to increase their exports to the country;¹¹¹
- growing competition on the intermodal transport market¹¹²

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

Risk associated with the rail freight sector

According to data published by the Office of Rail Transport, 84 companies were operating on the Polish rail freight market in 2020 under a license issued by the President of the Office of Rail Transport and providing freight transport services. Among these companies were also three members of the PKP CARGO Group: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s. In recent years, competition on the domestic market has intensified, and the gradual increase in the number of operators (from 53 in 2012 to 84 in 2020) was accompanied by a concurrent decreasing concentration of market shares. In Q2 2020 alone, as many as 10 new active operators appeared on the rail freight market.¹¹³

Despite a steep yoy decline in transport performance across the market observed in 2020 (largely caused by the economic recession triggered by the COVID-19 pandemic), some operators recorded yoy improvements in performance. However, it concerned predominantly – and collectively – the smallest companies (with a unit market share of no more than 0.5%), which are very flexible in their operations and benefit from a relatively low level of fixed costs. Moreover, the role of recent entrants into the rail transport market also seems to be growing. The situation is attributable to the currently easier access to locomotives and wagons in the rail market (given a larger number of companies offering hire of rolling stock), more market entrants which restrict their operations to a selected geographical area, and the drive towards maximum shortening of the supply chain (which applies particularly to intermodal terminal operators). Another popular trend, especially among producers

¹⁰⁹ Metallurgical Chamber of Industry and Commerce

¹¹⁰ WNP.pl, Money.pl, BiznesAlert.pl

¹¹¹ Cement Producers Association

¹¹² Office of Rail Transport

¹¹³ Office of Rail Transport

of aggregates or companies implementing infrastructural investments, is to set up rail companies in order to pursue rail transport as auxiliary operations to the company's core business.¹¹⁴

In the difficult 2020, companies that conducted and expanded the scale of operations in the intermodal segment were quite successful in this shrinking market. It is validated by the transport results of the rail intermodal transport in 2020, which show that in the 9 months of 2020 (no data is yet available for Q4 2020), the services were provided by as many as 21 operators (of which as many as 14 have gone above the threshold of 0.5% of market share in terms of freight volume). The share of intermodal transport in rail transport has been growing consistently, to reach in 2020 the highest value in history, i.e. 10-11% in terms of freight volume and about 14% in terms of freight turnover.¹¹⁵

A yoy increase was also noted by the majority of companies specializing in support services of for their own group, i.e. subsidiaries of a large corporate group focused on servicing the freight volume ordered by the parent company.¹¹⁶

The PKP CARGO Group's rail competitors offer the full range of transport and transport-related services, including whole-train carriage of coal and coke, aggregates and other construction materials, metallurgical products, liquid fuels and chemicals. Some companies also offer dispersed transport services (single wagons) and the carriage of special materials (including long rails). Some entities also offer comprehensive freight forwarding and logistics services or provide regular operator trains. Considering the relatively low barriers to entry on this market (including the possibility of using an international license or lease of rolling stock) and its still promising outlook, e.g. for the intermodal segment, a further increase in the number of competitors for the PKP CARGO Group on the domestic market may be expected in the coming quarters, along with a simultaneous increase in the scale of operation by some of the existing market players. In 2020, in the context of the economic crises in the wake of the pandemic and the shrinking rail freight market, operators took measures to survive these difficult times. In particular, the intermodal transport market saw operators developing new routes within transport corridors and the New Silk Road (a high increase of activity between certain destinations).

The main competitors of the PKP CARGO Group are companies operating on the Czech market are ČD CARGO (the national carrier and the undisputed leader of the country's transport market), Metrans Rail (an international logistics operator focused on the container transport segment in the countries included in the Three Seas Initiative), Rail Cargo Carrier – Czech Republic (a subsidiary of the international carrier Rail Cargo), Unipetrol Doprava (an operator specializing in the transportation of fuels) and IDS CARGO. As is the case on the Polish market, the services provided by competitive operators cover all key segments of the rail freight market: solid fuels, construction materials, liquid fuels, chemicals and containers (intermodal services). In recent quarters, the Czech Republic has seen a gradual decentralization trend in the country's rail freight market (the total market share of small companies is on a gradual upward path).¹¹⁷

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



Risks associated with operations

Risk associated with the rail infrastructure

At present, PLK S.A. is implementing the National Railway Program aimed at improving the competitiveness of rail freight transport, among its various other objectives. New investments will make it possible to increase speed and throughput on the routes, to improve access to seaports and to develop cargo transport. The works will consist in the modernization, construction and development of rail infrastructure as well as of investments into services related with the growing marine transport connected with rail transport. These works may entail temporary delays in cargo deliveries to PKP CARGO S.A.'s clients.

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

Road transport plays a key role on the Polish and Czech freight markets, which in recent years has also been capturing the majority of the market's freight volume available for transportation. In 2019, truck transport services accounted for more than 85% of the total volume of freight transported in Poland and more than 80% in the Czech Republic. In both these countries,

¹¹⁴ Office of Rail Transport

¹¹⁵ Office of Rail Transport

¹¹⁶ Proprietary material based on Office of Rail Transport data

¹¹⁷ SŽDC

the share of road transport increased in this period (mainly at the expense of rail transport). The market trends prevailing in 2020 suggest that this evolution unfavorable for rail transport, both in Poland and in the Czech Republic, will continue and may even exacerbate.¹¹⁸

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

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

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

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

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

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

At the same time, changes in the business structure of entities to which the PKP CARGO Group provides transport services might assume the form of a complete change or diversification of the area of activity. Moreover, certain large clients also decide to establish subsidiaries focusing on providing transport services covering the goods manufactured by the parent company. In 2020, over a dozen such subsidiaries operated on the Polish freight transport market, and their market significance is continuing to grow (most of them recorded an increase in transported volumes in year-on-year terms despite the strongly

¹¹⁸ Central Statistical Office of Poland, Czech Statistical Office

shrinking overall market for rail transport services). Although in periods of overdemand on the transportation market the rolling stock or human resources of specialized companies are often insufficient to handle all orders for transport services placed by their parent companies, in times of a market downturn the rolling stock potential of such subsidiaries is often sufficient to handle all requested traffic.

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

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

Risk associated with a shortage of trained personnel

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

The rail transport industry, and in particular positions associated with rail transport safety, require an ongoing update of knowledge and acquisition of skills. Due to the current epidemiological situation and the imposed restrictions, including those applicable to the organization of training, refresher courses or exams, all employee development activities are conducted in formats respecting the sanitary rules stipulated by the law, Chief Sanitary Inspectorate guidelines and the ZZKS (management, resources and focus on strategy) Procedures. In 2020, training took the form of e-learning to a much greater degree than in the previous years. The effect of the continuous training process is award of licenses and improvement of qualifications by the personnel.

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

Risk of collective disputes and strike

The social dialog carried out by the PKP CARGO S.A. Management Board with the Trade Unions in accordance with the principle of partnership resulted in making certain arrangements, which meant that in 2020 the Trade Unions did not initiate any collective dispute or strike in the Company. As result of these actions, the risk of such events occurring in the remaining months of the financial year has been reduced to a minimum.

Risk of increase of salaries

According to the framework agreement between PKP CARGO and the Trade Unions, the Parties declared that the Trade Unions will refrain from putting forward any employee compensation demands, and the Employers will not terminate any employment contracts for reasons not attributable to employees. It is the Company's view that there exists no risk of payroll increase as at the report publication date. As regards the subsidiaries, no such risk has been identified, either.

Risk associated with the COVID-19 pandemic

- risk of amendments to legal regulations – due to the existing COVID-19 epidemic, there is a risk that new restrictions may be imposed or new generally applicable laws may be enacted.
- risk related to the imposition of restrictions on the transport or movement of people, which may cause disruptions in the Company's operating activity and result in weaker demand for transport services provided by PKP CARGO S.A.,
- risk related to the suspension, in accordance with the applicable laws, of the course of procedural and judicial limitation periods, including in respect of court-administrative, administrative and enforcement procedures, which may result in an extension of the examination stage of such cases or postponement of the recovery of receivables by the Company,
- prolonged performance of employee duties remotely by a significant group of employees may cause, without limitation: difficulties in some positions arising from the absence of direct communication between employees, limitations in the ongoing execution of assignments due to the absence of conditions conducive to teamwork and decreased efficiency. Moreover, if the state of epidemic persists, this will cause 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.



Financial risks

Liquidity risk

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

In 2020, the Group's liquidity remained at a level that ensured timely payment of all due and payable liabilities. To ensure an additional source of funds required to secure its financial liquidity, the Group used external financing sources, such as a current account overdraft facility.

Information on credit facilities undrawn as at 31 December 2020 is presented in [Note 4.1 to the SFS](#) and [Note 4.1 to the CFS](#) for 2020.

Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2020, 8 Group companies.

Market risk

The Group is exposed to market risks associated with fluctuations of exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes in market risk factors on the cash flows and results in the short- and medium-term. The Parent Company manages the market risk ensuing from the aforementioned factors based on internal procedures which define the measurement rules of individual exposures, parameters and the time horizon.

The principles of market risk management are implemented by designated organizational units under the supervision of the Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivatives are used only to limit the risk of a change in the carrying amount and the risk of cash flow changes. Derivative instrument transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures.

FX risk

In 2020, the Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables with the maturity up to 1 month and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities over 5 years.

The balance sheet valuation of receivables and some current and non-current liabilities long-term liabilities expressed in foreign currencies, settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position (understood as the difference between FX proceeds and expenditures) exposed to change of the value in PLN.

In accordance with the Financial Risk Management Policy adopted by the Company, in 2020 forward transactions were used to hedge the currency risk for the EUR/PLN currency pair.

In 2020, the Group hedged the surplus in EUR through forward transactions on the EUR/PLN pair at the levels and with transaction maturities determined in accordance with the procedures of the Financial Risk Management Policy.

In 2020, the PKP CARGO Group applied hedge accounting for forward transactions and for EUR-denominated loan agreements and leasing agreements. Detailed information on FX risk management is presented in [Note 6.1 and 6.2 of the Consolidated Financial Statements](#).

Interest rate risk

The Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. In 2020, interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M. The interest rate risk in lease contracts is executed through revaluation of lease installments in one-month periods.

In 2020, interest on loan agreements were accrued according to the WIBOR 1M, WIBOR 3M and EURIBOR 3M reference rate plus the banks' margin. The interest rate risk in loan agreements were executed through revaluation of loan installments in monthly, and quarterly periods.

Credit risk

The Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received. In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. 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. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered.

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from their customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

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

5.6.2 Information on financial instruments with respect to risk, and financial risk management objectives and methods adopted by the Company and the PKP CARGO Group

The principles of market risk management are implemented by designated organizational units under the supervision of the Parent Company's Management Board. Financial risk in the PKP CARGO Group is managed using specially developed strategies, with partial use of derivative instruments (forward FX transactions), which are used only to limit the risk of a change of the balance sheet values and the risk of cash flow changes.

In 2020, the Parent Company applied cash flow hedge accounting using financial instruments such as forward currency sales transactions and an investment loan. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly likely cash flow denominated in EUR.

Hedge accounting was used by 2 companies of the PKP CARGO Group.

6. Key events and information about the activity of the Company and the PKP CARGO Group

6.1. Key information and events

JANUARY

- Signing of a contract with Enea Wytwarzanie sp. z o.o. for the carriage of 1.5 million tons of hard coal from Silesia to the Koziencice power plant. The contract will be performed from January 2020 to March 2021. Its estimated gross value is in excess of PLN 42 million.
- Cross-border merger of the AWT Rekltivace a.s. with its registered office in Havířov as the acquiring company (in which PKP CARGO INTERNATIONAL a.s. holds a 100% stake) with AWT Rekltivace PL sp. z o.o. with its registered office in Cieszyn.
- AWT Rekltivace received an order for the construction of a sewage system in Olza. The value of the contract is PLN 15.5 million and it has been signed for 24 months.
- Registration of an increase in the share capital of Centralny Terminal Multimodalny to PLN 1.5 million with the concurrent change in the company's ownership structure and distribution of votes at the Shareholder Meeting: PKP CARGO S.A. 99.83%, PKP S.A. 0.17%.

FEBRUARY

- Change of the name of AWT RAIL HU Zrt. to PKP CARGO INTERNATIONAL HU Zrt.
- Consent of the Supervisory Board to incur liabilities by accepting a proposal and entering into a contract for the sale of electricity and provision of distribution services between PKP CARGO S.A. and PKP Energetyka S.A. The contract was entered into for the period from 1 January 2021 to 31 December 2022. The expected aggregated net value of the contract during its term is PLN 902.5 million (gross value of PLN 1.1 billion).

MARCH

- Tendering of a resignation by Mr. Grzegorz Fingas, Management Board Member in charge of Commerce, effective as of 23 March 2020. In connection with this resignation, the PKP CARGO S.A. Supervisory Board adopted a resolution to initiate a recruitment procedure for the position of PKP CARGO S.A. Management Board Member in charge of Commerce. On 23 March 2020, the PKP CARGO S.A. Management Board adopted a resolution on entrusting the President of the PKP CARGO S.A. Management Board, on a temporary basis, with supervision of matters and organizational units of the Company's Head Office included in the scope of powers of the PKP CARGO S.A. Management Board Member in charge of Commerce until a new Management Board Member in charge of Commerce is appointed.
- On 23 March 2020, the PKP CARGO S.A. Management Board adopted a resolution to cover the loss disclosed in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 prepared in compliance with EU IFRS in the amount of PLN 8,342,986.75, and decided to submit a motion to the PKP CARGO S.A. Ordinary Shareholder Meeting to adopt a resolution to cover this loss with retained earnings. The Supervisory Board issued a positive opinion on the motion submitted by the Management Board.
- On 25 March 2020, the Company's Supervisory Board gave consent to incur a liability by executing a loan agreement with the European Investment Bank under which an investment loan will be made available to the Company up to a maximum value of EUR 200 million, earmarked to finance and/or refinance its investment plan.

APRIL

- PKP CARGO and LG CARGO (a subsidiary of the Lithuanian Railways – Lietuvos Geležinkeliai) signed a letter of intent regarding the possible establishment of a joint venture to operate intermodal rail connections between Poland and Lithuania. At the same time, the letter of intent constitutes nothing more than an expression of both companies' intent to undertake cooperation and does not give rise to any obligations.
- PKP CARGO CONNECT acquired a permit to transport food by rail from Poland to China in transit via Russia. These transport services will be organized in a manner enabling the enforcement of Russian restrictions resulting from the embargo on food imports from Poland and other EU countries.
- PKP CARGO CONNECT launches regular operator trains under the Connect Operator brand, initially on the following three routes: Gdańsk – Warsaw Praga, Gdańsk – Poznań Franowo and Gdańsk – Gliwice B Kontenerowa. The network of such connections will be gradually expanded.

MAY

- On 7 May 2020, the Company signed a framework agreement between PKP CARGO and trade unions operating in the Company. The Parties agreed to reduce the working time of PKP CARGO employees by 10% but no less than 0.5 of the FTE. At the same time, the employees affected by the reduced working time will receive salary reduced *pro rata* to the reduction of working time, however the salary cannot be lower than the minimum salary calculated based on the law on minimum wages.
- On 7 May 2020, PKP CARGO S.A. signed an agreement with the European Investment Bank to grant an investment loan up to a maximum amount of EUR 200 million.
- On 14 May 2020, the PKP CARGO Management Board announced the signing of separate agreements between Employers (the Company's Head Office and 7 Company Units) and representative trade union organizations. The signing of these agreements will enable the Company to apply for support from the Guaranteed Employee Benefits Fund.
- Temporary closure of two PGG mines, Murcki-Staszic and Jankowice, due to the coronavirus epidemic.

- On 25 May 2020, the PKP CARGO S.A. Supervisory Board adopted a resolution to complete of the recruitment procedure for the position of Management Board Member in charge of Commerce without a decision and then a resolution on the initiation to initiate a recruitment procedure for the position of PKP CARGO S.A. Management Board Member in charge of Commerce.

JUNE

- In PKP CARGO CONNECT Sp. z o.o., by the power of the agreement signed on 9 June 2020, in the period from 1 July to 30 September 2020, the working time of all employees was reduced by 5% and their salary was reduced proportionately.
- On 13 June 2020, a final non-appealable court ruling was handed down to dissolve P.P.H.U. UKPOL Sp. z o.o. (a fully-owned subsidiary of PKP CARGO CONNECT sp. z o.o.) without conducting liquidation proceedings, as a result of which the company ended its legal existence on 13 June 2020 and ceased to be a related party of PKP CARGO.
- With effect from 24 June 2020, a new name of AWT Rail SK a.s. with its registered office in Bratislava, Slovakia (a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s.) was registered in the business register of the Slovak Republic. Since 24 June 2020, the company has been operating under the business name of PKP CARGO INTERNATIONAL SK a.s.
- On 29 June 2020, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted, among others, a resolution to cover the loss carried in the Standalone Financial Statements of PKP CARGO S.A. with retained earnings, a resolution to adopt the "Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board" and resolutions to amend the Articles of Association of PKP CARGO S.A.
- In Małaszewicze, agreements were signed for the modernization and expansion of the intermodal terminal, including the purchase of equipment. The expected total net cost of the project is over PLN 30.6 million. This task received EU funding in the amount of over PLN 12.8 million under the Operational Program Infrastructure and Environment 2014-2020, measure 3.2 Development of Maritime Transport, Inland Waterways and Multimodal Connections.
- Receipt by PKP CARGO S.A. from the Voivodship Labor Office in Warsaw, on 26 June 2020, of the first tranche of co-funding for employee salaries from the Guaranteed Employee Benefits Fund, in the amount of PLN 34.14 million.

JULY

- In PKP CARGOTABOR Sp. z o.o., by the power of the agreement signed on 2 July 2020, in the period from 1 July to 30 September 2020, the working time of all employees was reduced by 10% and their salary was reduced proportionately.
- Receipt by PKP CARGO S.A. of the second tranche of co-funding for employee salaries from the Guaranteed Employee Benefits Fund, in the amount of PLN 34.14 million. Provision, by the Voivodship Labor Office in Warsaw, of a signed agreement on payment of benefits towards protection of jobs from the Guaranteed Employee Benefits Fund to subsidize the salaries of employees covered by downtime due to economic reasons or reduced work time as a result of COVID-19.
- On 15 July 2020, the PKP CARGO S.A. Management Board received from its shareholder PKP S.A. a letter on the appointment of Ms. Izabela Maria Wojtyczka to the Supervisory Board as of 16 July 2020.
- On 24 July 2020, the PKP CARGO S.A. Management Board received from PKP S.A. a letter on the dismissal of Ms. Małgorzata Kryszkiewicz from the Supervisory Board as of 24 July 2020.
- PKP CARGO S.A. won a tender for the provision of transport services to the ENEA Group. Over a period of 15 months, the Company will transport approx. 6 million tons of hard coal for the estimated gross value of the contracts of approx. PLN 72 million. The freight will be transported from LW Bogdanka to Enea Wytwarzanie in Świerże Górne.

AUGUST

- Receipt by PKP CARGO S.A. of the third tranche of co-funding for employee salaries from the Guaranteed Employee Benefits Fund, in the amount of PLN 34.14 million.
- Appointment of Mr. Antoni Duda to the Supervisory Board as of 21 August 2020.

- Given by the Supervisory Board to sign annexes regarding the execution and financing of the construction of the multimodal terminal in Karsznice.
- As a result of the recruitment procedure, on 24 August 2020 the PKP CARGO S.A. Supervisory Board adopted a Resolution to appoint Mr. Piotr Wasaty to the position of Management Board Member in charge of Commerce.
- On 24 August 2020, the PKP CARGO S.A. Supervisory Board adopted the consolidated text of the Articles of Association of PKP CARGO S.A.
- Tendering of a resignation with effect from 31 August 2020 from the Company's Supervisory Board by Mr. Mirosław Antonowicz.

SEPTEMBER

- Registration of amendments to the Company's Articles of Association.
- On 17 September 2020, PKP CARGO S.A. and LTG Cargo Polska Sp. z o.o. entered into a shareholder agreement aimed at the pursuit of a joint venture involving the establishment of a special purpose vehicle to serve as an intermodal operator dedicated to the development of international transport between Lithuania and Western Europe.
- On 30 September 2020, commercial agreements were signed between PKP CARGO a ArcelorMittal Poland S.A. ("AMP") and ArcelorMittal Warszawa Sp. z o.o. ("AMW"). The agreements pertain to the provision of freight rail transport services by the Company to the counterparties. The agreements will be in effect from 1 July 2020 to 30 June 2023 (3 years). The estimated revenues under the AMP Agreement are PLN 750 million net (PLN 922 million gross), while the estimated revenues under the AMW Agreement are PLN 54 million net (PLN 67 million gross).

OCTOBER

- The Company's Management Board made a decision to abandon the project involving the acquisition of shares in P.U. Hatrans Sp. z o.o. by PKP CARGO.
- Execution of 2-year agreements with PGNiG TERMIKA for the transport of hard coal. The estimated value of the agreements is approx. PLN 101.3 million. The coal will be transported, among others, from Silesian mines (PGG, JSW, Węglkoks Kraj and PG Silesia) and from LW Bogdanka to the Siekierki Cogeneration Plant, the Żerań Cogeneration Plant, the Kawęczyn Cogeneration Plant and the Pruszków Cogeneration Plant.
- Convocation of the Extraordinary Shareholder Meeting of PKP CARGO S.A.
- Signing of a letter of intent between PKP CARGO and PKP Energetyka, in which the companies confirmed the establishment of cooperation in creating the most effective and innovative solutions that will enable PKP CARGO to use electricity generated from renewable energy sources.

NOVEMBER

- Consent of the PKP CARGO S.A. Supervisory Board to incur liabilities by entering into a contract for the regular purchase of diesel fuel for traction vehicles between PKP CARGO S.A. and PKP Energetyka S.A. The contract will be entered into for the period from 1 January 2021 to 31 December 2030. The expected aggregated net value of the contract during its term is PLN 718.2 million (gross value of PLN 883.4 billion).
- PKP CARGO CONNECT and Krajowa Spółka Cukrowa ("KSC") entered into a 10-year contract for the transport of sugar from KSC branches to the Sugar Terminal in the Gdańsk seaport. The contract will be performed in 2021-2030. The estimated volume of sugar to be transported is approx. 2 million tons.
- On 16 November 2020, an Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted a resolution on the selection of an audit firm (Grant Thornton Frąckowiak) and a resolution on setting the rules and amounts of remuneration of the PKP CARGO S.A. Supervisory Board members.

DECEMBER

- On 10 December 2020, the Agreement to use throughput capacity for cargo transport in accordance with the 2020/2021 train timetable was executed between PKP CARGO S.A. and PKP PLK. The agreement is in effect from 13 December 2020 to 11 December 2021. The expected value of the Agreement during its term will total PLN 499.0 million net (PLN 613.8 million gross).

- On 22 December 2020, PKP CARGO signed with Forespo Poland S.A. an updated letter of intent regarding the Wagons Factory Gniewczyna S.A.
- PKP CARGO S.A. received from the banks with which it has investment loan agreements waivers on the financial covenants to be met by 31 December 2020.

JANUARY 2021

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

FEBRUARY 2021

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

MARCH 2021

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

6.2. Evaluation of factors and unusual events affecting the result recorded by the Company and the PKP CARGO Group

Situation related to COVID-19

- Lockdown-related restrictions, and then temporary stoppages in mining production and closure of certain mines resulted in lower output, whereas the decrease in demand for coal resulted in lower transport volumes of this commodity.
- Delays in the execution of road construction projects due to the epidemic situation affected the demand for the transportation of aggregates.
- Shutting down of the blast furnace in Kraków by ArcelorMittal Poland.
- Increase in additional costs caused by the implementation of solutions that affect changes in the organization and efficiency of work.
- Amendments to the generally applicable laws and internal regulations adopted by PKP CARGO S.A. due to the spread of the SARS-CoV-2 virus.

Support from the Guaranteed Employee Benefits Fund

- PKP CARGO, PKP CARGOTABOR and PKP CARGO CONNECT signed agreements with the trade union organizations on a reduction of employee working hours of for 3 months. The reduced working time of the Group's employees caused a decrease in employee benefit expenses in the total amount of PLN 33.8 million.
- Under the Anti-Crisis Act, the companies listed above were awarded support from the Guaranteed Employee Benefit Fund in the total amount of PLN 115.2 million.

Situation on the energy fuel market

- The decrease in electricity consumption in the Polish economy translated into lower demand for coal transport services. However, due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy.

Situation on the aggregates market

- Lower demand generated by customers for construction stones due to a smaller scale of investment projects and higher prices.
- Deterioration of liquidity in construction companies and lower profitability of investments.

Situation on the intermodal transport market

- Return to the previous transport volumes between China and Western Europe via Małaszewicze, following the suspension of imports from China by sea and land.

Condition of rail infrastructure

- Hindrances and the necessity to route railway traffic using detours.
- Railway track closures affecting the throughput of the lines and stations used.

Rail infrastructure access charges

- The costs of access to infrastructure continue to constitute a significant item of operating expenses.
- In 2020, PKP PLK applied the same access fee rate as in the two previous timetables. In their most recent price lists, other rail infrastructure operators applied pricing from earlier timetables or modified it, sometimes upwards. In connection with the epidemiological situation, PKP PLK, in the period from 13 March to 9 September 2020, did not charge reservation fee, and from 14 March until 12 December 2020 - contractual penalties scheduling a train with a different traction vehicle and/or increased gross train weight.

6.3. Information on material contracts for the Company and the PKP CARGO Group.

Contracts with vendors

Signing of an agreement with PKP PLK S.A.

On 10 December 2020, the Agreement to use throughput capacity for cargo transport in accordance with the 2020/2021 train timetable was executed between PKP CARGO S.A. and PKP PLK. The agreement is in effect from 13 December 2020 to 11 December 2021. The expected value of the Agreement during its term will total PLN 499.0 million net (PLN 613.8 million gross). The Agreement is of key importance for the pursuit of PKP CARGO S.A.'s core business, and the Company concludes it every year.

Execution of an agreement with PKP Energetyka S.A.

Conclusion of an agreement for purchase of electricity and distribution services between PKP CARGO and PKP Energetyka S.A. The agreement pertains to the sale of electricity ("Traction Energy") and provision of Traction Energy distribution services for the needs of the transport services rendered using electrical traction with trains owned by PKP CARGO S.A. and with trains using the Company's electric locomotives but run by other rail operators, who are not charged for the electricity under separate agreements. The agreement was concluded for the period from 1 January 2021 to 31 December 2022. The expected aggregated net value of the Agreement during its term is PLN 902.5 million (gross value of PLN 1.1 billion).

Conclusion of an agreement for successive purchase of diesel fuel for traction vehicles between PKP CARGO S.A. and PKP Energetyka S.A. The subject matter of the agreement is successive purchase of diesel fuel for traction vehicle at fuel stations (in 18 locations specified in the Agreement) owned by PKP Energetyka S.A. The agreement is concluded for the period from 1 January 2021 to 31 December 2030. The Parties have the right to terminate, yet not before 5 years as from its conclusion date, with a 12-month termination notice period. The expected net value of the Agreement during its term of validity is PLN 718.2 million (PLN 883.4 million gross). The diesel fuel purchase agreement is a "value-based agreement", without the requirement to utilize the volume of oil and the total net value specified therein.

Signing of a contract with Pojazdy Szynowe PESA Bydgoszcz S.A.

Signing of an annex to the contract concluded on 21 May 2018 with Pojazdy Szynowe PESA Bydgoszcz S.A. with its registered office in Bydgoszcz ("PESA") to conduct level five maintenance repairs and replace the combustion engine with a new one in 38 ST44 diesel locomotives. As a result of the change, the number of locomotives to be repaired will be reduced to 25, with the time limit for the repairs extended to 28 May 2021 and a decrease in the net value of the Company's total liability to PESA from PLN 176.3 million net to PLN 116.0 million net.

Contracts with customers

Signing of contracts with ArcelorMittal Group companies

On 30 September 2020, commercial agreements were signed between PKP CARGO a ArcelorMittal Poland S.A. ("AMP") and ArcelorMittal Warszawa Sp. z o. o. ("AMW"). The agreements pertain to the provision of freight rail transport services by the Company to the counterparties. The agreements will be in effect from 1 July 2020 to 30 June 2023 (3 years). The estimated revenues under the AMP Agreement are PLN 750 million net (PLN 922 million gross), while the estimated revenues under the AMW Agreement are PLN 54 million net (PLN 67 million gross).

Execution of an agreement with TAURON Wydobycie S.A.

PKP CARGO S.A. concluded a rail coal transport agreement with Tauron Wydobycie. Its value is approx. PLN 68 million. The agreement took effect on 5 February 2021 for a term of 12 months. The expected total volume of coal to be transported from Zakłady Górnicze Tauron Wydobycie S.A. is approx. 3.7 million tons, of which 3.3 million tons is coal for Tauron Wytwarzanie S.A. (Elektrownia Jaworzno II, Elektrownia Jaworzno III, Elektrownia Łagisza and Elektrownia Łaziska) and the company Nowe Jaworzno Grupa Tauron. Approx. 400 thousand tons of coal will be transported to other wholesale and industrial customers all across Poland.

Execution of an agreement with Krajowa Spółka Cukrowa

PKP CARGO CONNECT and Krajowa Spółka Cukrowa entered into a 10-year contract for the transport of sugar from KSC branches to the Sugar Terminal in the Gdańsk seaport. The contract will be performed in 2021-2030. The estimated volume of sugar to be transported is approx. 2 million tons. It will be transported in containers delivered to PKP CARGO CONNECT and will

be manufactured, among others, in PKP CARGOTABOR. Transport will be performed by PKP CARGO S.A. Sugar will be loaded in the KSC sugar plants and carried by rail to the Sugar Terminal of the seaport in Gdańsk, and on to ships. PKP CARGO CONNECT will carry a part of the volume by road. Moreover, PKP CARGO CONNECT will supply other logistics services, such as advisory services in the area of transport conditions, selection of routes, and selection of transport mode.

Execution of contracts with PGNiG TERMIKA S.A.

PKP CARGO S.A. signed contracts for hard coal transport for PGNiG TERMIKA. The estimated value of the contracts is almost PLN 101.3 million. For the next two years, PKP CARGO will transport the total of 4.25 million tons to Zakłady PGNiG TERMIKA. Coal will be carried from, among others, Silesian mines (PGG, JSW, Węglokoks Kraj and PG Silesia) and from LW Bogdanka to the Siekierki Cogeneration Plant, the Żerań Cogeneration Plant, the Kawęczyn Cogeneration Plant and the Pruszków Cogeneration Plant.

Execution of a contract with ENEA Połaniec

The contract with ENEA envisages hard coal transport to be provided by PKP CARGO S.A. over 15 months. The company will provide rail transport for a total of approx. 6.0 million tons. The estimated value of the contracts is almost PLN 72 million. The freight will be transported from LW Bogdanka to Enea Wytwarzanie in Świerże Górne.


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

PKP CARGO S.A. has not published any financial forecasts for 2020.


7. Development policy of the Company and PKP CARGO Group

7.1. Description of external and internal factors of relevance for the development of the Company and the PKP CARGO Group


Economic situation

 The current macroeconomic environment is driven by the effects of the pandemic and related economic and social restrictions imposed in order to curb the further spread of the epidemic. This situation is directly reflected in the Company's and Group's business activities. COVID-19 has made its mark particularly in the first half of 2020, when lockdowns were declared in many European countries. It has caused thousands of businesses to close and production to stop, which caused a considerable reduction of demand for rail freight.


Situation on the energy fuel market

 Due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy. The overall economic situation in the sector will continue to affect the 's freight volumes and the freight transport market. In 2020, lockdown-related restrictions, and then temporary stoppages in mining production and closure of certain mines resulted in lower output, whereas the decrease in demand for coal resulted in lower transport volumes of this commodity. In a longer perspective, a trend to use more efficient energy sources can be observed, such as gas and green energy. Therefore, over the next decade, the demand for coal will be consistently going down. Nevertheless, coal transport will continue to be the basic cargo category in transport carried by the PKP CARGO Group and the situation in this market will have an effect on the results and market shares achieved by the Company and Group.


Situation on the aggregates market

 In 2020, a downward trend was recorded in the transport of aggregates – restrictions on stone extraction, problems experienced by unloading firms at loading points, staff shortages and changes in the organization of construction sites exerted a significant impact on delays in the execution of infrastructural investments. In 2021 however, the market does expect a rebound, thanks to, among others, the National Reconstruction Plan (KPO). Transportation of aggregates and construction materials remains a significant market for the PKP CARGO Group, strongly affecting freight turnover and market shares.


Situation on the intermodal transport market

 An especially rapid growth is expected in the coming years in the intermodal transport market. The Group remains actively involved in the handling of transports over the NJS line. The primary objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia. However, the Three Seas Initiative area is even more important for PKP CARGO, since the majority of cargo exchange between Europe and other continents flows through seaports. The coming years will see large investments in expansion of conventional and container terminals, which will cause a significant increase in transshipment.

Condition of rail infrastructure


 Infrastructural investments related to the modernization of the rail infrastructure carried out by the infrastructure manager PKP PLK caused hindrances and the necessity to route railway traffic using detours. Track closures have a direct adverse effect on the throughput of railway lines and stations. However, future investment projects will have a positive impact on line throughput, and the resulting freight transport capacity. At the same time, large investments into expanding the railway network leading up to ports will open up opportunities for PKP CARGO to acquire additional streams of cargo in the coming years.

Rail infrastructure access charges


 The performance of both the Company and the Group largely depends on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2020 accounted for approx. 34.0% of PKP CARGO S.A.'s procurement expenses (understood as the sum total of external services costs and the costs of material and energy consumption) and about 29.7% of PKP CARGO Group's procurement expenses.

On 10 December 2020, a contract was signed with PKP PLK S.A., effective from 13 December 2020 to 11 December 2021. The estimated net value of the contract is PLN 499.0 million net (PLN 613.8 million gross).


Technical regulations related to rolling stock

 The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. The number of periodical repairs and periodical overhauls performed in individual periods results from the cycles defined in Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport.


Amendments to legal regulations

 The business activity pursued by both PKP CARGO S.A. and PKP CARGO Group companies is subject to specific legal regulations. These include the Rail Transport Act, the Act on train driver working time and the Regulation of the European Parliament and of the Council (EU) establishing measures for a sustainable rail market in view of the COVID-19 pandemic. The influence of these regulations is described in detail in [section 8.2](#).

Financing of capital expenditure

 The Group will finance capital expenditures with its own funds, investment loans, and from other sources.

Social dialog

 The social dialog in PKP CARGO S.A. is based on the principles contemplated in the generally binding laws, the Company Collective Bargaining Agreement and the agreements defining the mutual obligations of the parties to the social dialog. The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's competitiveness and efficiency.

7.2. Description of the growth prospects and development policy of the Company and the PKP CARGO Group at least in the next financial year

PKP CARGO Group’s Strategy for 2019-2023

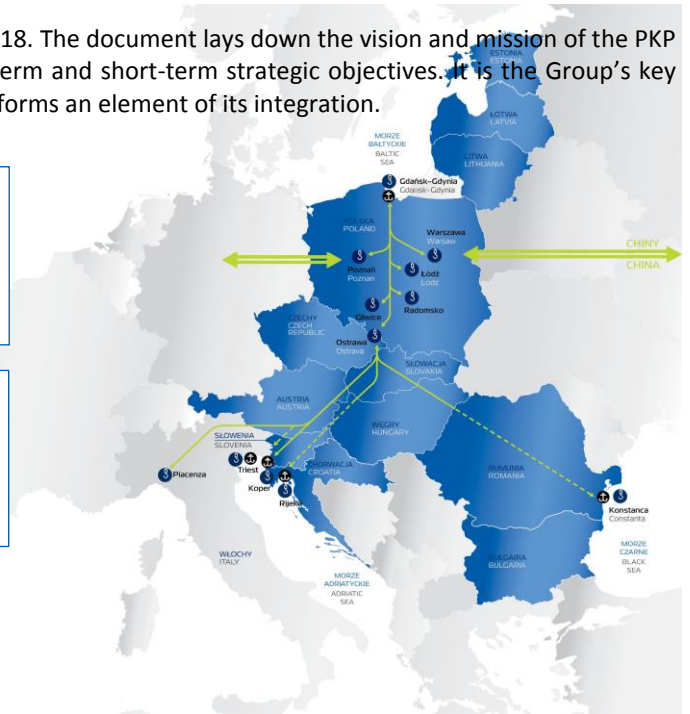
The PKP CARGO Group’s strategy was adopted in November 2018. The document lays down the vision and mission of the PKP CARGO Group for 2019-2023 and indicates the Group’s long-term and short-term strategic objectives. It is the Group’s key document setting forth the directions for its development and forms an element of its integration.

VISION

Become the Central European leader in rail freight transport by taking the dominant position in the area of the ‘Three Seas Initiative’ and on the ‘New Silk Road’.

MISSION

Offering comprehensive logistics services on the rail freight and intermodal services market in a way to make it the supplier of first choice.



To this end, PKP CARGO will strive to devise the most competitive offer for business partners on the New Silk Road in the European Union and in the area of the Three Seas Initiative. The Group tries to tap into Poland’s natural advantages, that is quick economic development and the resulting improving international position. The advantage that many experts believe is key is Poland’s location at the crossroads of critical trade routes.

Attaining the strategic objectives will be based on executing 13 strategic initiatives arranged under three pillars:

Figure 31 Strategic initiatives

Growth	Operational efficiency	Organizational efficiency
1 Adopting and executing an organic growth plan on the domestic market	7 Digitization and computerization	11 Optimizing decision-making processes and customizing the PKP Cargo Group’s structure
2 Adopting and executing an inorganic growth plan on the domestic market	8 Optimizing freight transport processes	12 Developing organizational culture, human capital and management by objectives (MBO)
3 Coordinating foreign expansion	9 Modernizing and optimizing rolling stock resources and maintenance processes	13 Adopting a project management policy and appointing a Project Management Office (PMO) in headquarters
4 Aligning the offer to clients to integrate the value chain	10 Optimizing asset management	
5 Adopting and executing an action plan in marketing and CSR in coordination with the PKP Group		
6 Developing innovation		

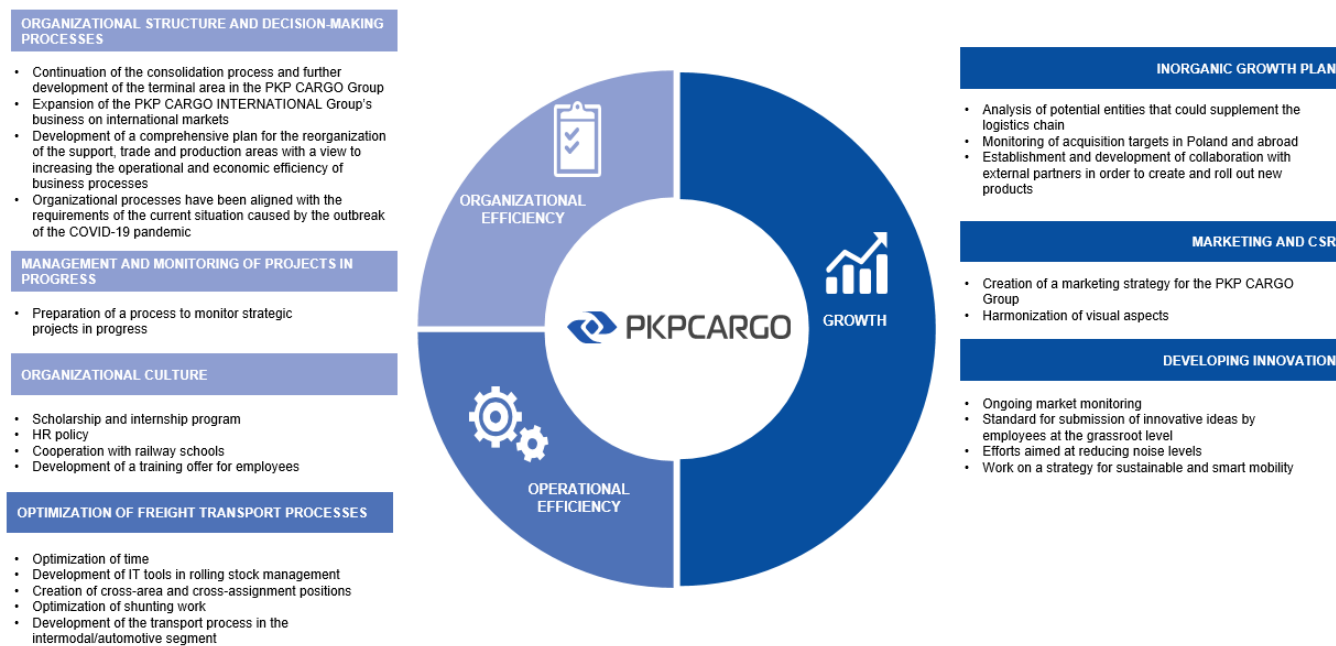
Source: Proprietary material

During the current period of the Strategy, the Group’s efforts have been focused on the consistent implementation of initiatives in all three areas: growth, operational efficiency and organizational efficiency. The PKP CARGO Group continually increases efficiency of the rolling stock utilization and modernization processes and improves the management of assets of all its companies.

Equally important is the improvement in organizational efficiency. The consistent adaptation of the Group structure to its activities takes place by the creation of specialized divisions (rolling stock, intermodal, terminals, repair and maintenance, development of foreign operations). Also, the Group keeps optimizing its decision-making processes, having developed a project management policy and ongoing monitoring.

The figure below presents the activities implemented under the Strategy in 2020:

Figure 32 Chart of activities implemented under the Strategy 2020



Source: Proprietary material

8. Other material information and events

8.1. Impact of the COVID-19 pandemic on the Group’s business

The spread of the COVID-19 epidemic had an adverse effect on the operations of the PKP CARGO Group, especially in the first half of 2020. The situation in the freight transport market was overshadowed by the consequences of the pandemic and the related economic and social restrictions imposed in order to curb the further spread of the epidemic. The pandemic caused a decline in electricity generation in hard coal-fired commercial power plants, which translated directly into a slump in the freight volume of energy resources.

A downward trend was also recorded in the transport of aggregates – restrictions on stone extraction, problems experienced by unloading firms at loading points, staff shortages and changes in the organization of construction sites exerted a significant impact on delays in the execution of infrastructural investments.

The level of transport services was also greatly influenced by the decision of a key account, ArcelorMittal Poland, to shut down the blast furnace in Kraków, motivated mainly by the COVID-19 epidemic. The raw material part of the steelworks in Krakow was brought to a stop already in late November 2019. Lower freight volume was also attributable to temporary shutdown of steel mills in Europe, suspension of scrap metal supplies, reduced output due to a decrease in orders for metal products.

Moreover, due to the epidemic, many companies in the steel and furniture sectors suspended or shut down their business. Manufacturing in the automotive sector was also suspended. These factors largely contributed to a decrease in freight volume

transported by the PKP CARGO Group, which translated into a decrease in revenues. The COVID-19 pandemic coincided with the slowdown on the mass transport market prevailing since April 2019. Another noteworthy consequence for the Group's transport business is the effect of the changes taking place throughout the rail freight market and across its market environment.

Due to the announcement of a state of epidemic (from 20 March 2020 until further notice) in connection with the spread of the COVID-19 virus, PKP CARGO S.A., bearing in mind the employer's duty to ensure safety of its employees and to comply with the law and recommendations of the competent public authorities, has taken the necessary steps in the labor area to counteract the epidemic. To the broadest possible extent, preventive solutions have been implemented, involving, in particular, remote work of employees, greater flexibility of working time and reduction of direct meetings and business trips to the necessary minimum. The implemented solutions had a significant effect on changes in the organization of work and its efficiency, and generated additional costs.

On 7 May 2020, the Company signed a framework agreement between PKP CARGO and the trade unions operating in the Company. The Parties agreed to reduce the working time of PKP CARGO employees by 10% but no less than 0.5 of the FTE. At the same time, the employees affected by the reduced working time received their remuneration reduced pro rata to the reduction of working time, however such remuneration was not lower than the minimum pay calculated based on the laws on minimum wage.

Additionally, two PKP CARGO Group companies also signed agreements with trade union organizations, i.e.:

- In PKP CARGO CONNECT Sp. z o.o., by force of the agreement signed on 9 June 2020, the working time of all employees was reduced by 5% and their salary was reduced proportionately in the period from 1 July to 30 September 2020.
- In PKP CARGOTABOR Sp. z o.o., by force the agreement signed on 2 July 2020, the working time of all employees was reduced by 10% and their salary was reduced proportionately in the period from 1 July to 30 September 2020.

The reduced working time of the Group's employees caused a decrease in employee benefit expenses in the total amount of PLN 33.8 million.

In connection with the impact of the COVID-19 epidemic, i.e. the decline in transports and the resulting decrease in revenues and rise in unit costs, as well as the signed agreement with the Trade Unions, the companies mentioned above applied for aid from the Guaranteed Employee Benefits Fund to co-finance remuneration of employees affected by the working time reduction due to the epidemic. The companies received a total support of PLN 115.2 million.

8.2. Amendments to legal regulations

Amendment of the Rail Transport Act

The amended Rail Transport Act came into force on 12 May 2020 based on the Act on the amendments to the Rail Transport Act and certain other acts, (Journal of Laws 2020, item 400). The Company analyzed the amendments and believes that they have an impact on the relationship between PKP CARGO S.A. and the infrastructure manager, i.e. CARGOTOR Sp. z o.o., which is a part of the PKP CARGO Group, in particular in the following respects:

- a limitation has been imposed on the possibility for the infrastructure manager to pay out dividend to a shareholder being a rail operator,
- the rail operator has been deprived of the right to appoint and dismiss members of the management board or members of the supervisory board of an infrastructure manager which is a member of the same vertically integrated enterprise, and to employ or lay-off persons holding management positions applicable to the core functions at the infrastructure manager.

Accordingly, in order to strengthen the corporate governance of the PKP CARGO, the relevant amendments were made to the Articles of Association of CARGOTOR, which transferred some significant powers from the supervisory board level to the level of CARGOTOR's shareholder meeting. The Management Board of the PKP CARGO, believes that, as a result of the amendments to the Articles of Association and considering all the relations between both companies, control over CARGOTOR within the meaning of IFRS 10 has been maintained.

Measures for a sustainable rail market

The Regulation (EU) 2020/1429 of the European Parliament and of the Council establishing measures for a sustainable rail market in view of the COVID-19 outbreak was enacted on 7 October 2020 (OJ L of 12 October 2020). The purpose of the proposed amendments is introduce instruments to mitigate the adverse impact of the pandemic on the standing of rail

operators and to help them overcome the crisis faster. The regulation is intended to enable abolition, reduction or deferral of rail infrastructure access fees, including the possible abolition of reservation fees.

Act on train driver working time

It is the Company's view that the proposed draft act on train driver working time of October 2020 represents over-regulation of train driver working time, which is disproportionate relative to the underlying objective of safe freight transport. In its proposed wording, the Act will generate additional and unnecessary costs, involved in, among others, increasing the number of employed train drivers or the duty of a detailed and timely reporting of train driver working time start and finish.

The duty to draw up and publish information on the performance of a tax strategy

The Act of 28 November 2020 on amending the corporate income tax and certain other acts introduces a duty to draw up and publish a report on the performance of the tax strategy for a given financial year.

Although this provision has been in effect since 1 January 2021, according to the explanation of the Ministry of Finance taxpayers are obligated to publish the relevant report for 2020 as well.

Pursuant to Article 27c of the corporate income tax act, the duty to draw up and publish a report on the performance of the tax strategy for a given financial year applies to:

- taxpayers whose revenue in the previous year exceeded the amount of a PLN equivalent of EUR 50 million,
- taxpayers operating as a Tax Group, regardless of the amount of revenue achieved by the Group.

The report on the performance of the tax strategy comprises a broad range of data. Relative to the type and character of operations, the following must be published:

- information about the processes and procedures used by the taxpayer to manage its tax law obligations in order to ensure that these obligations are fulfilled correctly, and on voluntary cooperation with the National Revenue Administration bodies;
- information on the fulfillment of tax obligations in Poland, including the number of tax scheme submissions to the Head of the National Revenue Administration, by type of tax;
- information on transactions with related parties, whose value exceeds 5% of the assets balance sheet value;
- information on the taxpayer's planned or ongoing restructuring measures which may have an impact on the amount of the tax payer's or its related parties' tax obligations;
- information on the filed applications for individual and general interpretations of tax law, binding tax rate information or binding excise tax information;
- information on settlements in countries applying harmful tax competition.

The above list is open-ended, and taxpayers shall be obligated to disclose also other material data if those affect the fiscal policy of the entities.

The information on performed tax strategy should not include information which is subject to commercial, industrial, professional or production process secrecy.

The deadline for publishing the information is the end of the 12th month following the end of the fiscal year. The information on performed tax strategy should be prepared in Polish (or translated into Polish) and published on the taxpayer's website.

PKP CARGO S.A., adopting Resolution No. 7/2019 of the PKP CARGO S.A. Management Board of 4 January 2019, approved the Tax Risk Management Policy at PKP CARGO S.A."

Preparing for the duties of drawing up and publishing a report on the performance of tax strategy, actions are being taken to adjust the provisions of this Policy, in particular through expanding the existing processes and procedures and adding new ones, including those concerning organizational processes, i.e. defining tasks and principles of cooperation among all the participants of the process which have an impact on the performance of the tax function in the Company.

The Act of 5 June 2020 on Amending the Personal Income Tax Act, the Corporate Income Tax Act, the Lump Sum Income Tax on Certain Revenues Earned by Natural Persons and Certain Other Laws

The Act came into force on 1 July 2020.

As of the beginning of 2020, provisions were introduced to the income tax acts and the Tax Code defining sanctions for making payments to accounts not found in the list referred to in Article 96b of the VAT Act, known as the White List. The legal status in that regard changed as of 1 July 2020:

- The deadline for notification about making payment to an account not on the White List was extended from 3 to 7 days. But in the period of the state of epidemic threat and the state of epidemic announced in connection with the coronavirus, the deadline is extended to 14 days (Article 15zn of the Act of 2 March 2020 on Special Solutions Related to Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and the Resulting Crisis). At the same time, there was a change of the head of the tax office to whom the notification must be made to the head with jurisdiction over the taxpayer
- As of 1 July 2020, making payment while using the split-payment mechanism excludes not only the application of the sanctions defined by provisions of the Tax Code but also the application of the sanctions defined by the provisions of the Corporate Income Tax Act.
- As of 1 July 2020, two new exclusions were introduced. The indicated sanctions are also excluded by making payments:
 - to the so called assignment accounts maintained by banks and credit unions and to administrative accounts of banks and credit unions provided that the relevant bank, credit union or entity issuing an invoice will inform the taxpayer, while giving the number of the account for payment, that the specified account is just such an account.
 - resulting from invoices recording operations within the intra-Community acquisition of goods, imports of goods, imports of services or delivery of goods settled by the purchaser.

[The Act of 4 July 2020 Amending the VAT Act and Certain Other Acts \(Journal of Laws of 2019, Item 1520\).](#)

The Act came into force on 1 October 2020.

The Act introduced changes to the manner of sending VAT-7 and VAT-7K returns.

As of October 2020, these are sent simultaneously with information about records in a single document, i.e. JPK_VAT. Hence the duty to prepare 2 separate documents has been abolished.

The new JPK-VAT file will consist of two parts, i.e.:

- the return part which will replace the VAT-7/VAT-7K returns submitted at present,
- the record part which will replace the JPK_VAT file sent now.

The data posted in the return part will not significantly differ from the data posted now in VAT-7 returns.

On the other hand, for the data shown in the record part JPK_V7M - the duty to provide three groups of information was introduced:

- the duty to mark certain goods and services with special letter symbols (GTU_01 – GTU_13). To selected goods, numbers from “01” to “10” were assigned, to selected services – numbers from “11” to “13”;
- the duty to mark certain transactions (e.g. MPP – the mandatory split-payment mechanism, TP – existing links, etc.);
- the duty to mark sales / purchase proofs (e.g. RO - periodic reports, WEW – internal document, etc.).

The regulations show that if a taxpayer sends records (JPK_VAT) which include errors making it impossible to verify that the calculations are correct, then the taxpayer will be summoned to remove these irregularities by the 14th day of receipt of the relevant summons. If a taxpayer does not correct the errors, then they will be imposed pecuniary penalty (with a decision) in the amount PLN 500 for each irregularity.

Legal basis:

- Article 99 and Article 109 of the Value Added Tax Act of 11 March 2004,
- regulation of the Minister of Finance, Investments and Development of 18 October 2019 on a detailed scope of data included in tax return and records for value added tax,
- Article 28 of the Act of 4 July 2019 Amending the Value Added Tax Act and Certain Other Acts.

[Act of 4 July 2019 Amending Certain Other Laws to Limit Payment Bottlenecks.](#)

The amendments involve the introduction of solutions to summon debtors of commercial transactions (companies and public entities) to make payments by set deadlines and to discourage them from imposing unjustified prolonged payment terms.

The Act also envisages changes aimed at limiting potential abuse in using the instruments provided for in the existing wording of the Act on Payment Deadlines in Commercial Transactions as well as clarification of provisions whose practical application raises doubts.

The legislation introduced regulations on so-called "bad debts" into income tax laws - similar to the solution already in place in the VAT Act:

1. the introduction of the possibility for a creditor to reduce the taxable amount by the claim amount if the claim has not been settled or disposed of in any form within 90 days of the elapse of the due date specified in an agreement or invoice (so-called bad debt);
2. imposing on the debtor the obligation to include in the taxable amount the amount of the unpaid liability if the liability is not settled within 90 days of the elapse of the due date for payment set in the invoice (bill) or contract.

The Act came into force on 1 January 2020.

8.3. Information on PKP CARGO S.A. shares

8.3.1 Issue of securities and use of proceeds from the issue

In the reporting period, in PKP CARGO S.A. there were no issues, redemptions or repayments of debt securities or equity securities.

8.3.2 Information about agreements which, in the future, may cause changes to the proportions of shares held by the current shareholders

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

8.3.3 Acquisition of treasury stock

In 2020, PKP CARGO S.A. did not effect any purchase or sale of its treasury stock.

8.3.4 Information on the employee share plan control system

Shares taken up by entitled employees in connection with the right granted under the Employee Guarantee Package were subject to contractual limitation of their disposal. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to liability for damages.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

8.3.5 Shares held by management board and supervisory board members

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 20 November 2020, i.e. the delivery date of the Q3 2020 report to the delivery date of this report, was as follows:

Table 30 PKP CARGO S.A. shares held by Management Board members as at the report delivery date

Name	Number of PKP CARGO S.A. shares held by Management Board members		Par value of shares	
	as at the delivery date of this report	as at 20 November 2020	as at the delivery date of this report [PLN]	as at 20 November 2020 [PLN]
Czesław Warsewicz	2,500	2,500	125,000	125,000
Leszek Borowiec	0	0	0	0
Piotr Wasaty	1,849	1,849	92,450	92,450
Witold Bawor	46	46	2,300	2,300
Zenon Kozendra	46	46	2,300	2,300

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 20 November 2020, i.e. the delivery date of the Q3 2020 report to the delivery date of this report, was as follows:

Table 31 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members		Par value of shares	
	as at the delivery date of this report	as at 20 November 2020	as at the delivery date of this report [PLN]	as at 20 November 2020 [PLN]
Krzysztof Mamiński	0	0	0	0
Marcin Kowalczyk	0	-	0	-
Krzysztof Czarnota	70	70	3,500	3,500
Zofia Dzik	0	0	0	0
Dariusz Górski	0	0	0	0
Tadeusz Stachaczyński	0	0	0	0
Władysław Szczepkowski	0	0	0	0
Jerzy Sośnierz	70	70	3,500	3,500
Paweł Sosnowski	0	0	0	0
Izabela Wojtyczka	0	0	0	0
Antoni Duda	0	0	0	0

Source: Proprietary material

According to the Company's knowledge, no members of the issuer's Management Board or Supervisory Board, as at 31 December 2020 or as at the delivery date of this report, hold any shares or ownership interests in PKP CARGO S.A.'s related parties.

8.3.6 Dividends paid or declared

On 29 June 2020, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 6/2020 to refrain from disbursing dividend for the financial year ended 31 December 2019.

8.4. Information on transactions with related parties

No entity from the PKP CARGO Group entered in any transactions with related parties on non-market terms in 2020. Also after the balance sheet date no such transactions were concluded.

Detailed information on transactions with related parties is presented in [Note 7.1 to the SFS](#) and [Note 7.1 to the CFS](#).

8.5. 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 other provisions ([Note 5.9 to the CFS](#)) and contingent liabilities ([Note 7.3 to the CFS](#)).

8.6. Major achievements in research and development

A hydrogen project

JSW and PKP CARGO identified the possibility to pursue joint ventures the key objective of which would be the development of innovative solutions for reduced energy and fuel consumption and exhaust emissions involved in the commercial use of rail cars and locomotives powered by hydrogen. The agreement was joined by H. Cegielski – Fabryka Pojazdów Szynowych in November 2019.

Advantages of a fuel cell include:

- energy savings - the possibility of using the phenomenon of energy recovery when the vehicle recovers energy during braking,
- no carbon emissions – the vehicle will be powered by a hybrid solution made up of a fuel cell and a zero-carbon emission battery,
- reduced noise – its noise is considerably lower than in the case of diesel shunting locomotives, as a result of which the train driver’s work is much more comfortable.

As part of the project connected with the construction of a hydrogen-powered shunting locomotive, in 2019, PKP CARGO S.A. presented provisional technical assumptions for the locomotive. After preparing the technical documentation and constructing the locomotive, the Company will be involved in performing test operation of the locomotive.

Fleet of unmanned aerial vehicles

Unmanned fleet is an important tool of the Operating Team of PKP CARGO S.A., supporting the work of the Team to ensure protection of goods and security of transports. Using drones makes it possible to: monitor the security of the sectors threatened with thefts, verifying signals indicating the possibility of potentially dangerous situations and recording video from the air, inspecting trainsets to ensure that wagons are secured against being opened by unauthorized persons, collecting and providing information about problems occurring along routes.

8.7. Information on natural environment issues

Implementation of the Company’s strategy is based on adapting its resources and organization to the requirements of the contemporary transportation market, taking into account the principles of sustainable development, in accordance with the adopted policy of the Integrated Management System (IMS): quality, occupational health and safety, environmental protection.

The Company’s environmental policy forms an integral part of its overall corporate management system. The strategic objective for responsible actions taken by PKP CARGO S.A. in the field of environmental protection is to ensure a safe carriage of merchandise using rolling stock that meets the applicable environmental requirements. The Company invests both in the purchases of new rolling stock and in the modernization of its existing rolling stock as well as in maintenance and repair facilities and devices for diagnostics of the Company’s rolling stock. These efforts are aimed at achieving high standards of rolling stock maintenance and protecting the natural environment against the possible consequences of breakdowns and accidents involving the Company’s rolling stock.

In the process of environmental review (conducted on an annual basis), the effects of the Company’s environmental initiatives are evaluated and specific environmental targets and tasks are formulated for subsequent years according to criteria selected based on.



The Company diligently monitors all environmental aspects considered to be significant. The objective of the monitoring of significant aspects is not only to gain knowledge of the magnitude of impacts on the natural environment by tracking certain assumed indicators but also to implement the environmental protection program in order to improve the emission indicators (energy intensity). Year by year, through the introduction of objectives and tasks in significant areas in relation to the adopted classification criteria, the Company keeps minimizing its environmental impact in relation to the activities performed.

The significant environmental aspects are related to the Company's core business of the carriage of cargo and the maintenance and repairs of rolling stock. The most relevant of these deliverables are:

1) Carriage of dangerous goods



First of all, the Company is a rail freight carrier, hence the carriage of hazardous materials is subject to special monitoring. In 2020, PKP CARGO S.A. did not record any events resulting in environmental damage, and because the Company is aware of the costs involved in restoring the environment to the required standards, it continuously monitors the quality of the safety of our transport. This process is supported by improvements in diagnostics and inspections of the rolling stock through earmarking considerable funds for that purpose, including purchases of diagnostic equipment, repair equipment, garage equipment for diagnostics and repairs of locomotives and rail cars and on purchases of new rolling stock and modernizations of the rail cars.

2) Emissions into the air



Rail transport is crucial for the achievement of the European objectives related to the reduction of greenhouse gas emissions. Rail transport of goods is almost 9 times lower CO₂ emission than road freight transport. Railway is the most decarbonized motorized way of travelling: CO₂ emissions, in turn, are less than 3% of the emissions from the entire transport although it accounts for 17% of the land transport (acc. to CER Factsheet Climate 2018). All activities leading to the development and growth of the rail market, resulting in an increased share of this type of transport in the overall transport, always translate into the ecological effect in the form of improved air quality and mitigated climate changes. For this reason, the tasks pursued by the Company focus on gradual modernization and obtainment of an increasing number of new diesel and electric locomotives, leading to a reduction in harmful gas and particulate matter emissions to the environment and enabling savings of fuel and energy and a lower level of noise emitted to the environment.

PKP CARGO S.A. invests in the purchase of modern locomotives. The most modern part of our fleet is 21 multi-system locomotives (powered by DC or AC voltage), which can cross European country borders without stopping to allow change of the power system (which gives electricity savings). Out of these locomotives, 20 are brand new, purchased in the past 3 years. The Company also has 3 modern six-axle electric Dragon (ET25) locomotives and 7 Dragon 2 (ET26) locomotives, including 7 locomotives equipped with combustion modules;

PKP CARGO S.A. also invests in a modern wagon fleet. In the Company's rail car fleet, as many as 3,376 rail cars are intermodal platforms (out of which 400 ones were purchased in 2020). More such platforms are planned to be purchased in the upcoming years. The purchased platforms improve the efficiency of transport, permit the carriage of heavier loads compared to older wagons and are equipped with composite brake blocks. In total, the Company plans to spend almost PLN 572 million on platforms and locomotives, of which PLN 269 million will be co-funded by the EU.

PKP CARGO S.A. performs a contract under which Newag Group S.A. performs P5 level major repairs and at the same time modernization of 60 SM48 diesel locomotives. As a result of the modernization which includes, among others, building a new modular technology bodywork, replacing the power generator, braking equipment and auxiliary machinery, the SM48 series will be upgraded to the ST48 series, and the intended use of the locomotives will be changed from shunting to line. In 2019, 20 such modernizations were completed, and in 2020 – 10 modernizations. In 2019-2020, PESA Bydgoszcz S.A. performed P5 repairs for PKP CARGO S.A., which were combined with modernization of 6 ST44 diesel locomotives, including replacement of an obsolete two-stroke combustion engine for a four-stroke one which meets the UICIIIA emission standards.

The Company also implements rolling stock solutions for energy consumption optimization through modernization of electric locomotives by installing modern electrical equipment and we run pilot tests of selected locomotives on which DC electricity meters have been installed. Within the framework of the electrical equipment improvement program, 20 repairs at level P5 of type ET41 electric locomotives were completed in 2019, combined with modernization, while in 2020, 7 such modernizations were performed.

The Company supports also innovative solutions and research and development works on a new generation rolling stock to improve the efficiency of freight turnover and enable the applications of solutions for reduced energy and fuel consumption

and exhaust emissions involved in the commercial use of rail cars and locomotives. The Company signed a letter of intent for using hydrogen fuel in rolling stock and an agreement to construct an autonomous dual-mode locomotive.

While performing activities for air protection, PKP CARGO invest not only in the rolling stock. We gradually modernize and remove low emission sources by overhauling and liquidating solid fuel boiler plants and shifting to more ecological fuels, such as fuel oil and gas. Company takes in consideration here both the results of the Energy Audit and local anti-smog regulations. Climate protection effects are ensured also by purchasing high-quality fuels and investing in thermal performance improvement of the utilized backup facilities.

3) Emissions into waters



PKP CARGO S.A. is going to invest in straightening out the water and sewage management, which will enable the legal situation regarding environmental protection to be fully regulated, fees and charges for using water services to be reduced, and the risk of sewage with parameters inconsistent with the laws being discharged to the sewerage to be minimized. Activities planned for the following years in a number of locations include network modernization, connection to municipal water and sewage networks, etc. Moreover, inspections of the water and sewage network are carried out on an ongoing basis, involving the cleaning of oil-derived substance separators and the required tests of sewage parameters.

4) Protection of the earth's surface



The Company's operations exert an impact on the ground water environment. This fact prompted the implementation of the Company's program of the construction of container fuel stations which has led to the decommissioning of all fuel stations with single-shell tanks leased from PKP S.A. Old single-shell tanks for used oil were also withdrawn from service. They were replaced with modern equipment that forces the removal of used oil. The new double-jacket tanks are equipped with an internal tank monitoring system using the "dry" method. A leak detector is installed in the system. When a leak occurs, an acoustic alarm signal is set off, enabling a quick response, inspection of the tank and repair of any leakage.

The provision of rail transport services requires subjecting the rolling stock to regular inspections, repairs, modernizations and withdrawals from service, which involves generation of waste (including hazardous waste). Due to its volume (thousands of tons per year) and diversity (potentially, over 100 various types of waste may be generated), the conduct of waste management without appropriate legal regulations and monitoring the situation on the ground would significantly increase the Company's exposure to the risk of sanctions. In connection with the above, the Company, as needed, applies for updating or issuing new decisions about waste management and we update relevant internal rules and regulations. The creation of an internal waste management system resulted in assigning responsibility to each of the main employee groups at successive stages of the waste management process, thus effectively minimizing the risk of waste disposal in a place not intended for this purpose.

Organizational measures in the context of the Company's Environmental Policy



The PKP CARGO Group runs its business throughout the country and beyond its borders. The consumption of materials, fuels and electricity during the conduct of business operations causes an extensive impact on the environment. In order to avoid any breaches of environmental protection laws and minimize the risk of sanctions against the Group's member companies, continuous monitoring and inspection of the conduct of their operations are required. Aware of their impact on the environment, the companies take actions aimed at preventing environmental pollutions. Moreover, they make efforts aimed at ensuring the constant raising of environmental awareness among their personnel by training all staff responsible for performing tasks associated with the transport of cargo, supervision and maintenance of installations causing emissions into the environment and waste management.

We would like our decisions related to the protection of the natural environment, including air, to be noticed not only by our contractual partners. PKP CARGO S.A.'s best practices in the area environmental protection are described in the FOB Report entitled "Responsible business in Poland. Best practices".

The Group is involved in achieving compliance of its actions with the applicable laws and regulations, has in place a program of environmental measures and achieves measurable results of these activities, has qualified personnel conducting environmental matters with the use of instruments in the form of software which constitutes an up-to-date database on the extent of the use of the environment. The employees have access to up-to-date regulations and instructions, and their environmental awareness is growing every year due to training and information processes conducted. All this means that serious sanctions for the use of the environment are rather unlikely to be imposed against members of the PKP CARGO Group.

8.8. Description of the Company's and the PKP CARGO Group's sponsorship, charitable or other similar activities

PKP CARGO S.A. and members of the PKP CARGO Group focus on pro-social activities consistent with the Group's mission and growth strategy and the values represented by PKP CARGO S.A. The conduct of long-term social programs is a priority activity undertaken by these entities.

Based on an analysis of initiatives and programs executed to date and a diagnosis of the needs of the PKP CARGO Group's business and social environment, the following sponsorship activities were devised:

- Innovative innovations for development of the TFL industry,
- Science and education, including cooperation with institutions of higher education and scientific centers,
- Culture and arts
- Safety and security,
- Sports, with particular focus on development of youths through sports and care for healthy lifestyle.

Charitable support activities are focused on environmental protection and ecology (including supporting the initiatives related to ecology of transport), science and education, culture and art, safety and equalization of social differences.

In 2020, PKP CARGO S.A. provided support for combating the coronavirus epidemic. In addition, PKP CARGO S.A. granted a donation to the PKP Group Foundation, earmarked for supporting employees of PKP CARGO S.A. who are in a difficult situation in life.

As far as sponsorship activity, PKP CARGO S.A. and other members of the PKP CARGO Group, because of the pandemic, did not engage in social activities in 2020 at the same level as in several previous years. These few activities may be taken to include supporting the organization of celebrations of the 40th anniversary of July 1980 in Lublin and sponsoring the 31st "Solidarity" cycling race and Olympic athletes, where promoters of such events are not only companies recognized in the Polish market but also trade unions, which are some of PKP CARGO's stakeholders.

8.9. Information about existing Compensation Policy

8.9.1 General information about the compensation system accepted in the Parent Company

In PKP CARGO S.A., the compensation rules are established in accordance with the generally applicable laws and internal regulations in force in the Company.

The compensation system is comprised of the following:

- Company Collective Bargaining Agreement for Employees of the Establishments of PKP CARGO S.A.,
- Regulations for paying bonuses to employees,
- Resolutions of corporate bodies of PKP CARGO S.A. to establish and introduce the rules for compensating key management, employees of the Company's Headquarters and employees in managerial and independent positions in the Company's units.

A major portion of the Company's employees, over 83%, is remunerated in accordance with the provisions of the Company Collective Bargaining Agreement under which these employees are eligible for compensation elements, benefits and perquisites as well as other rights which are not contemplated in the commonly applicable regulations or are regulated in a less favorable manner.

These employees' compensation consists of fixed and variable elements, and their type and level varies depending on the position held, competences of the employee and the nature of the tasks performed.

In addition, the employees who receive compensation under the Company Collective Bargaining Agreement are eligible for monthly bonus paid according to the company bonus payment rules. The bonus fund includes a pool of funds earmarked for payment of bonuses for ongoing performance of tasks and for payment of bonuses to the employees for individual achievements.

Pursuant to the delegation contained in the Company Collective Bargaining Agreement, the employees of the Company's Headquarters and the employees on management and independent positions in the Company's work establishments, who in

2020 represented 17% of total number of employees, receive their compensation based on the principles defined in the Resolution adopted by the PKP CARGO S.A. Management Board based on the individual wage coefficient appropriate for the job and the average monthly wage in the enterprise sector published by the Central Statistical Office (GUS).

The employees receiving compensation under the Resolution adopted by the PKP CARGO S.A. Management Board may be paid, depending on their position, the quarterly discretionary bonus, on condition that the Company's business goals are achieved to a specified degree, or annual bonus based on the Management Through Objectives Program in place in PKP CARGO S.A. if the Program is launched in the given year.

In addition, the compensation system includes other benefits and perks: jubilee award, disability or retirement severance pay, coal allowance in the form of cash equivalent, rights to transportation benefits, a benefit paid on the occasion of the Railway Employee Day, additional holidays for which employees on certain positions are eligible.

In cases justified by the Company's special interest, including first of where employees have access to particularly important information constituting business secrets or information whose disclosure may put PKP CARGO S.A. at risk of losses, employees may be subject to a ban on conducting any competitive business after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. or other members of the PKP CARGO Group.

In connection with the IPO of PKP CARGO S.A.'s shares on the Warsaw Stock Exchange, on 2 September 2013 the Employee Guarantee Package ("Package") was adopted by the signatories of the Company Collective Bargaining Agreement, which has a significant impact on the performance of the Company's HR policy.

The Package introduced several solutions that were beneficial to PKP CARGO S.A. employees, including, among others, the following:

- guaranteed employment, compensation and place of work on the conditions stipulated in the Package, excluding management positions,
- one-off benefit in the form of employee shares,
- participation of representatives of employees in the Supervisory Board and the Company's Management Board,
- participation of crew representatives in negotiations on annual compensation raises depending on the Company's performance and financial standing.

In 2019, PKP CARGO S.A.'s HR Policy was adopted that includes a set of standards and best practices in human resource management. In addition to activities aimed at applying and improving practices in the area of recruitment, adaptation and development of employees' competences, this Policy has highlighted the significance of an extensive employee compensation system based on stable internal regulations, ensuring additional rights and benefits specific to the rail sector, which has a favorable impact on the employees' sense of belonging in the Company and thus their motivation to work.

In pursuit of the objectives formulated in the Company's strategy and taking into account the rapidly changing market environment, actions have been taken to implement legal and organizational solutions related to the employee compensation system.

In November 2020, the employer's party initiated negotiations of the signatories of the Company Collective Bargaining Agreement on introducing amendments to the Agreement. Participants of the negotiations will jointly work out solutions aiming to streamline compensation rules, taking into particular consideration their role as incentives and increasing the effectiveness of work organization.

Works on amendments to the Company Collective Bargaining Agreement are carried out in all the areas covered by its regulations, especially taking into account issues connected with working time and place of performing work, compensation rules and additional rights and employee benefits. The parties to the CBA seek to conclude the negotiations in a conciliatory manner with amendments to the CBA that are beneficial to both the Company and the employees, in the form of an additional protocol unanimously adopted by all signatories.

As part of the non-compensation incentive system for employees, the program of additional fringe benefits in the form of discounts on cultural events, goods or services for all employees of PKP CARGO S.A. (launched in 2018) was continued. The Company's offer of discounts and rebates on products and services is more attractive than what is available on the open market. The Company makes efforts to make its offer available to the largest possible number of employees. Employees are informed about the offer through such communication channels as the Intranet, e-mail, local messages and newsletter distributed in electronic form.

Moreover, all Company employees may use a wide range of social benefits offered under the social benefit rules and regulations. The social benefit offer is updated on a yearly basis, in consultation with the Social Partner in order to meet employees' needs in this respect to the greatest extent possible.

The Company's employees also have the opportunity to benefit from co-financed medical packages and join a cost-attractive group insurance.

In addition, owing to the positions held or functions discharged in the organization, the employees may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card, tools and technical equipment necessary to discharge the duties.

8.9.2 Terms and value of compensation and fringe benefits of Management Board and Supervisory Board members

Management Board

In accordance with the "Rules for compensating key management at PKP CARGO S.A." and the "Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board", all Management Board members are employed under management services contracts and non-competition agreements.

The basic terms and conditions of the management contracts and non-competition agreements are as follows:

- Management Board members provide management services consisting in personal management of the entrusted areas of the Company's operations;
- the contract is concluded for the duration of discharging the function in the company's Management Board, and terminated at the end of that period;
- Management Board members are vested with the right to receive the remuneration consisting of a fixed part, constituting the monthly basic compensation ("Base Compensation"), and the variable part ("Bonus"), constituting the supplementary compensation for the financial year in connection with the Manager's achievement of the management objectives of particular importance to the Company and the Group;
- Management Board members undertake that during the term of validity of their contract they will not conduct any business competitive to that of the Company or of any member of the PKP CARGO Group;
- the non-compete clause continues to be binding for a period of six months after the termination of the contract and the expiration of the term of office of the Management Board member. Due to the obligation to adhere to the extended non-compete clause by Management Board members, the Company will pay them a base compensation for each month of validity of the extended non-compete clause applicable to the pertinent Management Board member;
- Management Board members are entitled to a break in the provision of their services – based on their own decision, including as a result of an illness, which will not result in a reduction of the Management Board member's base compensation, provided that the break is no longer than 24 calendar days in a given financial year of the Company. If a Management Board member has provided his/her management services for a period shorter than one financial year, the break will be calculated on a pro rata basis in relation to the service provision period. If a Management Board member does not exercise all or part of the right referred to in the previous sentences in a given financial year of the Company, such a Management Board member will lose this right and will not be entitled to claim any cash benefit, compensation, or other similar benefit from the Company in return. The register of breaks in the performance of management contracts is kept by the department in charge of serving the Company's Supervisory Board/Management Board.

The amount of the Base Compensation, in consideration of the applicable laws, is set by the Supervisory Board, following the issue of a recommendation by the Nomination Committee, in an amount equal from eight to twelve times the average monthly wage in the enterprise sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland and based on an analysis of market rates of compensation for persons holding the position of Management Board Member, including in entities with a similar profile of business and a similar scope and scale of operations, taking into account the needs and capabilities of the Company as well as the individual qualifications and level of experience of the respective Management Board Member, in line with the management tasks assigned to such Management Board Member.

The Base Compensation also includes a fee for the transfer to the Company of all proprietary copyrights to works created by the Management Board Member and industrial property rights to inventions, utility designs, industrial designs, developed

trademarks or topographies of integrated circuits created as a result of the performance of duties of a Management Board Member.

Management Board Members are entitled to a Bonus for the achievement of management objectives specified by the Supervisory Board. Such objectives should be determined no later than by the end of April of the financial year in which they are expected to be achieved.

The Bonus award criteria are set in a manner ensuring the provision of sustainable incentives to individual Management Board Members to achieve the objectives and pursue the strategies of the Company and the PKP CARGO Group, taking into account the Company's interests, and should be set in a manner contributing to the Company's environmental protection efforts.

The following resolutions must be adopted by the Shareholder Meeting before a Management Board Member may acquire the right to the Bonus for the respective financial year:

- a resolution approving the Management Board's report on the Company's activity for the financial year for which the Bonus is set,
- a resolution approving the Company's financial statements for the financial year for which the Bonus is set,
- a resolution granting a discharge to the Management Board Member on the performance of his or her duties for the financial year for which the Bonus is set.

The Bonus is paid on the basis of a resolution of the Supervisory Board awarding the Bonus to the respective Management Board Member for the financial year in question. Each Bonus the granting or amount of which is subject to assessment by the Supervisory Board is set and settled on the basis of a resolution of the Supervisory Board.

The amount of the Bonus may not exceed 50% of the Base Compensation payable to the respective Management Board Member in the financial year for which the Bonus is due. The Bonus is payable pro rata to the period of discharging the function during the respective financial year.

Management Board members are entitled to other cash and in-kind benefits, including in particular:

1. reimbursement of expenses borne in connection with trips undertaken in the interest of PKP CARGO S.A. or PKP CARGO Group;
2. refund of expenses borne in connection with participation in conferences, seminars, meeting, provided that the Manager's attendance is necessary or justified by the performance of duties;
3. reimbursement of justified expenses borne in connection with representing PKP CARGO S.A. in the scope necessary to properly perform services for the benefit of PKP CARGO S.A.;
4. reimbursement of costs of legal aid related to establishment or defense of rights of Management Board member in case of a dispute with a third party in relation to performance of duties; legal aid expenses are refunded in line with third party liability insurance agreement executed by PKP CARGO S.A. for persons discharging specific functions at PKP CARGO S.A., where such agreement has been executed by PKP CARGO S.A.;
5. use of equipment and resources owned by PKP CARGO S.A., including a portable personal computer with wireless Internet access, means of communication, including a mobile phone and a landline phone and company car for the purposes of appropriate performance of duties.

The discharge of a function in the Management Board is the main area of professional activity of a Management Board Member. It may be permitted for a Management Board Member to be additionally involved in the activities of the management or supervisory bodies of other members of the PKP CARGO Group, however without the right to collect any additional remuneration on this account. The Company's Management Board members may sit on the management boards or supervisory boards of companies other than members of the PKP CARGO Group only with the consent of the Supervisory Board.

The table below presents total compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2020.

Table 32 Compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2020 (PLN)

Full name	Compensation	Reimbursement of transportation expenses	Severance pays, indemnities, non-competition	Other revenue subject to taxes social security contributions	Subsidiaries	Total
Current Management Board members						
Czesław Warsewicz	561,600	0	0	1,346	0	562,946
Leszek Borowiec	503,100	0	0	896	0	503,996
Witold Bawor	503,100	0	0	8,442	0	511,542
Zenon Kozendra	503,100	0	0	7,547	0	510,647
Piotr Wasaty	172,000	650	0	0	0	172,650
Former Management Board members						
Grzegorz Fingas	118,967	0	387,000	8,485	0	514,452

Source: Proprietary material

Supervisory Board

In accordance with the “Rules for compensating key management at PKP CARGO S.A.” and the “Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board”, Supervisory Board Members are not employed by the Company (this applies to the form of appointing a Supervisory Board member; Supervisory Board members – employee representatives may be Company employees).

Compensation of Supervisory Board Members is established by the Shareholder Meeting. The amount of the monthly compensation for a Supervisory Board Member discharging the function of Chairperson of the Supervisory Board is equal to the product of the average monthly compensation in the corporate sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland, and the compensation multiplier of 2.75, with the reservation that, in calculating the monthly compensation of the Chairperson of the Supervisory Board, the generally applicable laws should be taken into consideration to the extent that they govern in a different manner the basis for the calculation referred to in Article 1(3)(11) of the Act of 9 June 2016 on the Rules for Setting the Compensation of Persons Managing Certain Companies.

The amount of the monthly remuneration for a Supervisory Board Member not discharging the function of the Supervisory Board Chairperson is equal to the product of the average monthly remuneration in the corporate sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland, and the compensation multiplier of 2.37, with the reservation that, in calculating the monthly compensation of the Supervisory Board Member, the generally applicable laws should be taken into consideration to the extent that they govern in a different manner the basis for the calculation referred to in Article 1(3)(11) of the Act of 9 June 2016 on the Rules for Setting the Compensation of Persons Managing Certain Companies.

The compensation of a Supervisory Board Members is not contingent on the Company’s performance, options and other financial instruments or any other variable component, unless the Shareholder Meeting adopts a resolution to grant compensation to a Supervisory Board Member in the form of the right to a share in the Company’s profit for the respective financial year, intended for distribution among the Company’s shareholders, in accordance with Article 347 § 1 of the Commercial Company Code. The rule is that compensations of Supervisory Board Members should be commensurate with the entrusted scope of activities and discharged functions, e.g. work in Supervisory Board’s committees. Moreover, Supervisory Board Members may be granted the right to use, in accordance with the rules in force in the Company, any tools and technical equipment necessary to discharge the duties of a Supervisory Board Member.

If the appointment or dismissal of a Supervisory Board Member occurs during a calendar month, the compensation due such Supervisory Board Member shall be calculated pro rata to the number of days of the discharge of his or her function in the Supervisory Board; this provision applies accordingly to other cases of expiration of the mandate of a Supervisory Board Member.

Compensations of the Supervisory Board Members do not constitute a significant item in the costs of the Company’s operations and do not significantly affect its financial performance.

The table below presents total compensation and fringe benefits of the Company’s Supervisory Board members in 2020.

Table 33 Compensation and fringe benefits for PKP CARGO S.A. Supervisory Board members in 2020 (PLN)

Full name	Position	Compensation for discharging a function in the PKP CARGO S.A. Supervisory Board	Other compensation (PKP CARGO S.A.)	Subsidiaries
Krzysztof Mamiński	Supervisory Board Chairman	0	0	0
Mirosław Antonowicz	Vice-Chairman of the Supervisory Board	0	0	0
Krzysztof Czarnota	Supervisory Board Member	156,919	143,627	0
Zofia Dzik	Supervisory Board Member	152,477	0	0
Dariusz Górski	Supervisory Board Member	154,947	0	0
Małgorzata Kryszkiewicz	Supervisory Board Member	87,470	0	0
Paweł Sosnowski	Supervisory Board Member	154,947	0	0
Jerzy Sośnierz	Supervisory Board Member	157,512	138,841	0
Tadeusz Stachaczyński	Supervisory Board Member	160,430	87,546	0
Władysław Szczepkowski	Supervisory Board Member	154,947	0	0
Izabela Wojtyczka	Supervisory Board Member	70,623	0	0
Antoni Duda	Supervisory Board Member	56,015	0	0

Source: Proprietary material

Other than the various forms of compensation specified in this Section, the Company does not grant any individual benefits to Management Board Members or Supervisory Board Members, in particular under early retirement plans, nor shall Management Board Members or Supervisory Board Members receive any shares, options or other rights to acquire shares or any payments based on changes in share prices.

The Company does not grant any individual benefits under old-age or disability pension plans to Management Board Members. Supervisory Board Members may participate on a voluntary basis in the employee capital scheme established by the Company.

Terms of non-financial components of compensation for other key managers

Department Directors and Unit Directors

The Company's key managers may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card, tools and technical equipment necessary to discharge the duties of a given position, and the right to medical care.

The Company's key managers may be subject to a ban on conducting any business competitive to that of PKP CARGO S.A. after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. and other members of the PKP CARGO Group.

8.9.3 Indication of material changes introduced in the compensation policy in the last financial year or information on absence of such changes

No material changes in the Company's compensation policies were introduced in 2020.

8.9.4 Evaluation of the practical application of the compensation policy in the context of its goals, in particular the long-term increase of the company's value for shareholders and stability of its operations

In effect since June 2020 The "Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board" enabled the Company to generate value for its shareholders in the following aspects:

- implementation of internal regulations describing the rules for remunerating the Management Board and Supervisory Board Members ensures compliance with applicable laws and the standards for WSE-listed companies,
- definition of principles governing the disbursement of compensation to Members of the PKP CARGO S.A. Management Board and Supervisory Board and the rules for granting other benefits in a manner that ensures the pursuit of the adopted business strategy of PKP CARGO S.A. ("Company") while guaranteeing the security and stability of the Company,

- the adoption of the regulation means that the compensation rules defined therein are not set on an ad hoc basis but are a set of permanent, transparent and independent compensation rules contributing to the stability of the enterprise,
- it enables the selection of groups of employees who, through the functions they discharge, exert a significant impact on the efficient management of the organization and on the implementation of the Company's strategic objectives,
- in particular, the regulations adopted by the Company define a transparent form, structure and manner for determining the compensations of the Management Board and Supervisory Board Members and other benefits, which helps reduce the risks that would arise from unstable compensation rules applicable to the Company's key personnel,
- with regard to compensation and fringe benefits, the Company, when applying the Policy, pays attention to ensuring equal treatment regardless of age, race, culture, gender, disability, sexual orientation, religion, nationality, political beliefs or views, trade union membership, ethnic origin, religion or marital status.

8.10. Information about the financial statements

8.10.1 Information about the agreement entered into with the audit firm

By Resolution No. 48/2019 of the Ordinary Shareholder Meeting of PKP CARGO S.A. of 26 June 2019, BDO Spółka z ograniczoną odpowiedzialnością sp.k. ("BDO") with its registered office in Warsaw at ul. Postępu 12, entered in the register of entities authorized to audit financial statements under the file number 3355, was selected as the Company's auditor.

The agreement with BDO was entered into on 22 July 2019 to perform the following activities:

- audit of the standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2019-2020,
- review of the semi-annual standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2019-2020,
- verification of the reporting package prepared for the purposes of consolidation with PKP S.A.,
- conduct of agreed procedures aimed at confirming the correct calculation of the annual ratios defined in the loan agreements.

BDO Spółka z ograniczoną odpowiedzialnością sp. k. also audited the financial statements of other members of the Group, specifically PKP CARGOTABOR Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. and PKP CARGO SERVICE sp. z o.o.

Table 34 Fee charged by the audit firm (PLN net)

Item	Year ended 31/12/2020	Year ended 31/12/2019
Audit of the standalone and consolidated financial statements	200,350	200,350
Audit of the financial statements of the subsidiaries	128,000	138,500
Other attestation services, including a review of the financial statements	142,650	131,650
Other services	50 000	0
Total	521 000	470,500

Source: Proprietary material

Additionally, BDO Group companies audited subsidiaries of the PKP CARGO International Group. Their net fee for 2020 amounted to PLN 381,644, compared to the 2019 net fee of PLN 354,307.

On 16 November 2020, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 2/2020 on the selection of an audit firm, Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, 61-131 Poznań, KRS 0000369868, NIP 7781476013, entered in the list of audit firms kept by the Polish Audit Supervision Agency under file No. 3654, to:

- audit of:
- standalone financial statements of PKP CARGO S.A. for 2021-2025;

- consolidated financial statements of the PKP CARGO Group for 2021-2025;
- review of interim condensed:
- standalone financial statements of PKP CARGO S.A. in 2021-2025;
- consolidated financial statements of the PKP CARGO Group in 2021-2025.

8.10.2 Rules for preparing annual financial statements

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2020 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of the standalone and consolidated financial statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018, Item 757) ("Regulation").

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2020 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these financial statements, there are no circumstances indicating any substantial threat to PKP CARGO S.A.'s and the Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2020 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020 have been prepared in accordance with the historic cost principle except for derivative financial instruments and investments in equity instruments carried at fair value.

8.10.3 Description of unusual items in the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group

Standalone Financial Statements: - On 7 May 2020, the Company signed the agreements with trade unions regarding the reduction of the employees' working time by 10% but no less than 0.5 of the FTE, in the period from 1 June 2020 to 31 August 2020. At the same time, the employees affected by the reduced working time received their remuneration reduced pro rata to the reduction of working time, however such remuneration was not lower than the minimum employee compensation calculated based on the laws on minimum wages. The reduction of the working time resulted in a decrease in employee benefits in the period from June 2020 to August 2020 by PLN 29.4 million.

Under the Anti-Crisis Act, the Company was awarded support from the Guaranteed Employee Benefit Fund for the period from 1 June to 31 August 2020 in the amount of PLN 98.3 million.

Consolidated Financial Statements - In connection with the COVID-19 pandemic, PKP CARGO S.A. and selected subsidiaries (PKP CARGO CONNECT sp. z o.o. and PKP CARGOTABOR Sp. z o.o.) signed the agreements with trade union organizations on reducing the working hours of employees. The agreement signed by PKP CARGO S.A. applied to the period from 1 June 2020 to 31 August 2020 and the agreements signed by the subsidiaries pertained to the period from 1 July 2020 to 30 September 2020. The reduced working time of the Group's employees caused a decrease in employee benefit expenses in the total amount of PLN 33.8 million.

Under the Anti-Crisis Act, PKP CARGO S.A. and selected subsidiaries were awarded support from the Guaranteed Employee Benefit Fund in the total amount of PLN 115.2 million.

8.10.4 Description of significant off-balance sheet items

Significant off-balance sheet items are described in [Notes 7.2](#) and [7.3 to the SFS](#) and [Notes 7.2](#) and [7.3 to the CFS](#) for the financial year ended 31 December 2020.

9. Representation on the application of corporate governance

9.1. Indication of a set of corporate governance rules applicable to PKP CARGO S.A. and of the place where the wording of such rules is publicly available

The Company applies the corporate governance rules described in the document entitled “Best Practice of WSE Listed Companies 2016” (hereinafter referred to as the “Code of Best Practice 2016”) adopted by the Board of the Warsaw Stock Exchange on 13 October 2015 which entered into force on 1 January 2016 and replaced the previous set of corporate governance rules. The wording of the “Code of Best Practice 2016” to which the Company has been subject since 1 January 2016 is available on the website of the Warsaw Stock Exchange at https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf.

The Company makes every effort to ensure that both the recommendations and the principles contained in the Code of Best Practice 2016 are implemented. The last update of the Information on the application of recommendations and principles by the Company was published on 8 March 2021 and is available on the Company’s website in the Investor Relations/Corporate Governance/Good Practice Principles tab.

9.2. Extent to which PKP CARGO S.A. failed to observe the provisions of the set of corporate governance rules, indication of such provisions and explanation of the reasons for the failure

The Company complies with the recommendations and rules laid down in the “Best Practice of WSE Listed Companies 2016”, except for the following 3 detailed rules: I.Z.1.10, I.Z.1.15., I.Z.1.20.

I.Z.1.10. financial projections – if the company has decided to publish them - projections published in the period of at least 5 last years along with information on the extent to which they have been achieved;

The principle has not been applied.

Explanation: In view of the rapidly changing market environment and the resulting inability to estimate results, the Company has decided to temporarily suspend publication of projections.

I.Z.1.15. information containing a description of the company’s diversity policy in relation to the company’s governing bodies and key managers; the description should take into account aspects of the diversity policy such as gender, field of study, age, professional experience, as well as indicate the objectives of the diversity policy and how it has been implemented in the reporting period; if the company has not developed and does not implement a diversity policy, it provides an explanation of this decision on its website,

The principle has not been applied.

Explanation: No formal diversity policy has been drawn up with regard to the Company’s corporate bodies; nevertheless, the policies applied by the Company in all processes, especially recruitment, take into consideration such diversity aspects as gender, education, age and professional experience, recognizing diversity and equal opportunities as significant competitive advantages.

I.Z.1.20. recording of the course of shareholder meetings in audio or video form;

The principle has not been applied.

Explanation: The Company believes that non-application of this principle does not affect the reliability of the Company’s information policy or the completeness of the material information provided by the Company to its shareholders

9.3. Description of the primary attributes of the internal control and risk management systems used in PKP CARGO S.A. in respect of the process of preparing standalone and consolidated financial statements

Uniform accounting policy

Uniform accounting policy: PKP CARGO S.A.'s parent company has developed and implemented the Accounting Policy designed in accordance with EU IFRS. The document is updated on an ongoing basis as statutory amendments are introduced. The principles contained in the document are applied to standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. Companies subject to consolidation are required to apply the Accounting Policy of PKP CARGO S.A. in their preparation of reporting consolidation packages which form the basis for preparation of the PKP CARGO Group's consolidated financial statements.

Uniform consolidation packages of subsidiaries

Uniform consolidation packages of subsidiaries: For the purposes of preparation of the consolidated financial statements of the PKP CARGO Group, a uniform pattern of reporting packages based on EU IFRS to be prepared by the subsidiaries has been adopted. The subsidiaries prepare their reporting packages in accordance with EU IFRS taking into account the differences between Polish Accounting Standards and EU IFRS.

Bookkeeping

Bookkeeping: The reliability of financial statements is ensured by using data derived directly from the accounting ledgers. The Parent Company keeps a set of accounting ledgers forming the basis for preparation of financial statements in its computerized financial and accounting system SAP. The Company updates its financial and accounting system on an ongoing basis in line with the changing legislation and reporting requirements, both internal and external. Access to the IT systems is restricted by appropriate permissions granted to authorized employees. The IT and organizational solutions used by the Company secure control of access to the financial and accounting system and ensure appropriate protection and archiving of accounting ledgers.

Procedures for the closing of ledgers and authorization of financial statements

Procedures for the closing of ledgers and authorization of financial statements: PKP CARGO S.A. and the subsidiaries have implemented internal procedures for closing the reporting periods, setting the dates and defining the responsibilities of internal departments for each reporting area; financial statements are subjected to internal procedures aimed at verifying their completeness and compliance; EU IFRS-compliant reporting packages are signed by the Management Boards of the subsidiaries and EU IFRS-compliant consolidated financial statements are properly authorized and signed by the Company's Management Board.

Supervision by the Audit Committee

Supervision by the Audit Committee: Within the structure of the PKP CARGO S.A. Supervisory Board, the Audit Committee has been established which, in accordance with the applicable regulations, exercises supervision over the process of preparation of consolidated financial statements and the process of financial audit and which analyzes and monitors interim and annual financial data of both the Company and the Group.

Audit and review of financial statements

Audit and review of financial statements: Annual standalone and consolidated financial statements are audited by a statutory auditor, semi-annual standalone and consolidated financial statements are reviewed by a statutory auditor; reports on the auditor's activities are appended to all approved and published financial statements.

9.4. Shareholders holding directly or indirectly significant blocks of shares

Table 35 Shareholder structure of PKP CARGO S.A. as at 1 January 2020

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A. ⁽¹⁾	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE ⁽²⁾	7,751,187	17.31%	7,751,187	17.31%*
Aviva OFE ⁽³⁾	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,913,165	44.46%	19,913,165	44.46%
Total	44,786,917	100.00%	44,786,917	100.00%

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 21 June 2018.

(3) According to a notice sent by the shareholder on 13 August 2014.

* detailed information pertaining to restrictions on the exercise of voting rights is provided in Section 9.6 "Exercise of voting rights at the Shareholder Meeting"

Source: Proprietary material

Table 36 Shareholder structure of PKP CARGO S.A. as at 31 December 2020 and as at the delivery date of this report

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

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 3 June 2020.

(3) According to a notice sent by the shareholder on 13 August 2014.

* detailed information pertaining to restrictions on the exercise of voting rights is provided in Section 9.6 "Exercise of voting rights at the Shareholder Meeting"

Source: Proprietary material

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 37 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

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

9.5. Holders of securities giving special controlling rights

No PKP CARGO S.A. securities give any of the shareholders any special control rights.

9.6. Restrictions on the exercise of voting rights at the Shareholder Meeting

Right to participate in the Shareholder Meeting and voting rights

Shareholders exercise their right to vote at Shareholder Meetings in accordance with the provisions of the Commercial Company Code. The Company's shareholders may participate in the Shareholder Meeting and exercise their voting right in person or by proxy. A shareholder wishing to participate in a Shareholder Meeting by proxy must grant the proxy powers in writing or in electronic form. The Company provides the recommended proxy document in the notice on convening the Shareholder Meeting, however it is not obligatory. Moreover, the Company should be notified about granting proxy powers in electronic form using the means of electronic communication specified in the announcement on convening the Shareholder Meeting. The Company takes proper action to identify the shareholder and his/her/its proxy to verify the validity of the proxy powers. A detailed description of the manner of verification of the validity of proxy powers is included in the notice on convening the Shareholder Meeting.

A shareholder holding shares registered in more than one securities account may appoint separate proxies to exercise the rights attached to shares registered in each of his/her/its accounts.

If a member of the Management Board, a member of the Supervisory Board, the liquidator, an employee of the Company, or a member of a corporate body or an employee of the Company's subsidiary or cooperative acts as a proxy, then the proxy document may authorize such a person to represent the shareholder at a single Shareholder Meeting only. The proxy is obligated to disclose to the shareholder any circumstances indicating the existence or possibility of a conflict of interest. In such a situation, it is not permitted for the proxy to grant the proxy powers to others.

Restriction of the voting rights

Pursuant to § 11 Section 2 of the Articles of Association, each share entitles its holder to one vote at the Shareholder Meeting. Pursuant to § 13 Section 1 of the Company's Articles of Association, voting rights of the shareholders holding more than 10% of all the votes in the Company are restricted in such a manner that no such shareholder may exercise more than 10% of all the votes in the Company existing on the date of the Shareholder Meeting. This restriction does not apply for the purposes of determining the obligations of buyers of significant blocks of shares, which are prescribed by the Act on Public Offering. The above restriction of the voting rights does not apply to shareholders who, on the date of adoption of the Shareholder Meeting resolution introducing the restriction, were entitled to exercise voting rights, also as users, attached to shares representing more than 10% of the total number of votes existing in the Company or any other entity that acquires the Company's shares held by the shareholders referred to above in connection with their liquidation.

In accordance with the Articles of Association, the restriction of the voting rights of shareholders representing more than 10% of the total number of votes in the Company does not cease after sale of all shares held by PKP S.A. to which the said limitation does not apply. As a consequence, the limitation of voting rights makes it potentially difficult for a single investor to gain control of the Company even if the stake held by PKP S.A. in the Company's share capital drops to zero.

A Company's shareholder may not, either personally or by proxy or while acting in the capacity of a proxy of any other person, vote on resolutions concerning his/her/its liability towards the Company on whatever account, including exonerating on the performance of his/her/its duties, being released from any of his/her/its liabilities towards the Company or any dispute between him/her/it and the Company. The above restriction does not apply to voting by a shareholder acting in the capacity of a proxy for another shareholder on any of the said resolutions concerning the voting shareholder.

Moreover, pursuant to § 13 Section 1 of the Company's Articles of Association, for the purposes of restricting the voting rights, the votes of the shareholders connected by a parent or subsidiary relationship are added up according to the principles described below.

The shareholders whose votes are accumulated and reduced are jointly referred to as a "Grouping". An accumulation of votes involves adding up the votes held by individual shareholders comprising a Grouping. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Grouping. A reduction in votes is effected in accordance with the following principles:

- for each shareholder associated with a Grouping, a percentage of votes vested in the shareholder in the cumulative number of votes vested in the entire Grouping is calculated;
- the number of votes corresponding to 10% of all the votes in the Company is calculated on the date of holding the Shareholder Meeting;
- the number of votes to which each shareholder forming part of the Grouping is entitled after the reduction is the number obtained by multiplying the percentage interest to which it is entitled by the number of votes, rounded up to a full vote;

- the restriction of the voting rights pertains also to shareholders who are not present at the Shareholder Meeting.

Pursuant to § 13 Section 7 of the Company's Articles of Association, in order to determine the basis for vote accumulation and reduction, each Company shareholder, the Management Board, Supervisory Board and individual members of these bodies, as well as the Chairperson of the Shareholder Meeting may demand that a Company shareholder whose votes are reduced provide information as to whether he/she/it is a person having the status of a controlling entity or subsidiary of another shareholder.

9.7. Restrictions on the transfer of ownership title to PKP CARGO S.A. securities

Statutory restrictions on the transferability of shares

The Public Offering Act, the Act on Trading in Financial Instruments and the Commercial Company Code provide, among others, for the following restrictions on the unconstrained transferability of shares:

- the obligation to notify the Polish Financial Supervision Authority and the Company applies to anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, 33¹/₃%, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, 33¹/₃%, 50%, 75% or 90% of the total number of votes in a company and, as a result of a reduction in this shareholding, reached 5%, 10%, 15%, 20%, 25%, 33%, 33¹/₃%, 50%, 75% or 90%, respectively, or less of the total number of votes; (iii) has changed his/her/its previously held share greater than 10% of the total number of votes by at least 2% of the total number of votes in a public company whose shares are admitted to trading on an official stock market (as at the Prospectus Date, the market in question is the main market of the Warsaw Stock Exchange); (iv) has changed his/her/its previously held share greater than 33% of the total number of votes in a public company by at least 1% of the total number of votes;
- the obligation to announce a call to subscribe for the sale or conversion of shares in the event of: (i) the acquisition of shares entitling the holder to exercise more than 10% or 5% of the total number of votes at the Shareholder Meeting, (ii) exceeding the threshold of 33% of the total number of votes at the Shareholder Meeting, (iii) exceeding the threshold of 66% of the total number of votes at the Shareholder Meeting;
- the prohibition of the acquisition or sale, for one's own account or for a third party, of any financial instruments, based on confidential information;
- the prohibition of the acquisition or sale of financial instruments during the lock-up period by the persons referred to in the Act on Trading in Financial Instruments;
- the parent company, within the meaning of Article 4 Section 1 Item 4 of the Commercial Company Code, is required to inform a subsidiary of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

Apart from the foregoing, there are no other statutory restrictions on the transferability of shares in the Company.

Contractual restrictions on the transferability of shares

Contractual restrictions of the transferability of shares applied to shares subscribed for by eligible employees in connection with the right granted to them as part of the Employee Guarantee Package. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to compensatory liability.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

Pursuant to the Conditional Agreement for Underwriting the Subscriptions of Institutional Investors on the Principles of Underwriting the Initial Public Offering of PKP CARGO S.A. Shares, ("Underwriting Agreement") executed on 8 October 2013 by and between PKP S.A and PKP CARGO S.A, and the following entities: Goldman Sachs International, Morgan Stanley & Co. International plc, Powszechna Kasa Oszczędności Bank Polski S.A. (also acting through its branch: Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie), Dom Inwestycyjny Investors S.A., IPOPEMA Securities S.A., Mercurius Dom Maklerski Sp. z o.o., Raiffeisen Centrobank AG, UniCredit Bank AG, London Branch,

UniCredit Bank Austria AG, UniCredit CAIB Poland S.A., collectively referred to as the “IPO Managers”, the Company and PKP S.A. were subject to the following contractual restriction on the transferability of shares and the issue of shares:

PKP S.A. made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company’s shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO. The restriction referred to above does not apply to the disposal of shares by PKP S.A. in response to a call to subscribe for a conversion or sale of Company shares to a strategic investor for a price not lower than that provided for in the IPO.

The Company made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company’s shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO.

9.8. Rules for appointment and dismissal of managers

The PKP CARGO S.A. Management Board consists of between one and five members, including the President of the Management Board. Management Board members are appointed for a joint 3-year term of office. The President and other Members of the Management Board are appointed by the Supervisory Board pursuant to the Company’s Articles of Association and the Bylaws for Appointing Management Board Members in PKP CARGO S.A. and the Bylaws for Electing Candidates to Become an Employee Representative in the PKP CARGO S.A. Management Board and to Appoint Employee Representatives to the PKP CARGO S.A. Supervisory Board and the Procedure for Their Removal. The Supervisory Board sets the number of Management Board members.

Management Board Members are appointed following a recruitment procedure only from among candidates participating in the qualification procedure. The recruitment procedure for a Management Board Member is prepared and organized by the Supervisory Board or a professional personnel consulting company selected by resolution of the PKP CARGO S.A. Supervisory Board. The Nomination Committee takes part in the procedure for appointment of Management Board Members, exercising ongoing supervision over the process of selection of a Management Board Member and the process of evaluation and appointment of Management Board Members.

The Supervisory Board also selects one Management Board Member from among candidates nominated by the Company’s employees. Such a candidate should have higher education, at least 5 years of professional experience in the PKP Group and have no criminal record. The bylaws for electing candidates for a representative of employees in the Management Board are adopted by the Supervisory Board. Failure to appoint a representative of employees to the Management Board does not preclude the appointment of the Management Board or the effective adoption of its resolutions. The power referred to in the first sentence above was granted to the Company’s employees in connection with Article 4 section 4 of the Act on Commercialization and Restructuring of PKP and the provisions of the Employee Guarantee Package.

As PKP S.A.’s share in the Company’s share capital is less than 50%, PKP S.A. has the personal power to select candidates for the President of the Management Board on its own. The personal rights referred to in the preceding sentence are exercised by way of delivering a written statement to the Supervisory Board Chairperson.

9.9. Rules for amending the Articles of Association of PKP CARGO S.A.

The rules for amending the Company’s Articles of Association are based on Article 430 and Article 402 § 2 of the Commercial Company Code.

Any amendment to the Articles of Association requires a resolution of the Shareholder Meeting and registration in the register. Moreover, the adoption of a resolution on amendments to § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing 50% of the total number of votes in the Company plus one vote.

Pursuant to § 25 Section 3 Item 11, the Supervisory Board is entitled, after the court’s decision on the registration of amendments to the Company’s Articles of Association becomes final to adopt the consolidated version of the Company’s Articles of Association.

An amendment to the Company's Articles of Association which involves a material change in the line of business does not require a buyout of the shares held by the shareholders objecting to such an amendment if the relevant resolution of the Shareholder Meeting in this matter is adopted by a majority of two thirds of the votes in the presence of shareholders representing at least one half of the share capital.

9.10. Manner of operation and key powers of the Shareholder Meeting, description of shareholders' rights and the manner of their exercise

The Shareholder Meeting operates pursuant to the provisions of the Commercial Company Code, the Company's Articles of Association (in particular, §10-§13) and the Bylaws of the Shareholder Meeting. Shareholders are entitled to participate in and exercise their voting rights at the Shareholder Meeting in person or by proxy.

The Shareholder Meeting is valid irrespective of the number of shares represented thereat.

Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes except for resolutions the adoption of which is subject to more stringent requirements provided for by the Commercial Company Code or the Articles of Association.

Votes at the Shareholder Meeting are cast in an open ballot. A secret ballot is ordered for elections and motions for the dismissal of members of the Company's corporate bodies or the Company's liquidators, or for holding them accountable, or in other personal matters. Moreover, a secret ballot must be ordered at the request of at least one shareholder attending or represented at the Shareholder Meeting.

The Shareholder Meeting may adopt a resolution on waiving the secrecy of voting in matters concerning the selection of a committee appointed by the Shareholder Meeting.

The Shareholder Meeting is presided over by its Chairman who oversees its efficient conduct in accordance with the adopted agenda. The Chairman may make decisions concerning procedural matters. Without the consent of the Shareholder Meeting, the Chairman may not remove or change the order of business entered in the adopted agenda.

The Shareholder Meeting of PKP CARGO S.A. is opened by the Chairperson of the Shareholder Meeting appointed by the President of the Management Board. If the President of the Management Board fails to appoint the Chairperson of the Shareholder Meeting prior to the designated start time of the meeting, the provisions of Article 409 § 1 of the Commercial Company Code are applied and then the Chairperson of the Shareholder Meeting is elected from among the persons entitled to participate in the Shareholder Meeting. The Chairperson of the Shareholder Meeting is elected by an absolute majority of votes cast in a secret ballot.

The Extraordinary Shareholder Meeting may be convened by a shareholder whose stake in the total number of votes in the Company is greater than 33%. In such a case, the shareholder convening the Extraordinary Shareholder Meeting appoints the Chairperson of the Shareholder Meeting.

The Shareholder Meeting adopts the Bylaws of the PKP CARGO Spółka Akcyjna Shareholder Meeting laying down a detailed procedure of conduct for its meetings. Draft Bylaws of the Shareholder Meeting are presented by the Management Board. It is permitted to participate in the Shareholder Meeting by means of electronic communication, provided that the notice of convocation of the Shareholder Meeting contains information about such a possibility.

9.11. Personnel composition and changes to it during the most recent financial year, description of the activity of PKP CARGO S.A.'s managing, supervising or administering authorities and their committees

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates on the basis of regulations of law, and in particular:

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws No. 94, Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84, Item 948, as amended)
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 62/VII/2020 of the PKP CARGO S.A. Supervisory Board of 24 August 2020);

4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018 and approved by Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018;
5. other internal and external regulations.

Management Board's powers

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

Operation of the Management Board

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

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

Diversity policy

In the Company, no formal diversity policy has been prepared with regard to the Company's corporate bodies; nevertheless, the policy carried out by the Company in all the processes, especially recruitment, takes into consideration such diversity aspects as sex, education, age and professional experience, accepting diversity and equal opportunities as significant competitive advantages, which make it possible to win and retain talented employees and benefit from their professional capacity, especially with regard to the Company's corporate bodies.

The Company applies transparent rules to elect members of its Management Board and Supervisory Board.

The Company's Articles of Association define the rules of appointing the Management Board and electing Management Board members by employees. Pursuant to § 14 Section 10 of the Company's Articles of Association, a Management Board member is obligated to satisfy the requirements specified in Article 22 of the Act on the Rules for Managing State Property (Journal of Laws 2016 Item 2259, as amended).

The recruitment procedure for the position of Management Board member is conducted on the basis of:

- PKP CARGO S.A. Articles of Association;
- Bylaws for Appointing Management Board Members in PKP CARGO S.A.;
- Bylaws for Electing Candidates to Become an Employee Representative in the PKP CARGO S.A. Management Board and to Appoint Employee Representatives to the PKP CARGO S.A. Supervisory Board and the Procedure for Their Removal;

The Bylaws for Appointing Management Board Members in PKP CARGO S.A. define in particular the qualifications that will be evaluated when selecting candidates for respective positions in the Management Board.

Amendments to the above Bylaws require consent of all Supervisory Board members who meet the independence criteria and are appointed following the rules set forth in § 20 and 21 of the Articles of Association of PKP CARGO S.A.

Table 38 Composition of the PKP CARGO S.A. Management Board from 1 January 2020 to the date of submission of this report

Full name	Position	Period in office	
		from	to
Czesław Warsewicz	President of the Management Board	27 March 2018	to date
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	23 March 2020
Piotr Wasaty	Management Board Member in charge of Commerce	1 September 2020	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date

Source: Proprietary material

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

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

- business strategy,
- business security and internal audit.

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

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

- finance management,
- purchase and sale of assets.

Special powers of the Management Board Member in charge of Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.

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

- commercial policy,
- sales of transportation services.

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

- execution of transports,
- maintenance of rolling stock.

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

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

CZESŁAW WARSEWICZ
PRESIDENT OF THE MANAGEMENT BOARD


Mr. Czesław Warszewicz is an economist by education. He graduated from the Management and Marketing Faculty of the Warsaw School of Economics (SGH) and subsequently conducted research at the Postgraduate Doctoral Course of the SGH Strategic Management Faculty in the areas of venture capital and private equity.

He participated in the first Polish edition of AMP – Advanced Management Program organized by the IESE Business School in Barcelona. A specialist in transportation and management. From 1994 to 1999, he worked for the private sector, including Raab Karcher Energieservice Sp. z o.o. and EVIP International Sp. z o.o. In 1997, he joined the stock-exchange listed Rolimpex Group where he worked for 9 years, including in the positions of Chief Financial Officer and Management Board Member. In 2006-2009, he served as the President of the PKP Intercity S.A. Management Board. In 2009-2013, he was a Department Director at Patentes TALGO, a leading European manufacturer of rolling stock. Since 2013, he has served as an Executive Director, member of the Board of Directors of Miller Graphics AB. From 2015 to 2018, he was a member of the PKP CARGO S.A. Supervisory Board.

LESZEK BOROWIEC
MANAGEMENT BOARD MEMBER IN CHARGE OF FINANCE


Mr. Leszek Borowiec has a university degree. He graduated from the Częstochowa University of Technology, majoring in corporate finance management, and completed postgraduate studies in accounting.

He holds a Ph.D. in economics, specializing in finance and accounting, a title he obtained from the Wrocław University of Economics. Moreover, Mr. Leszek Borowiec completed Executive MBA studies at the Institute of Economics of the Polish Academy of Sciences. Since 2001, he has served as an Assistant Professor and Lecturer at the University of Warsaw and the Head of the Accounting Faculty at the University of Finance and Management in Warsaw. From 2001 to 2010, he worked for Zakład Produkcji Cystern LDS Sp. z o.o., where he held the position of Chief Financial Officer, among his other functions. In 2010-2011, he was an Expert at Ernst & Young Business Advisory in the area of management accounting for entities operating in the public and/or regulated sectors. From 2011 to 2013, he served as a Management Board Member and Director for Economic and Financial Matters at Solino S.A., a member of the ORLEN Group. In 2014-2018, he worked for the Poczta Polska Group, where he held the position of Managing Director of the Finance Division and most recently President of the Pocztove Usługi Finansowe Sp. z o.o. Management Board.

WITOLD BAWOR
MANAGEMENT BOARD MEMBER IN CHARGE OF OPERATIONS


Mr. Witold Bawor has a university degree. He is a graduate of the Częstochowa University of Technology, having majored in electrical engineering.

He has been associated with the railway sector, including the PKP CARGO Group, for many years. In 2006-2012, he was the PKP CARGO Management Board Member in charge of Maintenance. In 2012-2014, he was the Managing Director – Management Board Representative for Maintenance. Since 2015, Mr. Witold Bawor has served as a Member, and then the President of the Management Board of PKP CARGOTABOR Sp. z o.o.

PIOTR WASATY
MANAGEMENT BOARD MEMBER IN CHARGE OF COMMERCE


Mr. Piotr Wasaty is a graduate of the Economics Faculty of the Poznań University of Economics and Business and he also completed the postgraduate MBA course in finance at the Kozminski University in Warsaw. He holds an international CFE certificate awarded by the Association of Certified Fraud Examiners and is a certified internal auditor.

He is a manager with nearly 20 years of experience. From 2002 to 2003 he was an economic analysis specialist at TAURON Polska Energia. Since 2004 he has been linked to DPC sp.j. where he is a partner. As the Management Board Representative for Audit at PERN S.A., in 2007-2008 he was responsible for coordinating and conducting audit and providing consultancy and strategic analysis services. From 2009 to 2011, he served as Chief Settlements and Reporting Specialist in Wydawnictwa Szkolne i Pedagogiczne S.A. From 2010 to 2017, as the Deputy Director General and CFO in ZAiKS, he managed the finance and investment division. Since 2019 he has been a Management Board Member at Royalty Trade Zone S.A., where he is responsible, among others, for development strategy and industry contacts.

ZENON KOZENDRA
MANAGEMENT BOARD MEMBER – EMPLOYEE REPRESENTATIVE:


Mr. Zenon Kozendra is a graduate of the Higher School of Public Administration in Kielce. He completed postgraduate studies in the organization of management at the Kozminski Academy. He has been associated with PKP since 1985.

From 2005 to 2008, Zenon Kozendra was the Management Board Member responsible for Employee and Administrative Affairs and from 2008 he was the Management Board's Plenipotentiary responsible for Personnel Strategy. Zenon Kozendra was a member of the PKP CARGO Supervisory Board from 2001 to 2005 and a Management Board Member of the Trade Union of Rail Employers from 2006 to 2008. Moreover, Zenon Kozendra sat on the supervisory boards of the following companies: PKP CARGO SERVICE – as Chairman of the Supervisory Board in 2006-2007, PKP CARGO WAGON Kraków – as Chairman of the Supervisory Board in 2007-2008, PKP CARGO TABOR Karsznice – as Member of the Supervisory Board in 2010-2014, PKP S.A. – as Member of the Supervisory Board in 2014-2016.

SUPERVISORY BOARD

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

Powers of the Supervisory Board

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

Operation of the Supervisory Board

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

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

Diversity policy

PKP S.A. is authorized to appoint and dismiss PKP CARGO S.A. Supervisory Board Members in a number equal to half the composition of the Supervisory Board.

The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board. The Bylaws of running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal were adopted by the Supervisory Board with Resolution No. 1804/VI/2019 on 21 January 2019. A failure to elect the Supervisory Board members representing the employees does not prevent the Supervisory Board from being appointed or from adopting effective resolutions.

Independent PKP CARGO S.A. Supervisory Board Members satisfy the independence criteria for Supervisory Board Members defined by the European Commission in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (EU OJ L. 05.52.51) and additional requirements specified in the "Best Practice of WSE Listed Companies 2016" constituting an attachment to Resolution No. 26/1413/2015 of the WSE Supervisory Board of 13 October 2015, § 21 of the Articles of Association, and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, Item 1089, as amended).

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

Table 39 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2020 to the delivery date of this report

Full name	Position	Period in office	
		from	to
Krzysztof Mamiński	Supervisory Board Chairman	26 March 2018 26 June 2019**	26 June 2019** to date
	Supervisory Board Member	6 March 2017 26 June 2019**	26 June 2019** to date
Mirosław Antonowicz	Supervisory Board Member	1 June 2017 26 June 2019**	26 June 2019** 31 August 2020
	Supervisory Board Vice-Chairman	27 June 2017 26 June 2019**	26 June 2019** 31 August 2020
Marcin Kowalczyk	Supervisory Board Member	14 January 2021	to date
	Supervisory Board Vice-Chairman	25 January 2021	to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016 26 June 2019**	26 June 2019** to date
Zofia Dzik	Supervisory Board Member	11 May 2016* 26 June 2019**	26 June 2019** to date
Dariusz Górski	Supervisory Board Member	26 June 2019**	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015	11 May 2016*
		11 May 2016*	26 June 2019**
		26 June 2019**	24 July 2020
Paweł Sosnowski	Supervisory Board Member	7 June 2018 26 June 2019**	26 June 2019** to date
		1 May 2018 26 June 2019**	26 June 2019** to date
Jerzy Sośnierz	Supervisory Board Member	1 May 2018 26 June 2019**	26 June 2019** to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016 26 June 2019**	26 June 2019** to date
		14 March 2017 26 June 2019**	26 June 2019** to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017 26 June 2019**	26 June 2019** to date
Izabela Wojtyczka	Supervisory Board Member	16 July 2020	to date
Antoni Duda	Supervisory Board Member	21 August 2020	to date

* date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – beginning of the 6th term of the PKP CARGO S.A. Supervisory Board

** date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – beginning of the 7th term of the PKP CARGO S.A. Supervisory Board

Source: Proprietary material

Krzysztof Mamiński – Supervisory Board Chairman

Mr. Krzysztof Mamiński has been associated with railways for over 40 years. He is a graduate of the University of Szczecin, where he obtained the degree of Master of Economics. He also completed postgraduate studies in the field of European Management Model in the Kozminski University in Warsaw.

He started working on the railways in 1980, in the IT Center at the Central Regional Directorate of the State Railways (CDOKP) in Warsaw. From 1990, he was a member of the National Committee of the "Solidarity" Trade Union, discharging, among others, the functions of the head of the National Section of Railway Employees of the "Solidarity" Trade Union and the head of the Office of Transport Employees in the union. In 1998-2002 he sat on the Management Board of Polskie Koleje Państwowe, in charge of restructuring and employee relations. From 2001 to 2012, he was President of the Union of Railway Employers, and from 2002 to 2012 - the President of the Management Board of Natura Tour Sp. z o.o., a subsidiary of PKP. In 2012-2013, he was the Representative of the Management Board of PKP S.A. for Social Dialogue in PKP Group, and for the next three years

- the President of CS Szkolenie i Doradztwo sp. z o.o., a company of the PKP Group. In 2006, he served as a Member of the Supervisory Board of PKP Linia Hutnicza Szerokotorowa Sp. z o.o., and from 2006 to 2013 he was a Member of the Supervisory Board of WARS S.A. From April 2016, he discharged the function of President of the Management Board of Przewozy Regionalne sp. z o.o., and from March 2017 he has been President of the Management Board of PKP S.A. From 26 October 2017 to 25 March 2018, he held the position of President of the Management Board of PKP CARGO S.A.

Marcin Kowalczyk – Supervisory Board Vice-Chairman

Mr. Marcin Kowalczyk graduated from the Faculty of Law and Administration at the University of Warmia and Mazury in Olsztyn. He completed his postgraduate studies at the National Defense University of Warsaw, and earned an MBA degree from the Warsaw Management University.

He started his professional career as an assistant in the political office of the Minister of National Defense and a classified information protection officer at the Chancellery of the President of the Republic of Poland. He also served as deputy CEO of the Military Property Agency and a Supervisory Board member at the Military Property Agency. He held a managerial position at PGE Energia Odnawialna. In 2018-2020, he served as Vice-President of Wojskowe Przedsiębiorstwo Handlowe.

Since May 2020, he has been associated with PGE Dystrybucja, first as Vice-President of the Management Board and then, since September 2020, as President of the Management Board. Currently, he serves as Head of the Political Cabinet of the Minister of State Assets.

Krzysztof Czarnota – Supervisory Board Member

Mr. Krzysztof Czarnota completed the Railway Technical School in Skarżysko-Kamienna as a Transportation Technician. Since 1977, he has worked for PKP, including in the Locomotive Depot in Skarżysko-Kamienna, in the Unclassified Station in Skarżysko, in the District Station in Skarżysko, in the Freight Transport Unit in Skarżysko and currently in the Company's Eastern Unit in Lublin as a dispatcher in charge of the shift.

Since 1992, Mr. Krzysztof Czarnota has served as Chairman of the Independent Trade Union of Railway Workers of PKP Cargo S.A. in Skarżysko-Kamienna. Since the establishment of the Freight and Transshipment Industry Board at the Federation of Trade Unions of Railway Workers, he had served as its Chairman and currently is Vice Chairman of the Cargo Industry Board at the Federation of Trade Unions of Railway Workers. He is a member of the Bureau, the Board and the National Council of the Federation of Trade Unions of Railway Workers.

From the incorporation of the Company, i.e. from 2001 until 29 September 2015, he was a member of the PKP CARGO S.A. Supervisory Board and a representative of all employees of PKP CARGO S.A. as a delegate of the Federation of Trade Unions of Railway Workers.

Zofia Dzik – Supervisory Board Member – independent member

Ms. Zofia Dzik is a graduate of the Kraków University of Economics, University of Illinois in Chicago, University of Social Sciences and Humanities in Warsaw and of the Executive Programs at INSEAD Business School. She holds an MBA title from Manchester Business School and is a certified member of the Association for Project Management (APMP) and a certified member of The John Maxwell Team, a top international organization associating eminent leadership coaches, trainers and speakers.

In the years 1995-2003, she worked for Arthur and Andersen Business Consulting as a consultant responsible for the insurance sector (Insurance Division Director). From 2003 she was associated with Intouch Insurance Group (RSA Group), where in the years 2004-2007 she performed the function of the President of Towarzystwo Ubezpieczeń LINK4 S.A., whereas in the years 2007-2009 a function of a management board member of Intouch Insurance B.V. in the Netherlands and the CEO for East-Central Europe of Intouch Insurance Group. In that capacity, she was responsible for developing new markets; she was also the chairwoman of the supervisory boards of: TU Link4 S.A. and Direct Insurance Shared Services Center in Poland, Intouch Strachowanie in Russia and Direct Pojistovna in the Czech Republic, as well as the deputy chairwoman of the supervisory board of TU na Życie Link4 Life S.A.

In 2006-2008, she served as a management board member of the Polish Chamber of Insurance. In the years 2007-2010 a supervisory board member of the Insurance Guarantee Fund. She also sat on the supervisory boards of: KOPEX S.A. and Polish Energy Partners S.A (PEP S.A.)

Currently, she is the President of the Humanites Institute, mentor, author of the "Consistent Leadership" model, director of the Academy for Leaders in Education as well as member of the supervisory boards of BRW S.A., ERBUD S.A., Benefit Systems S.A. and other companies, and in the past she also sat on the supervisory boards of PKO BP S.A., AmRest SE, ERBUD S.A., and PEP S.A., among others.

Dariusz Górski – Supervisory Board Member – independent member

Mr. Dariusz Górski is a graduate of the Warsaw School of Economics (SGH). During his professional career, he underwent extensive training in finance, financial analysis and management, including a course for an investment adviser and corporate finance (scholarship at the Erasmus University in Rotterdam).

He began his professional career in 1992 as a financial analyst at Caresbac Polska S.A., one of the first venture capital companies on the Polish market. In 1993-1996, he worked at Business Management & Finance S.A. as a financial analyst, and from 1995 as the head of projects in the areas of strategic consulting, mergers and acquisitions, privatization and restructuring. In 1996, he joined Robert Fleming & Co (acquired in 2000 by Chase Manhattan Bank) as a stock analyst, initially specializing in the food, industrial and IT sectors. From 1998, he was an analyst of the banking sector in Central Europe. In 2001, he joined ING Securities as a stock analyst covering the whole Polish market with a particular focus on banks, commodity companies and the fuel sector. In 2004, he was hired by Deutsche Bank Securities as the head of stock market analysis for the Central Europe region, responsible for the overall product and the banking sector. In 2008, he became a stock portfolio strategist at Opera TFI. In 2009-2011, he headed the department of analysis of the Polish stock market at Wood & Co where he was responsible for the financial sector, the media and the stock market strategy. From 2011, he was employed at the BZ WBK Brokerage House (currently the Santander Brokerage House), initially as a senior analyst, Deputy Head of the Analysis Team, and from 2015 as the Director of the Stock Exchange Analysis Department responsible for supervision and team products, financial sector analysis and strategy for the stock market. Currently, he serves as the Corporate Banking Director in Bank Millennium.

Mr. Dariusz Górski's professional achievements include a host of high positions in international and national investor rankings. In 2004, the team of ING Securities analysts in Warsaw came third in the Institutional Investor Magazine ranking and in 2003 it won the top place in the same ranking. In 2007, the DB Securities team was #1 in the Thomson Extel ranking in the Hungarian/Czech market category and #2 in the Polish market category, while the banking team was #1 in the EMEA Financials category. In 2006, the Polish DB Securities team was #3 in the Institutional Investor Magazine ranking (2005: #4), while the team of DB banking analysts was #2 (2005: #3). In rankings compiled by GG Parkiet analyst, it was at the top of the list – the banking team was #2/3/3 in 2017/16/15, respectively, and the market strategy team was #5/2 in 2017/16, respectively.

Tadeusz Stachaczyński – Supervisory Board Member

In 1980, Mr. Tadeusz Stachaczyński completed a Railway Technical School specializing in the operation and repair of traction vehicles. In 2010, he graduated in engineering from the Subcarpathian School of Higher Education in Jasło, majoring in transportation and freight forwarding. In 2011, Mr. Stachaczyński completed postgraduate studies in marketing and market research.

Since 1974, Mr. Tadeusz Stachaczyński has been employed by PKP CARGO S.A.'s Southern Unit (formerly, PKP's Locomotive Depot in Jasło). In 1995-2014, Mr. Stachaczyński was a councilor of the Town Council of Jasło where he served in the budget, development and audit committees.

Since 2009, Mr. Tadeusz Stachaczyński has served as Chairman of the Company Council of the Trade Union of Train Drivers at PKP CARGO S.A.'s Southern Division, and since 2013 has been Chairman of the Freight Sector of the Trade Union of Train Drivers.

Mr. Tadeusz Stachaczyński was a member of the Supervisory Board of PKP CARGO S.A. Centrum Logistyczne Medyka-Żurawica Sp. z o.o. in 2011-2013.

Władysław Szczepkowski - Supervisory Board Member

Mr. Władysław Szczepkowski graduated in law from the Faculty of Law and Administration in the Department of Theory of the State and Law of the Nicolaus Copernicus University in Toruń in 1992. From 1992 to 2005, he pursued his career in banking where he was involved in financial analysis and corporate restructuring projects; he also worked for legal departments. From 2005 to 2007, he was the President of the PKP CARGO S.A. Management Board. From 2010 to 2016, he worked for companies of the PGNiG Group. From September 2016 to March 2017, he was employed by Przewozy Regionalne sp. z o.o. Since the beginning of March 2017, he has been working for PKP S.A., currently as the Director – PKP S.A. Management Board Representative for Corporate Affairs. Since 2000, he has been entered in the list of legal counsels.

Jerzy Sośnierz

Mr. Jerzy Sośnierz graduated from the Technical School of Metallurgy in Dąbrowa Górnicza in the field of mining machinery construction in 1978. He took a train traffic controller course in 1979. In 2010 he received a master's degree from the Administration and Management Faculty of the Humanitas University in Sosnowiec, majoring in public administration.

Mr. Jerzy Sośnierz has 40 years of experience in the railway industry. His career began in 1978 when he became a train traffic controller in Bukowno, later becoming a dispatcher in Jaworzno-Szczakowa and after the restructuring of PKP CARGO S.A. he became a shift dispatcher in Katowice. He co-founded the Bukowno Chapter of the NSZZ Solidarność trade union. He has been connected to NSZZ Solidarność ever since, acting as the Chairman of the Union at the PKP Cargo S.A. South Unit. During his term in office, he was a member of the Executive Committee of the Trade Section in PKP CARGO S.A., a member of the Council of the Trade Section in PKP CARGO S.A., a member of the National Council of the Railwaymen Section and a Delegate for the General Meeting of the Transport Secretariate.

Paweł Sosnowski

Mr. Paweł Sosnowski graduated from the Faculty of Law and Administration at the University of Warsaw and from the Faculty of Canon Law at the Warsaw Theological Academy. He obtained a Ph.D. degree in administrative law from the Catholic University of Lublin. Mr. Paweł Sosnowski is also a licensed legal counsel and a member of the Regional Chamber of Legal Counsels in Warsaw.

In 1992-2006, Mr. Paweł Sosnowski was associated with Totalizator Sportowy Sp. z o.o., and in 1998-2002 he rendered his services to the State Fund for the Rehabilitation of the Disabled. In parallel, he also lectured at the Faculty of Administration and Social Sciences of the Warsaw University of Technology and cooperated with the Department of Administrative Law and Local Self-Government at the Cardinal Stefan Wyszyński University in Warsaw. In 2003-2007, he served as Deputy Mayor of the Wawer District of Warsaw and Chief Specialist in the Legal Department of the Warsaw City Hall. In 2007, he also served as Deputy County Construction Supervision Inspector in the County Construction Supervision Inspectorate for the Capital City of Warsaw. Since 2007, he has worked for the General Counsel to the Republic of Poland.

Mr. Paweł Sosnowski was a member of the Supervisory Board of LIGIA Sp. z o.o. (2000-2002), Chairman of the Supervisory Board of Towarzystwo Budownictwa Społecznego "WOLA" Sp. z o.o. (2003-2006) and a member and secretary of the Supervisory Board of PKP S.A. (2017-2018).

Izabela Wojtyczka

Ms. Izabela Wojtyczka is a graduate of the Warsaw School of Economics in the field of Economics and the University of Warsaw's Political Science and International Studies Department (she also participated in an Erasmus internship at the Pázmány Péter Catholic University in Budapest). She holds a Master of Business Administration (MBA) degree and an international project management certificate from the PRINCE2 Foundation.

She is the Deputy Director of the Ownership Supervision Reform Department in the Ministry of State Assets. In the past, she has worked with the Ministry of Entrepreneurship and Technology, Polskie Górnictwo Naftowe i Gazownictwo Obrót Detaliczny sp. z o.o. and the Polish Institute of International Affairs.

Antoni Duda

Mr. Antoni Duda graduated from the Electrical Engineering Department at the AGH University of Science and Technology in Kraków. In 1974, he began to work as an associate lecturer in the Higher School of Engineering in Opole making the city his permanent home.

When the Solidarity movement was born, he combined his professional activity with his social commitment and co-formed the structures of the Original Solidarity movement at the university. At the same time, he got involved in the establishment of the Catholic Intelligence Club in Opole with which he continues to maintain his affiliation to the present. He served as vice-president from 1993 and he has been the president since 2002.

In 1983, his professional career took him to industry, where he joined PRiMUE Remak companies (at the time, the group was a major provider of maintenance, repair and overhaul services for the power sector) for more than ten years and then worked for APC METREM. He supplemented his education with postgraduate studies in non-destructive material testing methods. In the landmark year of 1989 he became involved in the recreation of trade union structures in PRiMUE Remak, one of the larger trade union organizations at that time in the Opole region. That led him to be a delegate from the Opole Region of Silesia at the second and third National Convention of Delegates of NSZZ "Solidarność" held in Gdańsk in April 1990 and February 1991.

In 1998 he became the director of the Opole branch of the ZUS Social Insurance Institution during the most difficult period of implementing the largest reform in the history of ZUS. In the meanwhile he enriched his technical education with postgraduate studies in business and commercial law at the University of Wrocław. He was a member of the Supervisory Board of the Regional Sickness Fund in Opole from 1999 to 2002, while from 2007 to 2008 he was a member of the Supervisory Board of BOT KWB in Turoszów.

He headed up the County Labor Office in Opole from 2003. He presided over the Assembly of Directors of County Labor Offices in the Opole region three times. The Opole Chamber of Commerce conferred the silver and gold award on the office headed up by Antoni Duda for skills and competences in the category of a “person or institution supporting the development of a market economy or education to meet a company’s needs” (in 2009 and 2012). In turn, he received the title of Excellent Leader in the 11th annual Quality Award of Opole (2014). In 2015 he received a gold medal for his many years of service. He was elected to be a member of parliament from the Law and Justice party’s list in the parliamentary elections held on 25 October 2015. He worked in three commissions in Poland’s Sejm: the Economy and Development Commission, the Social Policy and Family Commission and the National and Ethnic Minorities Commission.

SUPERVISORY BOARD’S AUDIT COMMITTEE

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

Table 40 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2020 to the delivery date of this report

Full name	Position	Period in office	
		from	to
Dariusz Górski	Committee Member	1 July 2019	to date
	Committee Chairman		
Zofia Dzik	Committee Member	20 May 2016	26 June 2019*
		1 July 2019	to date
Małgorzata Kryszkiewicz	Committee Member	20 May 2016	26 June 2019*
		1 July 2019	24 July 2020
Władysław Szczepkowski	Committee Member	24 August 2020	to date

* date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – end of the 6th term of the PKP CARGO S.A. Supervisory Board

Source: Proprietary material

In 2020, the Audit Committee held 10 meetings and took 4 votes without holding a meeting, using means of direct remote communication. In 2020, the Audit Committee adopted 14 resolutions.

The Audit Committee members who satisfy the statutory criteria of independence in relation to the issuer:

- Ms. Zofia Dzik,
- Mr. Dariusz Górski,

As required by the provisions of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (Journal of Laws of 2019, Item 1421, as amended), the independent members of the Audit Committee submitted statements confirming their fulfillment of the criteria listed in Article 129(3) of the said Act.

The Audit Committee members who have the knowledge and skills in the area of accounting or auditing of financial statements:

1. Ms. Zofia Dzik: 9 years of experience in a Big Four firm providing audit services and financial and business consulting services in 1995-2004, Senior Manager and Director in a business and financial consulting department, MBA postgraduate studies, Manchester Business School, member, vice-chair and chair of audit committees in public interest entities (since 2011). At the same time, Ms. Zofia Dzik sat on the corporate bodies of a company in the transport, forwarding and logistics industry (InPost S.A.).
2. Mr. Dariusz Górski: M.A. in economics (1995) – Warsaw School of Economics, Erasmus Universiteit Rotterdam scholarship holder in a corporate finance program (1992/1993);
3. Ms. Małgorzata Kryszkiewicz: postgraduate studies “IFRS in practice” held the Warsaw School of Economics and the EY Academy of Business (2017), postgraduate MBA studies – Gdańsk Manager Training Foundation and the University of Gdańsk, program validated by the IAE Aix-en-Provence Graduate School of Management (2009), postgraduate studies in corporate accounting at the Academy of Engineering and Health in Warsaw and the AGH University of Science and Technology in Kraków (2005), postgraduate studies in finance and corporate taxation at the Warsaw School of Economics (2002), master’s degree from the Warsaw School of Economics in finance and banking (1996), auditor (2009), accountant certified by the Ministry of Finance (2006).

The Audit Committee members who have the knowledge and skills in the specific industry in which PKP CARGO S.A. operates:

1. Ms. Małgorzata Kryszkiewicz (Committee Member till 24 July 2020): 18 years of professional experience (employment) in rail sector companies, including 13 years in managerial positions, since 2001 discharging the function of a member and chairwoman of supervisory boards in rail companies (repair, power supply, transshipment), and since 2012 a member and chairwoman of audit committees.
2. Mr. Władysław Szczepkowski (Committee Member since 24 August 2020): 12 years of experience in banking, including financial analysis and corporate restructuring, legal counsel (since 2000) - Faculty of Law and Administration of the Nicolaus Copernicus University in Toruń, President of the PKP CARGO S.A. Management Board (2005 – 2007), Representative – Director for Corporate Affairs of Polskie Koleje Państwowe S.A. (since 2017), discharging the functions of a member of the supervisory board and the strategy and nomination committees of the supervisory board of PKP CARGO S.A.

The Supervisory Board’s Audit Committee, having assessed the risks and safeguards of independence of the audit firm, BDO Audit s.r.o. with its registered office in Prague, the Czech Republic, adopted Resolution No. 12/2020 of 21 June 2020 expressing the consent for the audit firm to execute a contract for the provision of services other than audit services.

In accordance with the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019, Item 1421, as amended), the Supervisory Board’s Audit Committee, by Resolution No. 9/2019 of 15 April 2019, established the Policy for the provision of additional services by PKP CARGO S.A.’s audit firm, its related parties or members of its network and the “Policy and procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.

The policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. In accordance with the Articles of Association of PKP CARGO S.A., the audit firm is selected by the Shareholder Meeting of PKP CARGO S.A. from among entities participating in the Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. The selection is made on the basis of a recommendation submitted by the Audit Committee, which contains:
 - at least two options for the selection of an audit firm along with a justification and indication of the candidate for the auditor preferred by the Audit Committee;
 - statement by the Audit Committee that its recommendation is devoid of any third party influence;
 - statement by the Audit Committee confirming that PKP CARGO S.A. has not entered into any agreements containing clauses that would confine the Shareholder Meeting’s selection of an audit firm to certain categories or lists of audit firms.

2. When issuing a recommendation and when selecting an audit firm, the Audit Committee and the Shareholder Meeting, respectively, are required to pay special attention to:
 - the need to maintain the independence and objectivity of the audit firm and the auditor – the scope of services provided during the most recent financial years by the audit company itself as well as by its related parties and network members to the Company or its parent company or entities controlled by PKP CARGO S.A. is a matter of detailed analysis;
 - experience in auditing standalone and consolidated financial statements of public interest entities of a similar size to that of the Company and the PKP CARGO Group and listed on the Warsaw Stock Exchange;
 - experience in auditing companies with a similar business profile to that of the Company;
 - professional qualifications and experience of persons directly involved in the conduct of the audit/review of the Company and selected subsidiaries of PKP CARGO S.A.;
 - the ability to provide the required range of services within the specified period, including the ability to ensure the stability of the team;
 - the availability of qualified specialists in of specific issues related to financial statements, such as tax analysis, hedge accounting, measurement of derivatives, IT systems;
 - costs of the audit.
3. The selection of an audit firm must be made sufficiently in advance to enable the execution of the audit contract early enough to enable the audit firm to prepare for the interim review.
4. Verification and monitoring of the independence of the statutory auditor and the audit firm are carried out at every stage of the procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.
5. The selection of an audit firm is made in consideration of the principle of rotation of audit firms and key statutory auditors in such a manner that the maximum duration of uninterrupted statutory audits for individual financial years carried out by the same audit firm or by a company related to this audit firm or any member of the network operating in European Union Member States which includes these audit firms does not exceed five years and the key statutory auditor does not perform any statutory audits in the Company for more than five years. The same key statutory auditor may be selected no earlier than three years after the completion of the most recent statutory audit.
6. The first contract for a statutory audit is entered into with an audit firm for a period not shorter than two years with an option to extend the contract by subsequent periods of at least two years, in consideration of the rules of rotation of audit firms and key statutory auditors in compliance with the applicable laws.
7. The audit firm selection process is conducted in accordance with the adopted “Policy and Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group”.

The Policy and Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. The selection procedure is initiated by the Audit Committee of the Supervisory Board which lays down detailed guidelines regarding the requirements to be satisfied by the audit firm responsible for conducting audits of standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group as well as the selection criteria. The technical organization of the audit firm selection process is the responsibility of the person appointed by the Audit Committee (Coordinator) in consultation with the PKP CARGO S.A. Management Board Member in charge of Finance.
2. The coordinator, with the support of the Procurement Department of PKP CARGO S.A., prepares and carries out a procurement procedure in accordance with the Regulations for awarding contracts at PKP CARGO S.A. If the selection of an audit firm is carried out under a procurement procedure resulting from the establishment of a procurement group within the PKP S.A. Group, the PKP CARGO S.A. Supervisory Board designates a person/persons to join the tender committee and represent PKP CARGO S.A.
3. The request for proposals to be sent to audit firms in compliance with Article 130(3)(2)(a) of the Act should contain at least the following information:

- presentation of the business of PKP CARGO S.A. and its controlled entities, the organizational structure of the Company and the PKP CARGO Group, locations of business;
 - list of entities and the scope of their financial statements subject to audit and review, period covered by the request for proposals, additional services (if any) (taking into consideration the requirements of the Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network).
 - selection criteria applied by the Company in the evaluation of proposals submitted by audit firms.
 - additional expectations and requirements for bidders resulting from, without limitation, the selection criteria adopted for application, including, in particular, the need to provide information on:
 - total price offered for the conduct of interim reviews and the audit of the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group and, if specified in the request for bids, separately for each member of the PKP CARGO Group (including statutory VAT), specifying the price of each interim review and annual audit of the financial statements and the terms of payment of the fee for these services;
 - planned dates for carrying out the work, including, in particular, the time limits for the submission of audit/review reports;
 - methods of the audit firm's work, certificate of entry in the list of audit firms authorized to audit financial statements;
 - current third party liability insurance policy covering the audit firm;
 - composition of the audit team(s) dedicated to the conduct of reviews and audits of the financial statements, along with information on the competences and experience of the team members;
 - independence of the statutory auditor and the audit firm;
 - readiness to participate in meetings of the Company's statutory bodies (Supervisory Board and Shareholder Meeting) and the Audit Committee;
4. The Company evaluates the proposals submitted by audit firms. If the procurement procedure is conducted by a member of the PKP Group, the evaluation referred to in the preceding sentence is made on the basis of documentation from the procurement procedure provided by that member company. The Company submits for approval to the Audit Committee a report containing the conclusions of the selection procedure (hereinafter: the report) along with all documentation from the procurement procedure.
 5. After receiving the report, the Audit Committee prepares a recommendation for the Shareholder Meeting in accordance with the provisions of the Policy, taking into consideration the conclusions of the annual report of the Audit Oversight Commission referred to in Article 90 Section 5 of the Act, the analysis of proposals submitted by audit firms, documentation of the procurement procedure and the report.
 6. In accordance with the Company's Articles of Association, the selection of an audit firm is made by the Shareholder Meeting.
 7. Based on the resolution adopted by the Shareholder Meeting, the Company signs an audit contract with the selected audit firm.
 8. After the adoption of a resolution on the selection of an audit firm by the Shareholder Meeting, the Management Board is required to communicate, in the form of a current report, information about the selection made, in compliance with the applicable laws.
 9. If there is a justified suspicion that the pending procedure for the selection of an audit firm may lead to the selection of an auditor out of compliance with the principles laid down in the Act, Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC and the Procedure and Policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group, in particular in breach of the principles of impartiality and independence, the Audit Committee may, by resolution, at any time during the procedure, terminate it without issuing the recommendation referred to in item 5 above and immediately start a new procedure.

The Audit Committee has adopted the following rules governing the provision of additional services by audit firms, including their related parties or members of their network (hereinafter: the audit firm) responsible for auditing standalone financial statements of the Company and consolidated financial statements of the PKP CARGO Group:

1. Besides the audit/review of the financial statements, the audit firm may provide the following services to: (i) the Company, or (ii) entities controlled by PKP CARGO S.A. (hereinafter: controlled entities), or (iii) the parent company of PKP CARGO S.A. (hereinafter: the parent company):
 - conducting due diligence procedures regarding the economic and financial standing and preparation of comfort letters in connection with the issue prospectus, carried out in accordance with the national standard of related services (agreed procedures);
 - assurance services regarding pro forma financial information, result forecasts or estimates given in the issue prospectus;
 - audits of historical financial information, referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004;
 - verification of consolidation packages;
 - confirmation of the fulfillment of the terms of loan agreements based on an analysis of the financial information provided in the financial statements;
 - assurance services regarding corporate governance, risk management and corporate social responsibility reporting;
 - auditor's opinion on financial statements or other financial information addressed to supervisory authorities, the supervisory board or another supervisory body of the Company or the shareholders, not covered by the scope of the statutory audit, and intended to support those bodies in the performance of their statutory duties.
2. Provision of the services referred to in point 1 is possible only within a scope not related to the tax policy of the Company, its parent entity or subsidiaries, after the Audit Committee of the Supervisory Board has assessed the threats and warranties regarding the independence of the audit firm.
3. The execution of an agreement for the provision of additional services referred to in item 1 by the audit firm requires in each case the consent of the Audit Committee at the request of the pertinent company's Management Board. Before making a decision in the matter, the Audit Committee may request any and all documents necessary or useful, in the opinion of the Audit Committee, for evaluation of the threats to and safeguards of independence in accordance with item 2. The consent of the Audit Committee referred to in the preceding sentence is required for the audit firm to execute an agreement with the Company, with each controlled entity and with the parent company.
4. If the audit firm conducting the audit additionally provides non-auditing services for a period of at least three consecutive financial years, then the fee for the provision of such services must be limited to 70% of the average fee for the last three subsequent financial years paid for the statutory audit of the standalone financial statements of PKP CARGO S.A. and, if applicable, its controlled entities and parent company as well as the consolidated financial statements of the PKP CARGO Group. Services that are required to be provided by law are excluded from this limit. The audit firm is responsible for compliance with the set fee limit.
5. As regards prohibited services, that is services other than the authorized services referred to in item (1), their provision is prohibited, either directly or indirectly, to PKP CARGO S.A., its controlled entities or the parent company by the audit firm represented by the statutory auditor as well as by any member of its network that conducts audit work in PKP CARGO S.A. during the period from the start of the audited period until the issue of the audit report. In the case of services involving the development and implementation of internal control procedures or risk management procedures related to the preparation or verification of financial information or services involving the development and deployment of technological financial information systems, their provision is prohibited also in the financial year immediately preceding the audited period.
6. The Company presents to the Audit Committee of the Supervisory Board, at least annually, a list of all additional services provided by the audit firm to PKP CARGO S.A., its parent entity and the entities controlled by the Company.

By Resolution No. 12/2019 of 13 June 2019, the Audit Committee of the PKP CARGO S.A. Supervisory Board recommended to the Shareholder Meeting of PKP CARGO S.A. the audit firm BDO spółka z ograniczoną odpowiedzialnością sp. k. as a candidate for the auditor of the Company's financial statements. The recommendation regarding the selection of an audit firm to audit the Company's financial statements satisfied the requirements of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019 item 1421, as amended) and the "Policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A." adopted by Resolution no. 9/2019 of the Audit Committee of the PKP CARGO S.A. Supervisory Board of 15 April 2019.

In recommending the selection of BDO spółka z ograniczoną odpowiedzialnością sp.k., the Audit Committee of the PKP CARGO S.A. Supervisory Board took into account, without limitation, the specific needs of the PKP CARGO Group as a public interest entity, the result of the group procurement procedure and previous cooperation with the bidder.

Moreover, the Audit Committee declared that the above recommendation was free from any third party influence and that PKP CARGO S.A. had not entered into any agreements containing clauses that would have confined the Shareholder Meeting's selection of an audit firm to certain categories or lists of audit firms.

By Resolution No. 48/2019 of 26 June 2019, the Shareholder Meeting of PKP CARGO S.A. selected the audit firm BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw as the entity authorized to audit the standalone financial statements of PKP CARGO S.A. for 2019-2020 and to review the semi-annual condensed standalone and consolidated financial statements of PKP CARGO S.A. in 2019-2020 prepared in accordance with IFRS approved by EU.

By Resolution No. 13/2020 of 21 September 2020, the Audit Committee of the PKP CARGO S.A. Supervisory Board recommended to the Shareholder Meeting with regard to:

- audit of:
 - standalone financial statements of PKP CARGO S.A. for 2021-2025;
 - consolidated financial statements of the PKP CARGO Group for 2021-2025;
- review of interim condensed:
 - standalone financial statements of PKP CARGO S.A. in 2021-2025;
 - consolidated financial statements of the PKP CARGO Group in 2021-2025;

that one of the following entities be selected as the audit firm for PKP CARGO S.A.:

- Grant Thornton Frąckowiak; or
- PKF Consult;

at the same time, the Audit Committee of the PKP CARGO S.A. Supervisory Board specified the audit firm Grant Thornton Frąckowiak as its preferred candidate for the auditor, as its proposal was evaluated the highest during the procurement procedure.

The recommendation regarding the selection of an audit firm to perform the audit satisfied the requirements of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019, Item 1421, as amended) and the "Policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A." adopted by a Resolution No. 9/2019 of the Audit Committee of the PKP CARGO S.A. Supervisory Board of 15 April 2019. By Resolution No. 2/2020 of 16 November 2020, the Shareholder Meeting selected Grant Thornton Frąckowiak as the audit firm for the Company in the years 2021-2025.

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 41 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2020 to the date of submission of this report

Full name	Position	Period in office	
		from	to
Zofia Dzik	Committee Chairwoman	20 May 2016 1 July 2019	26 June 2019* to date
Mirosław Antonowicz	Committee Member	27 June 2017 1 July 2019	26 June 2019* 31 August 2020
Władysław Szczepkowski	Committee Member	27 November 2017 1 July 2019	26 June 2019* to date
Izabela Wojtyczka	Committee Member	21 September 2020	to date

* date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – end of the 6th term of the PKP CARGO S.A. Supervisory Board

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 42 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2020 to the date of submission of this report

Full name	Position	Period in office	
		from	to
Mirosław Antonowicz	Committee Member	27 June 2017 1 July 2019	26 June 2019* 31 August 2020
	Committee Chairman	28 May 2018 1 July 2019	26 June 2019* 31 August 2020
Dariusz Górski	Committee Member	1 July 2019	to date
Władysław Szczepkowski	Committee Member	23 April 2018 1 July 2019	26 June 2019* to date
	Committee Chairman	23 September 2020	to date
Paweł Sosnowski	Committee Member	21 September 2020	to date
Antoni Duda	Committee Member	21 December 2020	to date

* date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – end of the 6th term of the PKP CARGO S.A. Supervisory Board

Source: Proprietary material

10. Representation of the PKP CARGO Group and PKP CARGO S.A. on non-financial information

We develop our business in a sustainable and responsible manner

Zenon Kozendra – Management Board Member, Employee Representative, and corporate social responsibility (CSR) ambassador in PKP CARGO S.A.



In PKP CARGO S.A., we consider the impact of our business strategy on our employees, the social setting, and the environment in which we operate already at the planning stage. Our key objective is to manage the transportation process efficiently and with respect for the highest standards of sustainable development in the economic, social and environmental aspect. The business can be carried out effectively, responsibly and adjusted to the changing environment only if those principles are complied with.

For over a decade now, corporate social responsibility activities have been part of the PKP CARGO S.A. long-term strategy. The principles of corporate social responsibility have been included in the PKP CARGO S.A. CSR Policy, based on international standards, such as the ISO 26 000 certificate and the Global Reporting Initiative.

Every year our activities are also presented in a nationwide Good Practice Report. In 2020, once again we successfully increased the number of CSR practices carried out by PKP CARGO S.A.!

*However, a responsible approach to the Company's processes is not just a requirement of international business standards or a market expectation. **It stands primarily for long-term, pro-active development of a multi-dimensional, positive history of the company, together with our clients, shareholders, employees and local communities.***

The COVID-19 pandemic meant that we all had to learn to operate in a changed reality. It also demonstrated the importance of partnership in social dialog and of raising a safe workplace awareness, as these above all became the common thread and direction for the implementation of labor and social actions in 2020. It is CRS initiatives that for many years now have supported pro-social attitudes and integration of employees around important initiatives, enhanced partnership in the social dialog with the Social Partners, built a safe workplace culture, raised environmental awareness, and promoted a healthy and active lifestyle. 2020 has shown that even in the most challenging conditions, these serve to build a climate of collaboration within the organization and support the effectiveness of business operations on the outside.

This is why in 2021 we will continue to consistently develop our CSR projects, focusing on sustainable development and also involving the Company's employees in activities for the benefit of the social environment. Our social responsibility activities will be carried out through, among others, our long-standing flagship projects: Post-Accident Psychological Support, "Direction: Safety at Work", "A Running-Friendly Company" or the new "Socially Responsible" initiative of PKP CARGO S.A.

Sustainable development and social responsibility are constant elements supporting modern management, already permanently embedded in the history of development of PKP CARGO S.A.

10.1. Representation of the PKP CARGO Group

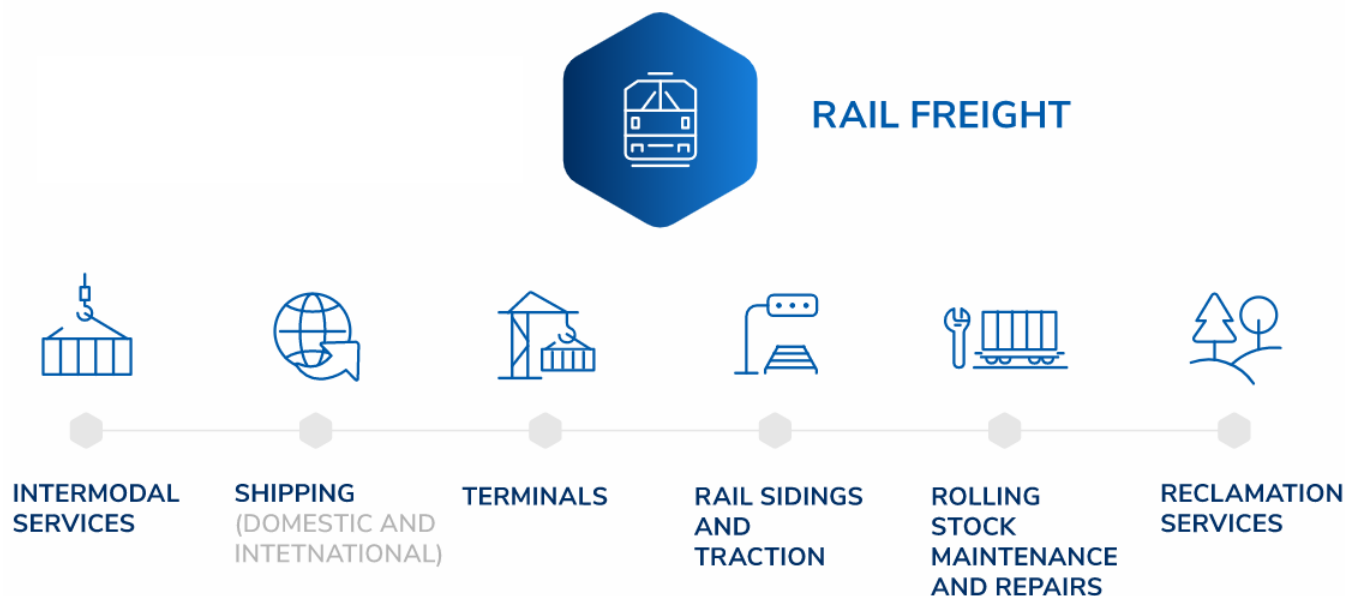
The Representation of the PKP CARGO Group¹¹⁹ on non-financial information for 2020 (hereinafter: the Representation), constitutes a standalone part of the Report on the PKP CARGO Group Activities (hereinafter: the Group, PKP CARGO Group) and presents non-financial information about the Group for the period from 1 January 2020 to 31 December 2020. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), the GRI guidelines (Global Reporting Initiative) and reflects the provisions of the Accounting Act of 29 September 1994.

In its non-financial reporting, the PKP CARGO Group addresses the following issues:



10.1.1 Description of the business model

The PKP CARGO Group is the biggest rail freight operator in Poland and one of the biggest in the European Union. The Group’s development is focused on enhancing and extending its operations in terms of its product range and geographic area.



The Group’s activity covers a wide range of services connected with rail freight transport. The Group’s revenue on rail transportation and freight forwarding services represents 80% of revenue on contracts with the Group’s customers.

The services provided by the Group allow it to participate in the entire logistic value chain, including railway shipping, siding services, freight transport, transshipment and storage services and using the Group’s terminals. The above services offer a

¹¹⁹ The data included in the disclosures also cover the subsidiaries PKP CARGO CONNECT and PKP CARGO International (formerly AWT)

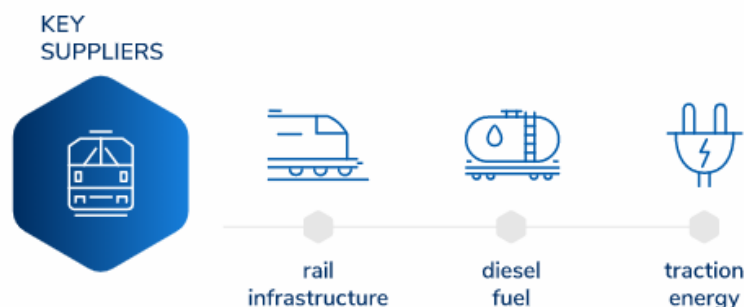
natural competitive advantage in terms of customer acquisition and service. Intermodal services are the fastest developing area of the PKP CARGO Group’s activities. The revenue generated by these services is expected to grow.



The Group employs competent staff with extensive experience, who ensure the highest quality of services and form the foundation of the its operations. As at 31 December 2020, the Group had over 21.7 thousand employees.

BUSINESS MODEL

The business model of the PKP CARGO Group is based on performance of the main activity, i.e. rail freight and complementing the offer with additional services. In order to carry out its operations seamlessly, the Group uses the available capital and allocates it in the most efficient way possible.



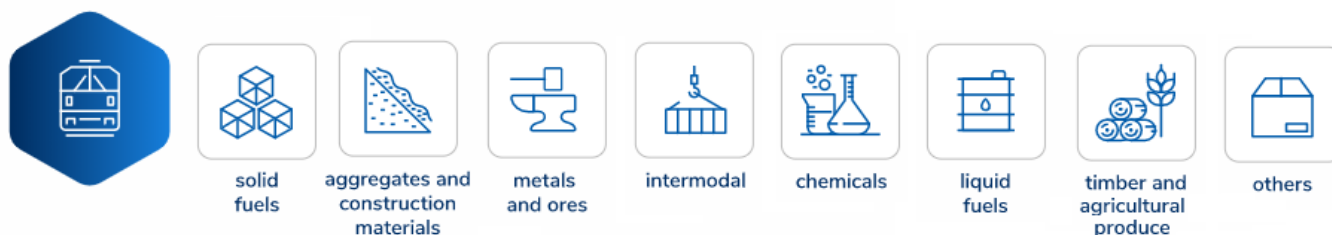
The Group’s operations are also based on relations with the key suppliers of the PKP CARGO Group that are responsible for rail infrastructure, fuels and electricity. PKP PLK is responsible for the condition of the rail infrastructure used by the Group’s rolling stock. The locomotives used by the Group are powered by diesel fuel and traction energy. Electricity is delivered by PKP Energetyka. All the factors listed above have an impact on the costs of the PKP CARGO Group’s services.



The Group’s key customers include steel mills, coking plants, power plants, mines, steel works and railway shipping companies. The PKP CARGO Group collaborates with the largest Polish and global groups, including the ArcelorMittal Group, the PKN Orlen Group, PGNiG, the Lafarge Group, the Azoty Group, Jastrzębska Spółka Węglowa, Węłokoks, the Enea Group, the PGE Group, the Tauron Group, Polska Grupa Górnicza, and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transport services provided by the PKP CARGO Group.

The major categories of goods transported include:

TRANSPORTED
GOODS



10.1.2 Key non-financial performance indicators of the PKP CARGO Group operations

NATURAL ENVIRONMENT

Table 43 Electricity consumption by the Group in 2016-2020

Electricity	Energy consumed [MWh]				
	2020	2019	2018	2017	2016
Traction	509,532	607,035	703,493	645,438	631,019
Non-traction	30,021	43,665	45,193	44,512	44,627

Source: Proprietary material

Table 44 Air emissions by the Group in 2016-2020

Substance emission	Total emissions [t]				
	2020	2019	2018	2017	2016
Sulfur dioxide	373	850	4,369	1,159	1,151
Nitrogen dioxide	1,572	2,079	9,040	3,418	3,172
Carbon oxide	608	755	657	758	807
Carbon dioxide	481,820	505,618	624,717	527,792	518,347
Benzo[a]pyrene	0	0	2	0	0
Dust and soot	218	214	447	262	259
Total hydrocarbons	312	481	467	455	356
HFC	0	0	0	0	0
Other	51	27	46	35	16

Source: Proprietary material

The largest substance emission generated by the PKP CARGO Group is the indirect emission generated as a result of electricity consumption in locomotives, accounting for over 90% of the entire energy purchased by the Group. The emission indicators for generated electricity decreased significantly in comparison to 2019, which translated into a significant decrease in the reported substance emissions.

Table 45 Primary waste produced by the Group, by type and volume, in 2016-2020

Waste	Waste Code	Waste volume [t] in 2020		Waste volume [t] in 2019		Waste volume [t] in 2018		Waste volume [t] in 2017		Waste volume [t] in 2016	
		Preceding period	Reporting period	Preceding period	Reporting period	inventory at the end of		Preceding period	Reporting period	Preceding period	Reporting period
Sawdust, shavings, cuttings, wood, chipboard, and veneer, other than those listed in 03 01 04	03 01 05	5.1	12.2	441	5.1	3.9	441	1.4	3.9	6.6	1.4
Slag, bottom ash, and boiler dust (excluding dust listed in 100104)	10 01 01	39.3	107.1	91.6	39.3	195.3	91.6	364.7	195.3	318.8	364.7
Waste from turning and sawing of ferrous metals and their alloys	12 01 01	140	71.5	56.9	140.0	115.8	56.9	133.4	115.8	204.1	133.4
Waste grinding materials containing hazardous substances	12 01 20*	5.4	16.6	22.3	5.4	13.3	22.3	13.6	13.3	113.2	13.6
Mineral engine and transmission oils	13 02 05*	9.8	2.6	15.2	9.8	8.1	15.2	27.4	8.1	32.3	27.4
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	21.5	19.4	11.1	21.5	26.8	11.1	28.2	24.8	32.9	28.2
Worn-out clothes and cleaning cloth	15 02 02*	21.8	42.3	25.1	21.8	13	25.1	24.1	13	14.8	24.1
Ferrous metals (scrap)	16 01 17	6,312.50	3,491.78	3,652.8	6,312.5	4,244.7	3,652.8	3,194.6	4,244.7	5,521.9	3,194.6
Non-ferrous metals	16 01 18	50.2	58.9	48.9	50.2	15.8	48.9	16.8	15.8	140.3	16.8
Other waste, not listed elsewhere	16 01 99	78.1	194.4	119.2	78.1	127.9	119.2	117.7	127.9	34.2	117.7
Worn-out devices, other than those listed in 16 02 09 to 16 02 13	16 02 14	19.5	5.7	27	19.5	10.3	27	4	10.3	8.1	4
Lead batteries	16 06 01*	9.1	1.8	11.6	9.1	8.8	11.6	19.9	8.8	4.4	19.9
Iron and steel	17 04 05	118.3	31.2	10.2	118.3	16	10.2	21.7	16	52.5	21.7
Wood	19 12 07	130.3	212.0	68	130.3	23.4	68	13.4	23.4	39.3	13.4
Other waste		167.7	228.2	590.5	167.7	53.3	590.5	168.8	55.5	100.9	168.8

Source: Proprietary material

Table 46 Expenditure on environment protection incurred by the Group in 2016-2020

Expenditures incurred for: [PLN thousand]	2020	2019	2018	2017	2016
Air protection, including:	1,203	3,437	1,494	1,510	1,049
Boiler plants	255	2,078	163	424	181
Technological processes	224	384	308	240	183
Vehicles and machinery	32	54	35	30	32
Locomotives	662	852	960	795	621
Steam engines	1	6	8	7	13
Other	29	63	20	14	19
Water protection, including:	1,567	1,081	937	574	875
Water intake	439	485	365	339	372
Sewage disposal	217	218	156	112	296
Disposal of rainwater and snowmelt	39	33	23	17	15
Other	872	345	394	105	192
Tree and shrub clearing	133	11	43	197	167
Protection of the earth's surface	0	54	53	0	108
Waste management	3,553	3,558	2,382	1,982	1,531
Other costs of environmental protection	337,258	423,316	176,903	138,910	249,415

Source: Proprietary material

The category "Other costs of environmental protection" is a collective category, comprising other expenses. In 2020, the Group spent PLN 337.3 million on capital expenditures and repairs related to environmental protection. Such expenditures include, without limitation, expenditures to lower emissions or regulate the formal and legal environmental status. The lion's share of this amount was spent on investments in rolling stock (purchase of container platforms and electric locomotives, modernization of locomotives). Other investments were related, among others, to water and sewage management, and changes of heat sources.

EMPLOYEE AREA



Together, employees of PKP CARGO Group develop an environment conducive to creating the best possible spirit in the workplace, based on the following ethical values:

Respect

Reliability

Cooperation

Good management

Safety

Professionalism

Modernity

Transparency

Responsibility

Table 47 Number of employees in the Group in 2016-2020

Number of employees, including:	As at 31 December 2020		As at 31 December 2019		As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
	persons	FTEs	persons	FTEs	persons	FTEs	persons	FTEs	persons	FTEs
Women	5,376	5,478	5,837	5,829	5,620	5,499	5,418	5,398	5,391	5,431
Tertiary education	1,586	1,593	1,698	1,670	1,595	1,556	1,416	1,386	1,397	1,397
Secondary education	3,075	3,158	3,325	3,330	3,243	3,158	3,146	3,143	3,155	3,178
Primary and vocational education	715	727	814	829	782	785	856	869	839	856
Men	16,438	16,868	17,781	17,928	18,044	17,926	17,897	17,897	17,824	17,824
Tertiary education	2,202	2,234	2,341	2,316	2,236	2,277	2,085	2,085	2,063	2,063
Secondary education	8,168	8,362	8,696	8,729	8,817	8,769	8,555	8,555	8,507	8,507
Primary and vocational education	6,068	6,272	6,744	6,883	6,991	6,880	7,257	7,257	7,254	7,254
Total	21,814	22,346	23,618	23,757	23,664	23,425	23,315	23,295	23,215	23,255

Source: Proprietary material

Table 48 Interns and new employees in the Group in 2016-2020

Item	2020	2019	2018	2017	2016
Number of started internships [units]	24	91	57	31	10
Number of accepted interns [persons]	1	8	13	6	4
Number of new employees [persons]	408	1,443	1,838	1,597	641
Number of new employees [FTEs]	320	1,338	1,788	1,563	616

Source: Proprietary material

Table 49 Training in the Group in 2016-2020

Item	2020	2019	2018	2017	2016
Number of training courses conducted [hours], including:	86,342	131,131	95,863	101,152	103,159
under the post-accident psychological support program	7,068	25,634	7,411	7,486	7,639
Number of training hours per employee [hour/person]	4	6	4	4	4

Source: Proprietary material

The post-accident psychological support program (PPS) has been operated by the Company for many years now, in the form of diverse initiatives, including a specialist helpline, psychologist consultations and training.

SOCIAL AREA


In 2020, PKP CARGO executed corporate social responsibility projects intended for the employees and their families, carried out activities related to environmental protection, and executed initiatives aiming at increasing transport security. The projects were presented in the Responsible Business Best Practice Forum report. The projects addressed the following Social Development Goals (SDG):



The “Direction: Safety at Work” campaign was included as new best practice in socially responsible business:

Other projects were given a multi-year status:

1. A Running-Friendly Company
2. PKP CARGO as the patron of rail technology history
3. Post-Accident Psychological Support
4. Responsible environmental protection practices

The “*Direction: Safety at Work*” campaign which aims to build a safe workplace culture and shape attitudes conducive to the safe performance of professional duties is a part of the safety improvement program launched in PKP CARGO in 2019. Among other things, a consistent information campaign for employees (posters, Intranet site, leaflets distributed with payslips, promotional video, e-mail) and a conference for the rail sector was carried out. The campaign reached 7 thousand employees.

PKP CARGO has been carrying out a project entitled “*A Running-Friendly Company*”, which rests on the following three pillars: sports and integration, charity, symbolic and historical. Employees take part in sports competitions, run together to support the foundations they cooperate with, and to commemorate important events.

The purpose of the *Post-Accident Psychological Support* for employees is to increase the rail traffic safety. The project covers all the organization units of PKP CARGO and is carried out via the Psychological Support Hotline staffed with psychologists specialized in the rail sector support. In 2019, the project was expanded to include prevention aspects such as enhancing attentiveness. The project is carried out in all organizational units of the Company and covers over 7,000 employees.

Table 50 Training for train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions

Position	Number of training hours in the year	Number of trainees in the year				
		2020	2019	2018	2017	2016
Operator of rail vehicles on rail sidings, traction vehicle driver, traction vehicle assistant driver	24	3,604	3,965	4,113	4,135	4,112
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	14	22	24	18	14
Rail traffic controller	16	70	74	53	77	92
Control room employee	16	13	13	14	23	36
Train conductor	16	21	112	72	151	198
Rolling stock auditor	16	1,332	1,581	1,246	1,072	1,115
Shunting master	16	1,339	1,316	1,201	1,227	1,251
Switchman	16	615	673	622	706	752
Track supervisor	16	10	10	10	9	10
Points operator	16	50	51	56	68	59
Total	160	7,068	7,817	7,411	7,486	7,639

Source: Proprietary material

Environmental responsibility is reflected, among others, in capital expenditure on the purchase and modernization of rolling stock, as well as its maintenance and repair infrastructure and diagnostic equipment. Rail transport offered by PKP CARGO is environmentally friendly and successfully competes with road transport in terms of low carbon dioxide emissions. The environmental protection control system is governed by internal procedures and monitored.

The PKP CARGO Group is Poland's largest rail freight carrier. Besides its everyday activity, PKP CARGO also acts as a *patron of rail technology monuments*. For 17 years, PKP CARGO S.A., as the main patron of rail technology history, has been maintaining historic rolling stock in Chabówka, Małopolskie Voivodship, and has been co-funding, jointly with the local governments of Wielkopolskie Voivodship, the operations of 113-year-old Wolsztyn Railway Roundhouse, which has had the status of the Cultural Institution since 1 January 2017. Furthermore, PKP CARGO S.A. promotes rail traditions, by organizing the following events in Chabówka:

- **"Parowozjada"** – an annual event featuring working steam locomotives, which attracts thousands of railway fans from Poland and abroad. In 2020, due to the Covid-19 pandemic, "Parowozjada" took place virtually in a meeting series entitled "Virtually Ready to Roll with the Open Air Museum of Rolling Stock in Chabówka".
- **"Summer with Steam Locomotives"** – an educational program addressed to children and entire families, which popularizes historical and modern trains through education and fun activities. Besides Chabówka, the program is also carried out in the Museum Station, in the Wolsztyn and Skierniewice Roundhouses, and in the Open-Air Museum of Locomotives in Zduńska Wola Karsznice. In 2020, for the obvious reasons of protection of children and their parents against coronavirus, the "Summer with Steam Locomotives" was replaced by the "Virtually Ready to Roll" event.
- **"Tourist Trails of Małopolska"** – a project carried out jointly with the Małopolski Marshal's Office. Every year, over 10 thousand people take a trip on retro trains offered under the project. Due to the pandemic, the program has been put under restrictions. From September to December, 10 retro trains rolled out on track, including two without passengers. However, the trip could be undertaken virtually, via an online broadcast.
- The **Open-Air Museum in Chabówka** – it features the largest Polish collection of historical rolling stock, including steam locomotives, diesel and electric engines, passenger and freight wagons, snow plows and rail handcars. Some of the steam locomotives are maintained in operating condition. During the year, approx. 22 thousand people travel by retro trains operated by the Open-Air Museum, and the Museum itself was visited by 30 thousand people. In 2020, these numbers had to be reduced due to the health concerns.

PKP CARGO also cooperates with non-profit community organizations working to protect monuments of rail history, as well as the development of rail tourism and tourism promotion by offering financial and technical support. PKP CARGO strives to serve as an integrator of historical heritage activities in Poland. One of the projects carried out to this end in consultation with railroad enthusiasts is the restoration of historical colors to selected locomotives and promotion of historical knowledge among youths by organizing open-access meetings with people creating rail history.



The Management Board of PKP CARGO S.A. supports the development of *social dialog* with the Company's Social Partners - the trade unions. The dialog follows the principles of respect for the law, equality, mutual respect, trust and search for the best solutions for both parties. At the same time, the Management Board promotes the idea of partnership, and considers it the natural evolution of social dialog in the world of free market economy, globalization and increased competition. The Company appreciates the benefits of conducting business activity where the social party is involved in efforts to increase the company's efficiency and achieve the set goals. It respects and improves the principles of cooperation between the Social Partners, which is conducive to the implementation of state-of-the-art and development-focused solutions designed to raise the Company's efficiency. The important role of social dialog in PKP CARGO S.A. is also validated by the fact that the initiatives in this area are a permanent element of the Company's activities pertaining to corporate social responsibility (CSR). The Company believes that ensuring the proper spirit for a partnership-based dialog is one of the fundamental elements of the CSR Policy. This approach is consistent with both PKP CARGO's Strategy and recognized legal and market standards, such as the ISO 26000 Standard (in two key areas: "corporate governance" and "labor relations").

In 2020, activities in all the above mentioned areas were continued, in formats that were changed and adapted to all the health measures imposed both by the law, OHS procedures, as well as undertaken responsibly to protect the safety of employees and working teams. Furthermore, in 2020 the Company sought to adapt the communications channels the implementation of individual initiatives, taking all CSR activities online.

Due to the COVID-19 pandemic, PKP CARGO also started new initiatives:

- **"CSR News" Newsletter** – in 2020, nine editions of the online newsletter were published and addressed to CSR coordinators in the PKP CARGO Group subsidiaries. The Newsletter promotes the idea of a socially responsible business and sustainable development goals, and presents news on the implemented social projects. It is a platform of exchange between and integration of the PKP CARGO Group companies around the CSR themes, as well as a space to share best practice in this area.
- **Kids say: We can do it!** - given that new formats of communications are required in the wake of the pandemic, in April 2020 two online editions were staged of the initiative: "Kids say: We can do it!". The online communication was addressed to employees taking care of their children at the time face-to-face teaching at schools had been suspended, when working remotely themselves. It contained educational contents and elements supporting the organization of everyday life in the changed circumstances of the epidemic in the whole country.

- **Active Business “Healthy Lifestyle on Your Bike”** – to counter the pandemic, a new healthy lifestyle campaign was initiated as an attempt to reach out to employees pursuing other activities than running. In 2020, the campaign ran three communication actions. A biking group was started, which will engage in new ventures as the campaign progresses.
- **“Socially Responsible”** - a new initiative was developed to promote social involvement of employees. It will be implemented in 2021.

HUMAN RIGHTS



In 2020, no risks related to exploitation of child labor or risks of exploitation of forced labor were identified in the PKP CARGO Group.

Freedom of association

Table 51 Trade unions in the Group in 2016-2020

Item	2020	2019	2018	2017	2016
Number of trade unions [organizations]	170	165	179	174	172
Number of employees who are members of trade unions [persons]	16,999	17,985	17,973	17,637	16,937
trade union membership percentage ratio	76.1%	76.1%	76.0%	75.6%	73.0%

Source: Proprietary material

Right to a safe working environment

In PKP CARGO, a campaign is conducted designed to build a safe workplace culture. It is addressed to all employees, in particular individuals employed in positions directly related to the operation and safety of rail traffic. Work safety is a priority, regardless of the place and type of work duties. Therefore, the campaign “Direction: Safety at Work” aims at growing employee awareness and emphasize everyone’s co-responsibility for their own safety.

Table 52 Number of accidents and accident ratio in the Group in 2016-2020

Item	2020	2019*	2018	2017	2016
Number of accidents at work [cases]	140	162	239	236	205
Accident ratio [%]	6.3	6.8	10.1	10.1	8.7

* data for 2019 has been adjusted due to incorrect data having been provided by a subsidiary

Source: Proprietary material

COUNTERACTING CORRUPTION AND BRIBERY



In November 2020, PKP CARGO S.A. adopted and implemented the updated *Code of Ethics*.

The Code of Ethics is one of the fundamental pillars supporting the process of building and developing the organizational culture in the Company. The values and standards of conduct it contains are desirable in any organization. The Code of Ethics sets out the fundamental rules of conduct developed by the representatives of PKP CARGO S.A., with the participation of its Employees and Clients, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect: these are the principles that employees should be guided by in their everyday work.

The main purpose of the Code of Ethics is to recommend attitudes and rules of conduct at the workplace. The Code serves as a road map for the actions undertaken in the Company in the relations with Employees, Clients, Suppliers, Competitors and with the social and natural environment. The implementation of the Code of Ethics will improve the quality of the Company's services and increase job satisfaction, both for Employees and Clients. It will also enhance the organizational culture, improve the image and strengthen PKP CARGO S.A.'s position in the Polish and international markets.

PKP CARGO S.A. has maintained anonymous reporting channels for PKP CARGO S.A.'s employees who would like to report a breach/irregularity. The channels include: a dedicated hotline, an e-mail address and a traditional mail address.

Moreover, in November 2020, by force of the PKP CARGO Management Board resolution, the *"Anti-corruption and Gift Policy of PKP CARGO S.A."* was adopted. The anti-corruption and gift policy supports the development process of the Company's organizational culture. It contains norms of conduct which are universal, and it serves the purpose of enhancing the image, competitiveness and economic value of PKP CARGO S.A.

By implementing the Policy, the Company's Management Board responded to market expectations and legal changes in the spirit of the "zero tolerance for corruption" principle. The rules defined in the Policy cover both the Company's employees as well as all collaborators under civil-law agreements performing any kind of activities on behalf or for PKP CARGO S.A. The Policy is communicated to customers, so that they observe the internal anti-corruption rules of the Company in contacts with its representatives. All employees are obliged to familiarize themselves with the anti-corruption Policy and follow it in the performance of their professional duties or provision of services. Customers, suppliers, and business partners can acquaint themselves with the Anti-corruption Policy at: <https://www.pkpcargo.com/pl/>.

10.1.3 Policies and their results

PKP CARGO S.A., as a key rail freight transport operator in Poland and one of the largest in Europe, provides domestic and international transport of cargo and freight-related transport logistics services.

The Company operates the *Integrated Management System* ("IMS") based on the requirements of the following standards: PN-EN ISO 9001: 2015-10, PN-EN ISO 14001: 2015-9, PN-EN/IEC 27001:2017-06 and PN-ISO 45001:2018-06. The system is geared towards continual improvement and adaptation of services to Client requirements. It commits the Company to a high quality of services and operation of safe processes.

Under the Integrated Management System, employees are expected to:

- provide the highest quality of services,
- be customer-oriented,
- ensure care for and safety of the processed information,
- observe the information protection rules,
- respect the environmental protection rules,
- respect the OHS rules,
- be committed to the improvement of the IMS,
- take regular training in the area of Information Security.



IMS brings many benefits:

- award of an international ISO certificate, possibility to use simplified customs procedures (Authorized Economic Operator, AEO, status),
- legal international trade in strategic goods,
- positive development of the company's image,
- better comfort of customers, employees and collaborators of the organization,
- higher prestige of and trust in the Company,
- higher credibility of the Company and commitment to continual improvement,
- guarantee of a high quality of services,
- rapid development of the Company,
- better organization of work, clear definition of tasks, authorities and responsibility of employees,
- efficient management of resources,
- streamlining of documentation - clear interfaces between processes and procedures.

PKP CARGO S.A ensures the necessary means and resources to implement its integrated policy of quality, environment, OHS and information security. With the scope of their duties and in every job position, employees are obliged to follow the Company's policy in respect of the IMS.

Moreover, all the Company's employees bear individual responsibility for the security of the information they process and personal commitment to the continual improvement of the Integrated Management System.

The safety certificate is the fundamental document giving a rail operator access to the rail infrastructure. To obtain a safety certificate, rail carriers are required to develop a *Safety Management System* (SMS), which meets the requirements of national regulations and reflects the situation of a given operator.

The purpose of the Safety Management System is also to ensure supervision over all types of risk associated with rail carrier's activities (with risk analysis and assessment), including maintenance services, the supply of materials and hiring of subcontractors. All elements of the SMS should be documented, and specify the relevant responsibilities within the organizational structure of the rail operator. It should show how the rail operator's management control the work of the system at every management level, what is the involvement of staff and management representatives at all levels, and how continual improvement of the Safety Management System is ensured.

PKP CARGO Group's policy related to social matters

PKP CARGO S.A.

The idea of partnership has been developed as a long practice of PKP CARGO S.A.. In 2019-2020, the Company continued activities to promote the idea of partnership-based dialog, based on, among other aspects, internal Best Practices of Social Dialog, developed jointly with the Social Partners of PKP CARGO S.A. at the Partnership-Based Dialog Workshop in 2017.

The Company employs various communication channels to inform about its social dialog:

- Regular meetings of Company-Level Collective Bargaining Agreement signatories – regular quarterly meetings, and thematic meetings and consultations. In 2020, in order to continue to address the issues covered by the scope of social dialog, meetings with the representatives of the Social Partners were continued on line despite the COVID-19 pandemic,
- The Company Intranet Page of the Management Board Member – Employee Representative,
- Announcements/letters to employees,
- Mailings to Trade Unions - signatories to Company-Level Collective Bargaining Agreement (ZUZP),
- Articles in the "INFO CARGO" in-house newsletter (presenting views of both representatives of the Employer, as well as the Social Partner leaders),
- Issues which are crucial for the development of best practice in the Company's social dialog are also communicated via external channels, among others in trade union press.

The important role of social dialog in PKP CARGO S.A. is validated by the fact that the initiatives in this area are a permanent element of the Company's activities pertaining to corporate social responsibility (CSR):

- The Company believes that ensuring the proper spirit for a partnership-based dialog is one of the fundamental elements of the CSR Policy. This approach is consistent with both PKP CARGO's Strategy and recognized legal and market standards, such as ISO 26000 in two key areas: "corporate governance" and "labor relations",
- "Dialog Academy": a permanent column in the INFO CARGO newsletter and a dedicated tab on the Company's intranet site,
- Declaration of Partnership for a safe workplace, signed by the Company's Management Board and Company-Level Collective Bargaining Agreement signatories, and support of the Social Partners for activities undertaken by the "Direction: Safety at Work" Campaign, are an expression of the Social Dialog Partners will to jointly solidify the workplace safety culture in PKP CARGO S.A.

Cooperation with trade unions in PKP CARGO S.A. are laid down in agreements defining mutual obligations of the social dialog partners in the Company, and in the Collective Bargaining Agreement. Seeking to ensure transparent principles of cooperation, PKP CARGO S.A. updates its internal regulations which define the rules of cooperation with social partners. The primary form of the dialog is regular meetings, taking place monthly at the plant level, and quarterly at the Company-wide level, devoted to the discussion of the matters of importance for both parties.

The Company's Management Board supports a dialog based on the principle of equality of the parties and mutual trust, pursuit of compromise and respect for the law. The development of the partnership ideas has had a long-standing tradition at PKP CARGO S.A. In 2020, the Company continued activities to promote it, based on, among others, internal Best Practices of Social Dialog, developed jointly with the Social Partners.

The Company also creates conditions conducive to the dissemination and upgrading of knowledge, in aspects which are important for social dialog parties. To this end, representatives of the Social Partners are provided on an ongoing basis with information about legislative changes in areas having a direct impact on jointly executed processes.

In 2020, the Social Partners were kept regularly advised about, among others, the situation of the Company and the safety rules to be followed at the workplace in the wake of the introduction in Poland of the state of epidemic. Seeking to ensure good functioning of the Company and protect jobs, the Agreement on setting the conditions and rules of work in the period of a shorter working time regime was concluded under the Anti-Crisis Act. The agreement allowed the Company to receive payroll support financing from the Guaranteed Employee Benefits Fund.

The jointly developed standards, adapted to the Company's business needs, serve to increase the awareness of the role of an open and partnership-based attitude in searching for optimal solutions for both Partners involved in the dialog, to contribute to better efficiency of the Company's decision-making processes.

CARGOSPED Terminal Braniewo Sp. z o.o.

The Company, based on agreements with the Employment Office and local schools, organizes internships and practices to reduce unemployment in the region and provide vocational training.

PKP CARGO SERVICE Sp. z o.o.

In its pro-social activities, PKP CARGO SERVICE Sp. z o.o focuses on measures consistent with the Company's, its growth strategy and its values. In its charitable activities, the Company concentrates on the issues of safety (including transport safety), science and education, arts and culture (including railway cultural heritage), as well as broad-scope activities to eliminate social disparities. As it provides support to, among others, profit organizations involved in railway culture and traditions, local associations or youth sport clubs operating in its area, the Company is able to make grants and donations to support individuals and external organizations. Besides support for various events, projects or entities, PKP CARGO SERVICE sp. z o.o. also welcomes individual applications under the procedure stipulated in the above mentioned "Bylaws of social and community project support in the form of grants and sponsorship", related for example to a ill health or difficult life circumstance of its employees.

Given that the freedom of association is a fundamental right, any development of social dialog with employees cannot proceed without the participation of trade unions as their representatives. In 2020, the Company started cooperation with the Polish Intercompany Rail Workers Trade Union, with its seat in Czerwińsk. As at the end of 2020, there were seven trade unions operating in PKP CARGO SERVICE Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o.

In the pursuit of the highest corporate governance standards in the companies of the PKP CARGO Group, and in order to ensure the consistency of financing social undertakings through donations and sponsorship, the aforesaid Bylaws have been implemented. They are designed to streamline the procedure of examining grant applications and sponsorship proposals addressed to PKP CARGO Group, and the flow of relevant information. The Bylaws define the main areas of sponsorship activities and the sectors which can benefit from charitable aid, including, among others, supporting the innovation in development of the TFL industry, collaboration with universities, and activities related to culture, safety and sport. The Bylaws define the internal procedures for filing applications for grants or responding to sponsorship offers.

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. has a donations and other support policy in place. The Company provides donations to social non-profit organizations and engages in sponsorship activities.

PKP CARGOTABOR Sp. z o.o.

The Company is involved in a dialog with the in-house trade unions representing the social partners. It holds regular meetings to analyze potential problems that may occur in various areas and discuss appropriate prevention strategies. The Company supports the activities of social labor inspectors.

PKP CARGO INTERNATIONAL

The Company's approach to social issues is set out in the "Social Responsibility Code". The document addresses the following areas: corporate governance, natural environment, energy and water consumption, waste, prevention, sustainable development, health case, cooperation with schools, occupational safety, support and assistance, support for non-profit activities, communication, external relations.

PKP CARGO Group's policy related to employee issues

PKP CARGO S.A.

Employee recruitment

In 2020, similarly to 2019, internal and external recruitment processes were ongoing. In view of the restrictions introduced to reduce the spread of the COVID-19 virus, the majority of recruitment processes moved online.

In 2020, the Vocational Internship Program and the Summer Internships Program were suspended, as students of secondary schools and universities studied remotely. In 2020, the Scholarships Program was continued with the students who joined in 2019. The Program is addressed to pupils of the final and penultimate year of secondary technical schools and vocational secondary schools. The PKP CARGO S.A. scholarship holders who met specified criteria received the study scholarships again in 2020. Additionally, after they graduate and obtain professional qualifications, they may be offered a job in positions responsible for rolling stock operation and maintenance in the Company. The measure had the objective of recruiting to PKP CARGO S.A. able and promising graduates of technical and vocational secondary schools who, upon completing their education, would be employed in positions related to the Company's core business.

Adaptation program

In 2020, the professional adaptation program was continued, adjusted to the needs and expectations of selected groups of positions: administrative employees, managerial staff and non-administrative employees. In view of the restrictions introduced to reduce the spread of the COVID-19 virus, the adaptation program moved online. An optimally selected professional training program ensured that new employees were able to take up their duties quickly and effectively. A well designed adaptation program results in decreased risk of employee turnover. To improve personnel qualifications and competences related to their duties, periodic refresher training was held.

Training and development

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge- and experience-based management and various forms of professional development that would support the accomplishment of business goals.

In 2020, activities begun in the previous year were continued, aiming to improve competences through the participation of selected employees in post-graduate studies organized in cooperation with the Association of Railway Employers (ZPK). In addition, management staff improved their competences in post-graduate MBA studies organized for employees employed with railway companies.

Training in the form of e-learning was continued and developed. Furthermore, in 2020 the series of training in soft competencies and MS Office skills were continued. The training courses took place in face-to-face and remote formats.

Social activity and travel benefits

The Company Social Benefits Fund (CSBF) has been created at PKP CARGO S.A., based on the rules following from generally applicable regulations and the Company's Collective Bargaining Agreement. The social activity is conducted separately by employers forming the Company on the basis of a given company's CSBF Regulations, taking into account the local needs and preferences of the staff. Within its capabilities, the CSBF satisfies the living, social and cultural needs of the Company's employees and former employees. In particular, CSBF funds are available to employees, old age and disability pensioners and members of their families.

Employees can take advantage of a wide-ranging package of social benefits. CSBF benefits are dependent on the so-called social criteria, or the personal, family and financial situation of eligible employees. Decisions on granting aid and its amount are taken by social committees composed of representatives of employers and company trade unions.

Within its capabilities, the CSBF satisfies the living, social and cultural needs of the Company's employees and former employees. In particular, use of CSBF funds is granted to employees, old age and disability pensioners and members of their families.

Employees can take advantage of a wide-ranging package of social benefits:

- Vacation allowance
- Allowance for cultural, educational, leisure and sports events
- Allowance for preschool/nursery fees
- Material assistance/relief aid
- Low-interest loans for housing purposes

Employees and members of their families, as well as old age and disability pensioners, are eligible for discounted travel services in the form of preferential fares on trains throughout the country. In 2020, such discount benefits were purchased for 26,025 persons, including:

- for employees - 50%,
- for members of employees' families - 8%,
- for old age and disability pensioners from the rail sector - 42%.

In 2020, PKP CARGO S.A. was awarded the HR Top Quality certificate by the Polish HR Management Association (PSZK). This award confirms that the Company is a credible and reliable employer, following the highest standards of human resources management. It is a sign that the employer's efforts to develop a growth-nurturing workplace are noticed and appreciated, and the measures taken to this end are appropriate and effective.



Support of education

In 2020, thanks to the efforts of the Company, new rail occupations have been introduced in to the schooling system: Rail Vehicle Mechanic and Rail Vehicle Technician. As a result of the commitment of rail companies, the curricula for these occupations have been adapted to reflect business needs of the industry.

In 2020, a project implemented jointly with the Higher Secondary Schools no. 6 in Siedlce was continued, providing education to 28 students of the school overseen by expert teachers in the occupation of Rail Vehicle Mechanic, in a lower secondary vocational school. The teaching program was provided as a part of a teaching experiment and in a dual education system mode. In other words, the practical vocational classes took place in actual railway plants providing rolling stock maintenance. Moreover, the vocational education stream taking place at school was supported employees of rail companies holding the required teaching qualifications.

“HR Policy of PKP CARGO S.A.”

The “HR Policy of PKP CARGO S.A.” is a long-term policy based on the application and improvement of best practices in the areas of: recruitment and hiring, adaptation, development of employee competences and compliance with ethical and safety rules. Shaping responsible social relations with employees is one of the most significant areas of HR Policy. Implementation of the Policy is a reflection of the highest level of care for the employee and is a shared ambition of the Management Board, Social Partners and employees. The primary areas of PKP CARGO S.A.’s HR Policy comprise:

- Development of a safe workplace,
- Attracting and education of experts,
- Caring for employees,
- Further training and development,
- Compensation, reward and motivation,
- Respect of partnership in dialog,
- Operating a socially responsible business.

CARGOSPED Terminal Braniewo Sp. z o.o.

The following documents are in effect at the Company: Labor Bylaws, Remuneration Bylaws and CSBF Management Bylaws, containing the rights and duties of the employee and employer, Company rules concerning working time, leave, employee liability, remuneration, work organization and order, occupational and health safety, and counteracting discrimination. There are two trade unions in the Company.

PKP CARGO SERVICE Sp. z o.o.

In order to update and clarify the definitions and issues related to work process organization and order and the relevant duties of the Employer and Employee in this respect, as well as to adapt internal regulations (pertaining to, among others, security of information) to the current requirements of the law and the Company’s certified management systems, the new “Labor Bylaws of PKP CARGO SERVICE sp. z o.o.” was adopted in the first quarter of 2020.

The “Labor Bylaws” make the Employer responsible for:

- providing the employees with work as per the concluded employment agreements,
- timely payment of remuneration,
- ensuring safe and healthy working conditions,
- facilitating the improvement of employee professional qualifications,
- satisfying welfare needs of employees, insofar as permitted by available resources,
- preventing discrimination in employment, especially on the grounds of sex, age, race, religion, nationality, political opinions, sexual orientation, trade union membership, type of employment (i.e. fixed or indefinite employment period, full or partial working time),
- counteracting mobbing,
- application of objective and fair criteria in assessing Employees and the results of their work,
- moderating the development of rules of social conduct at the workplace.

The Company, seeking to attract qualified staff, co-finances, in accordance with the procedures in force, training courses for employees who want to improve professionally and expand their qualifications; it organizes and finances employee training

from the designated budgets of individual offices and teams. Employees can continually improve their professional skills by taking part in training courses. They are rewarded, awarded a distinction or a bonus in accordance with the applicable bylaws for exemplary performance of duties, pro-active attitude at work and improving the quality of their performance.

Despite the pandemic, the Company did not abandon professional development of its employees in 2020. Both the periodic refresher training, theoretical courses for rail job positions, as well as other training needed were continued in online format, with the use of the relevant software.

PKP CARGO SERVICE sp. z o.o. has taken a number of initiatives related to social and employee matters:

- dialog with employees,
- collaboration with Employment Offices,
- cooperation with trade unions,
- “Recommend an Employee” program,
- supporting hobbies of employees,
- development of the safe workplace culture,
- protection of Employee health - prevention of COVID-19 and tick-borne encephalitis virus,
- support of education – collaboration with schools, the scholarship program,
- charitable and welfare assistance.

PKP CARGO SERVICE Sp. z o.o. also supported education. In 2020, the Company continued the cooperation with the Non-public Secondary Rail Technical School in Tychy. The cooperation comprised joint educational, support and promotion initiatives, as well as the organization and implementation of ventures designed to develop vocational (rail) education, and dissemination of state-of-the-art technical solutions in the system of vocational education. Within the framework of this cooperation, PKP CARGO SERVICE sp. z o.o. provides, among others, streams of practical vocational education, and - to the outstanding student of the Technical School - vocational internships at its rail siding plants. Since September 2020, due to the pandemic-related restrictions, this process was pursued in remote form, via the Internet and the relevant software.

2020 also saw the continuation of the scholarship program started in 2019, whereby 6 students of the Rail Technical School receive monthly scholarship for good academic performance, with the commitment that after graduation they will join the workforce of PKP CARGO SERVICE sp. z o.o.

PKP CARGO CONNECT Sp. z o.o.

In 2020, PKP CARGO CONNECT Sp. z o.o. provided its employees with social benefits which encompassed subsidizing holidays, subsidizing stays in treatment, spas and rehabilitation centers for old age and disability pensioners, and subsidizing organized holidays for children and youth. Subsidizing school aid and financing material assistance is also possible. Employees may also receive hardship assistance, living expenses aid and a loan for housing needs. In 2020, the Company purchased discounted railway fares for its employees

At PKP CARGO CONNECT Sp. z o.o. the rules for improving employee qualifications apply, defining the manner of and eligibility of employees for raising professional qualifications. As part of the employee development policy, the following forms of qualifications improvement are implemented:

- bachelor, master and post-graduate studies,
- training courses,
- foreign language learning,
- other forms of qualifications improvement.

Measures aimed at improving employee competences are defined in the “Periodic Employee Review Rules”. The Company refers employees to courses and training on its own in order for them to improve qualifications and obtain authorizations to perform assigned duties.

The following rights and obligations of both parties in respect of the raising of vocational qualifications are considered particularly important:

- paid training leave, time off form a part or entire work day
- conclusion of a training contract, reimbursement of education costs

CARGOTOR Sp. z o.o.

At CARGOTOR Sp. z o.o., the subject of social relations is also regulated by documents and bylaws relating to labor order and discipline, in which the principles, duties and rights resulting from employment and the position held in the Company are defined. Those documents include the Labor Bylaws, Anti-mobbing Policy and Organizational Bylaws.

PKP CARGOTABOR Sp. z o.o.

The policy applied in the area of employee affairs is basically reflected in the adoption of a Collective Bargaining Agreement as the basic document regulating the issue of remunerating employees. The CBA comprehensively regulates issues related to setting the remuneration, jubilee bonuses, retirement benefits and any other employee benefits. In addition, the company operates Labor Bylaws, as well as detailed regulations related to bonuses.

In addition, the Company operates the Company Social Benefits Fund whose purpose is to provide material support to employees in need and also to ensure the integration among the crew.

PKP CARGO INTERNATIONAL

Employee affairs are described mainly in the Collective Bargaining Agreement and partly in the Code of Ethics. Additionally, PKP CARGO INTERNATIONAL has the "Rules of behavior and conduct" in place. The document is one of the foundations of the organization. It defines the rules of employee conduct, including conduct outside the organization and between employees. It sets out the essential principles of professional and appropriate approach of employees to various non-standard situations. It defines standards that strengthen the responsibility of employees for their actions and resulting consequences. The purpose of that document is to provide employees with tips on how they can behave appropriately in specific, ethically difficult or complicated situations.

PKP CARGO Group's policy related to natural environment**PKP CARGO S.A.**

Businesses across the world have a growing awareness of their significant impact on the environment. Consequently, they can take efficient and effective measures conducive to, among others, achievement of the UN Sustainable Development Goals. The Goals implement business objectives, concurrently focusing on caring for the natural and social environments. To achieve sustainable development, three interconnected elements must be harmonized: economic growth, care for the development of the society and protection of the environment. In other words, one of the key areas of sustainable development is integrated and sustainable management of raw materials and ecosystems.

The strategic objective of PKP CARGO S.A. is to ensure a safe carriage of commodities, using rolling stock that meets the applicable environmental requirements. Rail transport is environmentally friendly and competitive in comparison with road transport thanks to its low CO₂ emissions, low fuel consumption relative to the carried freight volume, no dust emissions from use of tires and asphalt surfaces, high traffic safety and noise exposure which is limited to only a fraction of the population.

Key actions taken by PKP CARGO S.A. in the area of environment protection:

- Implementation and operation of an integrated management system;
- Environmental education - building of environmental awareness, responsible involvement of employees in sustainable development through training and educational materials;
- International cooperation - participation in International Union of Railways teams, e.g. the commission on noise emission prevention, the of European Railway and Infrastructure Companies (CER), and Rail Freight Forward in the area of sustainable development;
- Security of transport: training and oversight over carriage of hazardous goods;
- State-of-the-art rolling stock and innovation - purchase and modernization of locomotives and wagons, including from the viewpoint of emission levels and energy efficiency;
- State-of-the-art maintenance and repair infrastructure, efficient resources management - renovations, modernization, investment to safeguard low levels of emissions into the air and the earth's surface, as well as energy efficiency.

The environmental protection control system is governed by internal procedures and monitored. The development of rail transport strategies may contribute to measurable benefits for the natural environment: improvement in air quality and mitigation of the effects of progressing climate change.

PKP CARGO contributes into the achievement of climate policy objectives by minimizing the consumption of traction energy and fuel in diesel traction, as well as by increasing the efficiency of the transportation process. The Company carries over 85% of its freight via electrical traction. It is environmentally friendly and smog-free transport. Given that the Company uses electricity, its carbon footprint is mostly determined by the structure of fuels and other primary energy sources used to generate the electricity it needs. Any increase in the share of energy generated from RES provided by the traction energy producer will translate into a clear drop in emissions.

The primary objective is the development and growth of the rail market, resulting in an increased share of this type of transport in the overall transport. Increasing the share of rail in the total volume of transport is conducive to the achievement of the objectives of the Strategy of sustainable and smart mobility, and contributes to the reduction of CO₂ emissions. We expect emissions to be lowered in the future thanks to innovative technological solutions. The measures taken by PKP CARGO S.A. in the implementation of the objectives of the Strategy of sustainable and smart mobility include:

- Purchase of new cargo wagons and electric locomotives, and continued modernization of diesel locomotives,
- Participation in projects to design traction vehicles powered by alternative primary energy sources, such as fuel cells, or secondary energy from such reservoirs as: batteries, super-condensers, kinetic energy batteries (plungers),
- Participation in the project of introduction in Europe of Digital Automatic Coupling,
- Continuation of the acoustic modernization of wagons, consisting in the replacement of wheel sets, or modernization of brakes (replacement of brake blocks),
- Installation of smart traction energy meters in electric locomotives and fuel consumption meters in diesel locomotives,
- Implementation of state-of-the-art IT solutions in the administration and management of the transport and logistical processes in the Company.

CARGOSPED Terminal Braniewo Sp. z o.o.

The Company has implemented and complies with procedures that define the rules of hazardous and non-hazardous waste management. Reports required by law are filed and environmental fees paid.

PKP CARGO SERVICE Sp. z o.o.

The Integrated Management System Policy, apart from the Company's obligations in respect of other management systems, includes commitments in respect of the natural environment (environmental management system) and, which is to a certain extent also related to the natural environment, obligations related to energy use (Energy Management System).

The application of the Integrated Management System Policy in the company is validated by the achievement of other environmental requirements resulting from the Policy, e.g. the environmental objectives. In order to analyze its energy management and identify the potential to improve its energy result, the Company has committed to conduct regular energy reviews.

PKP CARGO SERVICE sp. z o.o., being aware of its environmental impact, attaches great importance to minimizing and preventing pollution and reducing its adverse effects on the environment. The Company is proud of its environmentally friendly initiatives and strives to raise awareness of the significance of environmental protection among its staff. It applies technological and organizational solutions aimed at reducing the environmental impact of its business. It introduces uniform rules of reasonable management of materials, water and energy at all operating levels. Its activities are also focused on carrying out waste management in a manner that does not pose a threat to the environment by sorting, securing and transferring waste for subsequent recycling.

In 2019, the Company joined the Center for Rail Energy Efficiency Program (CEEK), a joint initiative of the rail industry to save energy. The exchange of experience within CEEK is intended to help develop and implement energy-efficient and environmentally friendly solutions that will serve all participants in the rail market.

PKP CARGO CONNECT Sp. z o.o.

The environmental policy adopted by PKP CARGO CONNECT Sp. z o.o. includes:

- compliance with all legal requirements essential for the environment, including laws, regulations and administrative duties concerning environmental protection,
- systematic identification of threats and significant environmental aspects,
- attempts to eliminate or minimize the occurrence of threats to the natural environment,
- reasonable use of and saving water, energy and fuels,
- reduction of pollutants emitted into the atmosphere,
- eco-friendly waste management in accordance with the requirements of environmental law,
- raising employee environmental awareness through appropriate information and training.

The Policy is known to employees, implemented and monitored. Effects of complying with the environmental policy:

- compliance of undertaken activities with effective legal and other provisions – reviewing and updating legal and other requirements,
- reduction of impacts on natural environment – monitoring environmental aspects,
- increasing employee ecological awareness – organizing internal training for employees responsible for environmental protection tasks (waste management, supervision of installations and equipment operated by the Company).

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. does not have specific internal rules regarding environmental protection. It applies generally applicable environmental protection rules.

PKP CARGOTABOR Sp. z o.o.

The Company applies policies aimed at intensifying its activities for the implementation of procedures regulating the broadly understood environmental protection issues. In addition to the appointment of the Chief Specialist for Environmental Protection, the Company has implemented a number of regulations in the area, including: the procedure for scrap management, the waste disposal procedure, conditions for the sale of slag, conditions for the sale of waste wood.

The effectiveness of applying the above-mentioned policies is confirmed by absence of any sanctions or complaints regarding violation of environmental protection regulations.

PKP CARGO INTERNATIONAL

The rules in respect of the natural environment are set out in the “Environmental and Energy Aspects” directive. The directive specifies the procedure for identifying, registering, assessing the significance and updating environmental and energy aspects and maintaining continuity in setting environmental targets and programs in the environmental management system (EMS), and for setting energy targets and action plans for energy management processes.

PKP CARGO Group’s policy related to respecting human rights

PKP CARGO S.A.

Human rights, such as equality regardless of sex, prohibition of discrimination, freedom and personal inviolability, the right to privacy and protection of personal data and freedom of association and freedom of opinion, are a reference point for Polish law and form the grounds for the activities relating to the employees’ affairs also in the PKP CARGO Group.

Code of Ethics

In PKP CARGO, relations are open, honest and based on mutual trust. Employees work in teams and respect diversity. They take part in the creation of a safe working environment, which is conducive not only to professional development, but also to the raising of qualifications. Employees are respectful to one another. The Company ensures equal and fair access to employment and professional advancement. No forms of discrimination are allowed or accepted towards employees, customers and suppliers, neither due to age, gender, disability, race, religious denomination, sexual orientation, nationality, ethnic origin, nor due to political or trade union activities. In PKP CARGO, no forms of harassment or mobbing maltreatment are tolerated, neither physical nor psychological. It is unacceptable to abuse one’s position by favoritism in respect of relatives or nepotism.

Anti-mobbing policy

Anti-mobbing policy in PKP CARGO S.A. is based on internal regulations, establishing Trustees and Anti-mobbing Committees in the individual employer organizations. The role of the Anti-mobbing Committees is to examine cases and submit recommendations to the employer for actions aimed at preventing any instances of mobbing. The duty resting on employers to counteract mobbing is also reflected in the provisions of labor bylaws aimed at protecting employees against mobbing.

In accordance with the rules adopted by the Company, every employee has the right to report a mobbing case and obtain information and assistance from a Trustee, while maintaining full confidentiality.

The role of the Anti-mobbing Committees is to counteract and combat cases of mobbing in the workplace, in particular examination of matters described in reported cases, after the exhaustion of the procedure by the Trustee, including the establishment of facts, assessment of the situation and taking of actions aimed at resolving the conflict, along with a recommendation for the employer to apply preventive measures to reduce the scale of mobbing in the future.

In its anti-mobbing policy, the Company pays particular emphasis on preventive actions. Issues of mobbing are discussed in induction training for newly hired employees, in particular by providing the contact details of the Trustee of a given employer organization, who is chosen by employees.

A lot of emphasis is put on training, including of members of Anti-mobbing Committees, Trustees and those in managerial positions.

CARGOSPED Terminal Braniewo Sp. z o.o.

Effective regulations include principles designed to prevent instances of discrimination.

PKP CARGO SERVICE Sp. z o.o.

Since its foundation, PKP CARGO SERVICE sp. z o.o. has been pursuing a very transparent employee affairs policy and ensures ethical and lawful treatment of its employees. Social human rights, such as the right to social welfare protection and employee rights, including prohibition of discrimination in employment, the right to fair working conditions and due and equal pay for equal work, freedom and personal inviolability, the right to privacy and protection of personal data, freedom of association and freedom of opinion, are a reference point for Polish law, including labor law, and form the grounds for the activities relating to the employees' affairs also in the PKP CARGO SERVICE sp. z o.o. Rigorous observance of occupational health and safety rules, ensuring security of Employee personal data and continual improvement in this area are further objectives of the certified management systems implemented in the Company.

PKP CARGO CONNECT Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. is committed to conduct its operations honestly and in compliance with law and effective regulations. The adopted Code of Ethics is aimed at maintaining the trust of clients, employees, state administration authorities and the public.

The code consists of two parts:

- defining the rules of conducting business activity
- defining human rights and social justice rules

PKP CARGO CONNECT Sp. z o.o. respects the law and prevailing regulations when supplying its services, and shows and implements its commitment to corporate responsibility in the rules, decisions and activities, as well as implements the rules of the code in key processes.

As a part of building a long-term subcontractor management policy, the company has adopted the Code of Conduct with Suppliers.

The Code sets minimum standards of conduct for suppliers and subcontractors providing business and services for the company. It specifies the key PKP CARGO CONNECT values that the company follows in cooperation with its subcontractors.

This is aimed at:

- consolidating the positive image of the company as a TFL operator,
- building the perception of the Company as an entity that cares about standards in relations with its customers and subcontractors,

- verify and assess rail operators according to IMS procedures, identifying and managing the risks related to social, environmental and ethical factors;

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. has an Anti-mobbing Policy to prevent instances of mobbing.

PKP CARGOTABOR Sp. z o.o.

All operations of the Company are conducted with deep respect for all human and civic rights. The Organizational and Legal Office exercises ongoing supervision over ensuring compliance of regulations and procedures in effect with the entire list of human rights laid down in the Constitution and appropriate international regulations. The Compliance Commission carries out detailed analyses of internal procedures to eliminate the risk of human rights violations in the Company's current operations.

Of note is also the establishment in the company of an Anti-mobbing Committee, which is an expression of the employer's proactive attitude in fighting mobbing as a pathology in employee relations.

As a result of the aforementioned policies applied in the Company, the risk of occurrence of human rights violations has been effectively prevented.

PKP CARGO INTERNATIONAL

Questions associated with respecting human rights are described in the document entitled "Rules of Behavior and Conduct", referred to in the section discussing the policies applied by the PKP CARGO Group with regard to employee issues.

PKP CARGO Group's policy related to preventing corruption and bribery

PKP CARGO S.A.

Adopted and implemented in November 2020, the Code of Ethics serves as a road map for the actions undertaken in the Company in the relations with employees, clients, suppliers, competitors, as well as with the social and natural environment.

Employees provide reliable information to clients about products, services and operation of PKP CARGO S.A. They do not disclose technical, technological or trade secrets. Neither do they abuse trust or exploit potential lack of knowledge or experience on the part of clients, taking full responsibility for the products and services they offer. Procurement in PKP CARGO is operated based on responsible plans and objective criteria. Situations in which personal preferences or profits could influence the decision-maker are not permitted. The supplier and service selection criteria regulation ensure full transparency of the process. Corruption or dishonest practices are not tolerated. Procurement bidding procedures to select a supplier are prepared and carried out based on internal procedures and requirements. Every person applying for work at to PKP CARGO S.A. has equal access to information.

Giving or accepting gifts in return for preferential treatment, or any encouragement to such behavior, is prohibited; principles of giving or accepting gifts are laid down in the "Anti-corruption and Gift Policy of PKP CARGO S.A.". The key purpose of the Anti-corruption Policy is to create the right ethical culture, which is possible only when the management bodies and senior management are involved as well.

The purpose of the Anti-corruption Policy in particular is:

- definition of rights and obligations of the process of preventing and combating corruption in PKP CARGO S.A.,
- specification of how suspected corrupt behavior can be reported,
- implementation of adequate anti-corruption procedures in PKP CARGO S.A., including reporting and documenting potential corruption incidents,
- laying down uniform rules as regards counteracting and combating any forms of corruption and economic malpractice,
- development of employee awareness as regards identification of counteracting corrupt behaviors,
- definition of the rules of accepting and giving gifts at PKP CARGO S.A.

CARGOSPED Terminal Braniewo Sp. z o.o.

Internal procedures define rules for verifying contractors and drafting business proposals and offers on the basis of cost calculations and guidelines for a particular year. The business proposals and offers are recorded.

The movement of goods is defined and regulated by permits issued by customs services and recorded in a separate electronic warehouse software, preventing unwanted actions by separating access rights.

The Company has adopted procedures that define the rules for managing investments and renovation projects, as well as the use of business payment cards.

PKP CARGO SERVICE Sp. z o.o.

The Company's declaration of its intention to conduct its business in a transparent, honest, responsible manner, with respect for the highest ethical standards, is presented in its "Abuse Prevention Policy of PKP CARGO SERVICE Sp. z o.o.". The Policy is heeds the principle of "zero tolerance for corruption", and was laid down to protect the image, reputation and the trust of clients, business partners and all stakeholders. It is closely linked to the "Code of Ethics" of PKP CARGO SERVICE Sp. z o.o. The purpose of the Policy is to establish for all employees, coworkers, clients and business partners a set of clear rules of conduct in business relations, by creating a culture of transparency and zero tolerance for any corrupt behaviors. In accordance with the Policy, preventing and combating corruption-related abuses is one of the Company's priorities in its dealings with external entities. The Policy contains guidelines on how to identify and manage risks related to corruption abuses and incorporates best practices in preventing, detecting and responding to bribery and other corruption-based behaviors that may harm the Company's economic, financial and image-related interests. The "Abuse Prevention Policy" defines:

- responsibility in respect of the Employees of the Company,
- responsibility in respect of collaborators,
- responsibility in respect of clients, counterparties and business partners,
- responsibility of PKP CARGO SERVICE Sp. z o.o.'s senior management (for monitoring the performance of the Policy and ensuring its effectiveness, within the relevant scope of authority held),
- duties of Employees, collaborators and representatives of senior management as regards counteracting and prevention of breaches,
- rules of reporting irregularities and breaches,
- responsibility of the PKP CARGO SERVICE Sp. z o.o Ethics Committee.

PKP CARGO CONNECT Sp. z o.o.

Pursuant to its Code of Ethical Conduct, PKP CARGO CONNECT does not take part in any corrupt practices, nor supports them. The Company's representatives are prohibited to offer clients, suppliers, consultants, and government officials any rewards or benefits that would be in breach of the law and prevailing rules of business conduct, in order to secure or continue a contract. The Company's employees must not accept any financial gains that could undermine the impartiality of their decisions.

CARGOTOR Sp. z o.o.

The Company applies safeguards in the form of regulations in respect of credit cards. It also operates a Spending Policy.

PKP CARGOTABOR Sp. z o.o.

An 'internal control position' has been established in the company, to identify and prevent potential and existing risks in this area. Furthermore, the Company pays considerable of attention to cooperation with all competent state authorities appointed to prosecute this phenomenon. As a consequence, there are no warning flags in respect of corruption in the Company.

PKP CARGO INTERNATIONAL

Corruption issues are explained in the "Rules for conducting negotiations with external entities". The rules cover issues such as compliance with the effective provisions of law (competition and anti-monopoly policy, bribes for state officials), conflicts of interests (employee's personal interest, acceptance of gifts and benefits) and honest relations (relations with customers, offering gifts and entertainment, relations with suppliers).

10.1.4 Due diligence procedures

The PKP CARGO Group takes efforts on an ongoing basis to ensure that assigned tasks are effectively completed and legal provisions are complied with. The adopted internal regulations are regularly adjusted to current business needs and must be consistent with mandatory provisions of law. At the same time, the use of good practices contributes to improving the standards of conducted activities and increases the qualifications and competences of human resources.

Systematic risk assessment, including in relation to social, employee and human rights issues, allow to identify threats early and keep their consequences down to a minimum.

The human resources management area is subject to a system of internal audits, part of the Integrated Management System, which allows to identify processes, ensure their compliance with assumed requirements, and implement improvements.

The Integrated Management System is overseen by, among others, internal audits, which are an effective and reliable tool providing input information for further improvement. It is a process ensuring an assessment of the strengths and weaknesses of the management systems in respect of quality, information security, environmental protection, as well as occupational health and safety, verifying compliance with the standards: PN-EN ISO 9001: 2015-10, PN-EN ISO/IEC 27001: 2017-06, PN-EN ISO 14001: 2015-9, PN-ISO 45001: 2018-06, the WSK criteria, as well as confirming their implementation and operation. IMS internal audits are conducted as per the "Internal Audit Program of the Integrated Management System at PKP CARGO S.A." adopted for a given calendar year.

Holding the IMS certificate and operating in keeping with the requirements of the standards guarantees high quality of services and underpins the prestige of the brand in the eyes of the clients, who value the reliability of the organization and its commitment for continual improvement. It is an important element of developing a positive image.

The IMS Certificate is not only of commercial importance, but administrative as well. Without it, the Company would not be able to engage into international freight transport of strategic importance (i.e. the so-called "dual-use goods or arms").

Pursuant to the ISO standards and the Act on trade in strategic goods, to maintain the IMS certificate, the Company is required to undergo regular External Oversight Audits. In 2020, after the External certification audit of the IMS and WSK systems, the Management Board of the Polish Center for Testing and Certification (PCBC S.A.) took the decision to renew the certificates held by the Company.

10.1.5 Risks related to Group activities and management of these risks

On 7 April 2020, the PKP CARGO S.A. Management Board adopted a resolution on introducing the "Risk Management Policy in PKP CARGO S.A." Risk management is a coordinated process interlinked with and embedded in all activities and process in the Company, with the purpose of risk management and control. It supports the management in the decision process, making informed choices, setting priorities, setting quality levels, information security level, specific actions, as well as identification of potential alternative courses of action.

Risk management supports the Company in its improvement, increasing its effectiveness in the implementation of tasks by using adequate control mechanisms, as well as collecting information on threats to the achievement of the planned objectives and tasks.

An effective risk management process contributes to the Company's higher shareholder value.

Risk management in the Company proceeds in the following stages:

1. **risk assessment**, which comprises the following steps:
 - *risk identification* - analysis of the planned objectives, tasks, assets to be protected, processes in the Company, as well as the potential threats to its operations.
 - *risk analysis* - developing in-depth understanding of risk, its causes and consequences, and then defining the level of risk according to specified risk assessment criteria. Risk assessment is based on likelihood and potential consequences of the occurrence of a specified event on the performance of the Company's tasks and achievement of its objectives.
 - *risk evaluation* - comparing the results of the risk analysis with the risk criteria, to determine whether the risk level is acceptable. Result of the evaluation indicate actions to be taken in respect of this risk.
2. **risk response** - the following risk responses are available: risk acceptance, transfer, withdrawal or action.
3. **risk handling** - a plan of handling the risk should specify:
 - definition of the asset in question,

- description of the risk,
 - proposed actions to mitigate the risk,
 - persons responsible for implementing the actions,
 - information regarding the implementation costs of the risk handling plan,
 - expected effects of the risk handling plan implementation,
 - implementation timeframe and schedule
4. **monitoring and review** - risk owner are required to monitor the risks, in the form of regular checks if:
- the risk has changed,
 - the risk assessment remains correct (in respect of its likelihood and consequences),
 - the applied control mechanism are effective,
 - risk management activities are performed,
 - the implemented risk handling plan is effective as expected
5. **risk validation** - in order to perform risk validation, key risk indicators (KIR) are established for selected risks across the entire Company. KRI may be preventive or detective in nature. Preventive KRI are formulated around the sources of risk. Detective KRI are formulated around the effects of risk.
6. **assessment of the risk management system** - the Supervisory Board Audit Committee of the Company assesses the risk management system

The primary task of the PKP CARGO S.A. Supervisory Board Audit Committee (SBAC) is to examine the correctness and effectiveness of carrying out internal financial audits in the Company, and monitoring the effective operation of internal control, internal audit and risk management systems. The Supervisory Board Audit Committee assesses the risk management system.

The PKP CARGO Management Board is responsible for risk management on the basis of the adopted strategy of the PKP CARGO Group; it primarily defines the directions of development and makes decisions regarding risk handling plans.

The Unit or Department Director is responsible for risk management in the area of their responsibility. Its tasks include:

- identifying risks emerging in activities,
- analyzing and assessing the risks,
- and then comparing them with expected results.

Depending on the comparison results obtained, actions are taken to either retain the status quo or reduce the risk level. PKP CARGO employees are obliged to comply with the provisions of the Policy within the scope of their authority.

The Policy designates a Risk Leader, whose task is to coordinate all matters associated with risk management. Gathering and analysis of information and subsequent reporting to the Management Board and Supervisory Board Audit Committee. Risks identified as material are subject to special monitoring.

From the viewpoint of rail traffic safety, PKP CARGO S.A. operates based on relevant part A and part B safety certificates issued by the President of the Office of Rail Transport. The fundamental requirement for obtaining the certificates necessary to pursue an independent business activity was to implement the Safety Management System (SMS), which was satisfied in 2009. In 2019, the Company's Safety Certificate part A was renewed until 25 June 2024, and the Safety Certificate part B was renewed in 2020 until 24 April 2025.

The SMS covers risks related to the pursued activity and provides for appropriate supervision and control measures in order to reduce them and ensure the appropriate safety level:

- the risk arisen from a direct activity, including occupational risk (related to the performed work) and technical risk (related to the rolling stock and technical resources used),
- the shared risk, which is a risk arisen from an interaction between the entities being part of the railway system (e.g. infrastructure administrators, other rail operators, entities in charge of maintenance),
- the risk of third parties, which are not directly involved in the operation of the railway system.
- Moreover, the processes and procedures serving the purpose of monitoring the effectiveness of the measures taken in the area of risk supervision and introducing the necessary changes are applied within the SMS. These changes apply to:
 - technology and methods,

- operating procedures, rules and standards,
- organizational structure.

Material risks associated with the entity’s operations (social issues, employee issues, human rights) include:

Risks in the area of environmental protection

Key risks in the area of environmental protection:

- the risk of failure to comply with the legal requirements as regards environmental protection – the legal and financial consequences (fines, reclamation costs, increased environmental fees) in the case of identification of non-compliance by environmental protection inspection authorities) – negative impact on the image of the organization, in the case of identification of irregularities, environmental contamination, use of the environment without the required decisions, permits, authorizations and filings and without the required waste records and reporting;
- the risk of failing to meet PL-EN ISO 14001:2015-9 requirements – finding a critical non-compliance during a third party audit and loss of IMS certificate in respect of environmental management

Environment risks have been defined in the “PKP CARGO S.A. risk management policy” in the context of environmental processes such as managing emissions into air from technology processes and burning fuels in installations and equipment, managing equipment containing substances that deplete the ozone layer and fluorinated greenhouse gases, managing water and sewage, managing produced industrial and municipal waste, managing noise emissions to the environment, managing green areas and damage to the environment. Risk handling plans have been designed for environmental processes that require actions to be taken.

In the case of PKP CARGO CONNECT Sp. z o.o., the risk of non-compliance with legal requirements related to environmental protection has been identified, which might result in legal and financial consequences or the loss of the company’s good name. With a view to minimizing the occurrence of this risk, the company continuously monitors legislative developments in accordance with the procedure P02_Ś – Identification and access to legal and other requirements. Moreover, in the context of environmental protection, the company keeps the “List of legal and other acts” containing current statutes, ordinances and permits associated with the use of the natural environment as well as notified installations.

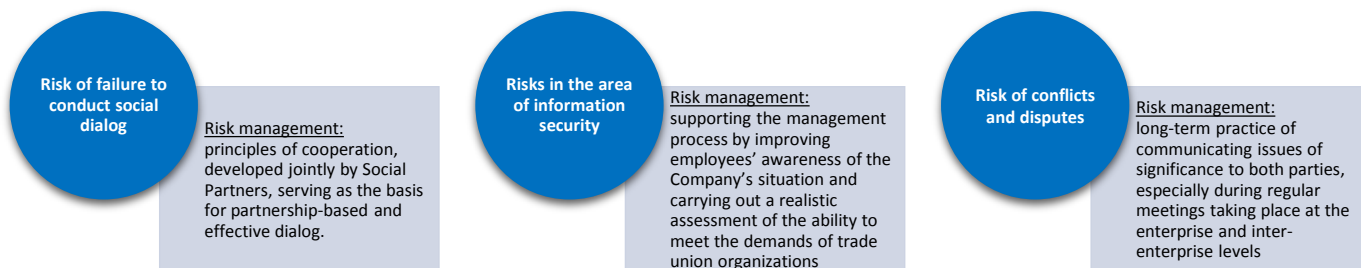
PKP CARGOTABOR Sp. z o.o. operates in the heavy industry domain, which by its very nature generates certain risks related to potential breaches of environmental laws or standards. The company sells scrap metal and waste and is exposed to risks associated with the operation of paint shops in its various units. In order to minimize these risks, the position of Chief Specialist for Environmental Protection has been created in the company along with the implementation of a number of regulations in this area, including a scrap management procedure and a waste disposal procedure.

In 2020, PKP CARGO SERVICE Sp. z o.o. estimated a high likelihood of hazards in the following environmental aspects:

- hazardous waste - petroleum contaminated work clothing,
- emissions of dust, gas and volatile organic compounds from the use of paints, varnishes, solvents and as a byproduct of welding and sanding,
- waste - packaging of hazardous substances, paints, solvents and varnishes.

For all the identified aspects, removal actions or actions to reduce their adverse environmental impact were planned, or else control actions - to prevent any uncontrolled environmental impacts - were planned.

Management of risks related to social dialog



Management of the risks related to employee issues, connected with remote forms of working introduced to counteract and prevent the spread of COVID-19

Development of employee discipline, commitment and responsibility in remote working is achieved by the way of:

- Internal regulations specifying the principles of remote work and the related duties of the employer and the employee,
- Organizational and technical measures designed to ensure correct and safe performance of duties outside of the usual place of work,
- Information and training measures as regards working remotely and securing information protected under the law,
- Regular risk assessments in order to ensure effective and safe performance of tasks.

Management of risks related to mobbing



Corruption risk management

Minimizing the risk of corruption takes place through introduction of the “Policy of handling corruption and gifts at PKP CARGO S.A., as well as through the introduction of the whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be both employees and persons/entities from outside the Company, but cooperating with it (customers, business partners, suppliers, etc.). The rules defined in the Policy cover both the Company’s employees as well as all collaborators under civil-law agreements performing any kind of activities on behalf or for PKP CARGO S.A. The Policy is communicated to customers, so that they observe the internal anti-corruption rules of the Company in contacts with its representatives. All employees are obliged to familiarize themselves with the anti-corruption Policy and follow it in the performance of their professional duties or provision of services. Customers, suppliers, and business partners can acquaint themselves with the Anti-corruption Policy at: <https://www.pkpcargo.com/pl/>.

In PKP CARGO SERVICE Sp. z o.o., the subject matter of creation and rollout of the corruption risk management system is included in the “Abuse Prevention Policy of PKP CARGO SERVICE sp. z o.o.” adopted with a view to counteracting and combating corruption-related breaches. This Policy is closely related to the “Code of Ethics of PKP CARGO SERVICE sp. z o.o.” and constitutes the company’s declaration that it runs its business in a transparent and responsible manner and in compliance with the highest ethical standards, heeding the principle of “zero tolerance for corruption”. The “Abuse Prevention Policy” applies to all employees of the company and persons rendering any services for or on behalf of the company (contractors) and applies to all cases of abuse as well as situations of a suspected commission of an abuse by employees, contractors, advisory entities, clients and business partners. Any irregularities or doubts related to the implementation of these principles must be reported to the Ethics Committee. Because teamwork appears to guarantee a greater degree of transparency, especially at the Code implementation stage and in respect of such sensitive issues as reporting and investigating violations, the Ethics Committee will operate as a team.

10.2. Representation of PKP CARGO S.A.

The Representation of PKP CARGO S.A. on non-financial information for 2020 (hereinafter: the Representation), constitutes a standalone part of the Report on the PKP CARGO Group Activities (hereinafter: the Group, PKP CARGO Group) and presents non-financial information about the Company for the period from 1 January 2020 to 31 December 2020. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), the GRI guidelines (Global Reporting Initiative) and reflects the provisions of the Accounting Act of 29 September 1994.

10.2.1 Description of the business model

10.2.2 Key non-financial effectiveness indicators connected with the operations of PKP CARGO S.A.

NATURAL ENVIRONMENT



Table 53 Electricity consumption by PKP CARGO S.A. in 2016-2020

Electricity	Energy consumed [MWh]				
	2020	2019	2018	2017	2016
Traction	483,762	579,000	673,043	616,394	597,922
Non-traction	19,778	21,382	21,850	22,436	22,714

Source: Proprietary material

Table 54 Air emissions by PKP CARGO S.A. in 2016-2020

Substance emission	Total emissions [t]				
	2020	2019	2018	2017	2016
Sulfur dioxide	321	800	4,347	1,097	1,075
Nitrogen dioxide	1,172	1,608	8,938	2,912	2,641
Carbon oxide	402	509	553	516	484
Carbon dioxide	455,742	477,747	616,780	495,134	482,575
Dust and soot	156	122	398	190	189
Total hydrocarbons	139	189	184	156	118
Other	47	21	42	34	16

Source: Proprietary material

Table 55 Waste produced by PKP CARGO S.A., by type and volume, in 2016-2020

Waste	Waste Code	Waste volume [t] in 2020		Waste volume [t] in 2019		Waste volume [t] in 2018		Waste volume [t] in 2017		Waste volume [t] in 2016	
		Preceding period	Reporting period	Preceding period	Reporting period	inventory at the end of		Preceding period	Reporting period	Preceding period	Reporting period
						Preceding period	Reporting period				
Slag, bottom ash, and boiler dust (excluding dust listed in 10 01 04)	10 01 01	18.0	22.4	49.4	18.0	63.0	49.4	162.3	63.0	93.8	162.3
Waste from turning and sawing of ferrous metals and their alloys	12 01 01	103.0	26.0	14.9	103.0	39.8	14.9	59.4	39.8	121.6	59.4
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	21.4	17.6	8.2	21.4	22.4	8.2	25.6	22.4	22.5	25.6
Worn-out clothes and cleaning cloth	15 02 02*	18.1	19.4	15.8	18.1	9.3	15.8	13.7	9.3	9.5	13.7
Ferrous metals (scrap)	16 01 17	5,890.3	2,988.6	3,387.7	5,890.3	3,360.8	3,387.7	1,588.5	3,360.8	4,235.5	1,588.5
Non-ferrous metals	16 01 18	49.1	52.3	47.7	49.1	14.4	47.7	9.5	14.4	21.9	9.5
Other waste, not listed elsewhere	16 01 99	17.2	34.1	3.5	17.2	32.5	3.5	3.9	32.5	2.6	3.9
Worn-out devices other than those mentioned in 160209 to 160213	16 02 14	19.4	5.7	27.0	19.4	10.0	27.0	3.7	10.0	7.8	3.7
Lead batteries	16 06 01*	9.1	1.6	10.4	9.1	7.4	10.4	18.4	7.4	4.4	18.4
Wood, glass and plastic waste containing or contaminated with hazardous substances	17 02 04*	9.8	11.1	15.4	9.8	8.0	15.4	8.0	8.0	12.2	8.0
Iron and steel	17 04 05	118.3	31.2	10.2	118.3	16.0	10.2	21.7	16.0	52.5	21.7
Wood	19 12 07	129.3	211.5	50.6	129.3	23.4	50.6	10.6	23.4	36.1	10.6
Other waste		157.9	169.9	126.8	157.9	33.5	126.8	154.4	33.6	76.9	154.4

Source: Proprietary material

Table 56 Expenditures on environment protection incurred by PKP CARGO S.A. in 2016-2020

Expenditures incurred for: [PLN thousand]	2020	2019	2018	2017	2016
Air protection, including:	739	1,002	1,046	898	747
Boiler plants	38	46	52	63	73
Technological processes	84	100	73	66	54
Vehicles and machinery	6	8	9	9	9
Locomotives	603	791	893	753	599
Steam engines	2	6	8	7	13
Other	6	50	11	0	0
Water protection, including:	170	344	133	52	38
Water intake	4	0	0	0	1
Sewage disposal	7	7	7	10	4
Disposal of rainwater and snowmelt	7	3	8	5	5
Other	152	334	118	37	29
Tree and shrub clearing	7	11	32	5	0
Protection of the earth's surface	0	54	53	0	108
Waste management	792	622	334	392	266
Other costs of environmental protection	335,015	422,482	176,103	138,042	248,736

Source: Proprietary material

The category "Other costs of environmental protection" is a collective category, comprising other expenses. In 2020, the Company spent PLN 335.0 million on capital expenditures and repairs related to environmental protection. Such expenditures include, without limitation, expenditures to lower emissions or regulate the formal and legal environmental status. The lion's share of this amount was spent on investments in rolling stock (purchase of container platforms and electric locomotives, modernization of locomotives). Other investments were related, among others, to water and sewage management, and changes of heat sources.

EMPLOYEE AREA



Table 57 Number of employees At PKP CARGO S.A. in 2016-2020

Number of employees, including:	As at 31 December 2020		As at 31 December 2019		As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
	persons	FTEs	persons	FTEs	persons	FTEs	persons	FTEs	persons	FTEs
Women	4,381	4,476	4,701	4,691	4,621	4,514	4,432	4,412	4,420	4,440
Tertiary education	1,162	1,167	1,219	1,198	1,158	1,128	1,039	1,018	1,012	1,005
Secondary education	2,574	2,656	2,790	2,790	2,745	2,663	2,660	2,655	2,656	2,674
Primary and vocational education	645	652.8	692	703	718	722	733	739	752	761
Men	11,390	11,710	12,439	12,602	12,687	12,622	12,611	12,765	13,009	13,259
Tertiary education	1,583	1,605	1,681	1,648	1,591	1,641	1,502	1,480	1,488	1,484
Secondary education	5,585	5,717	6,069	6,106	6,105	6,058	5,876	5,870	5,922	6,007
Primary and vocational education	4,222	4,388	4,689	4,848	4,991	4,922	5,233	5,415	5,599	5,767
Total	15,771	16,186	17,140	17,293	17,308	17,135	17,043	17,177	17,429	17,698

Source: Proprietary material

Table 58 Interns and new employees in PKP CARGO S.A. in 2016-2020

Item	2020	2019	2018	2017	2016
Number of started internships [units]	20	89	43	15	7
Number of accepted interns [persons]	0	7	9	0	1
Number of new employees [persons]	46	729	1,108	502	198
Number of new employees [FTEs]	41	725	1,106	502	198

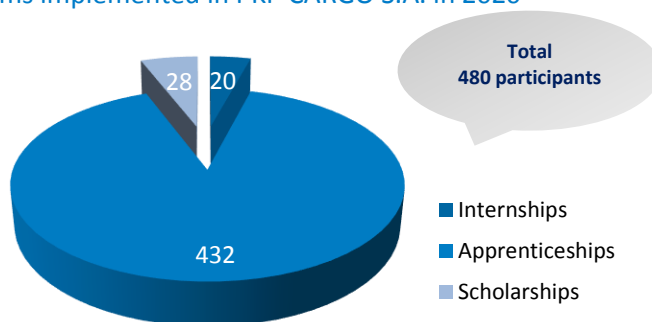
Source: Proprietary material

Table 59 Training courses delivered in PKP CARGO S.A. in 2016-2020

Item	2020	2019	2018	2017	2016
Number of training courses conducted [hours], including:	30,436	64,438	49,608	53,888	66,520
under the post-accident psychological support program	7,068	7,817	7,411	7,486	7,639
Number of training hours per employee [hour/person]	2	4	3	3	4

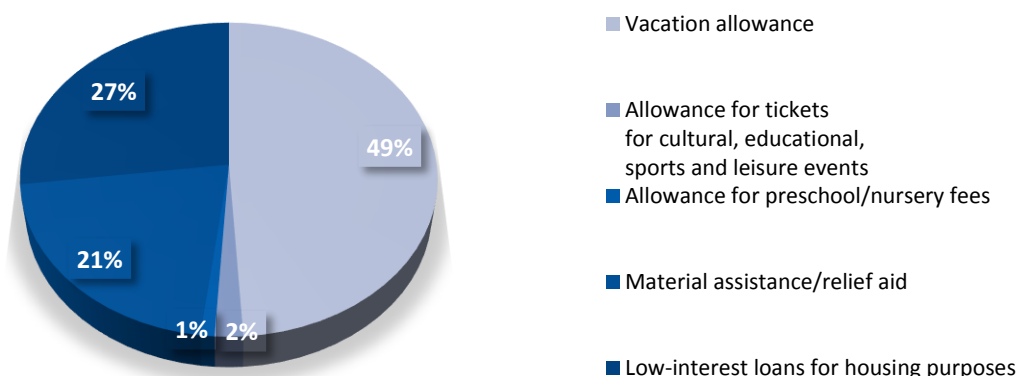
Source: Proprietary material

Figure 33 Employment support programs implemented in PKP CARGO S.A. in 2020



Source: Proprietary material

Figure 34 Use of funds from the social benefit package at PKP CARGO S.A. in 2020



Source: Proprietary material

SOCIAL AREA



The CRS Policy of PKP CARGO S.A. is a roadmap for responsible activities for everyone involved in execution of business processes in the Company. The Policy promotes the idea of a socially responsible business, both among the Company's employees and externally. As the document setting out the framework for corporate social responsibility activities and key directions of their long-term development, the CSR Policy is regularly updated. It is done to adapt the implementation of the Policy to the changing social and economic conditions and the current stage of the Company's development.

In 2020, PKP CARGO S.A. executed corporate social responsibility projects addressed to company employees, local communities, as well as activities focused on environmental protection and initiatives designed to increase the security of transport provided by the Company and development of occupational safety culture.

The projects were presented in the Responsible Business Best Practice Forum report. The projects addressed the following Social Development Goals (SDG):



Among the CSR projects carried out in 2020, particular emphasis should be placed on the following:

“POST-ACCIDENT PSYCHOLOGICAL SUPPORT”

Project for train crews and other employees directly involved in rail traffic and rail traffic safety as well as members of permanent rail commissions

The area according to the ISO 26000 Standard: social involvement and local community development

The purpose of the program is to ensure continuous rail traffic safety through the provision psychological support to individuals employed in positions directly related to the conduct of transportation processes. Measures taken as part of the Post-Accident Psychological Support are applied to promote a responsible approach of both the employer and the employees themselves to the proper perception of the impact of psychosocial factors on the level of safety of persons involved in the conduct of transportation processes.

The project is carried out in all organizational units of the Company and covers over **7,000** employees. It is dedicated to members of train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions.

The project's main deliverables include:

- Psychological Support Helpline staffed by specialist psychologists. It is available to employees directly responsible for carrying out rail transport operations, working as train drivers, setters, inspectors, shunters, etc. The helpline is a toll free number and offers: a conversation with an experienced psychologist, assistance in occupational issues and daily life problems, confidentiality and security of conversation, full anonymity and no professional consequences for the caller.
- Appointment with a psychologist – in justified cases, during a telephone conversation with a Psychological Support Hotline specialist, the Company's employees may set up an appointment with a psychologist specialized in rail traffic safety and psychological aspects of post-traumatic stress,

Table 60 Training for train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions

Position	Number of training hours in the year	Number of trainees in the year				
		2020	2019	2018	2017	2016
Operator of rail vehicles on rail sidings, traction vehicle driver, traction vehicle assistant driver	24	3,604	3,965	4,113	4,135	4,112
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	14	22	24	18	14
Rail traffic controller	16	70	74	53	77	92
Control room employee	16	13	13	14	23	36
Train conductor	16	21	112	72	151	198
Rolling stock auditor	16	1,332	1,581	1,246	1,072	1,115
Shunting master	16	1,339	1,316	1,201	1,227	1,251
Switchman	16	615	673	622	706	752
Track supervisor	16	10	10	10	9	10
Points operator	16	50	51	56	68	59
Total	160	7,068	7,817	7,411	7,486	7,639

Source: Proprietary material

In 2020, due to the probability of employees experiencing an elevated level of stress as a result of the announcement of a state of epidemic in Poland due to the outbreak of the COVID-19 pandemic, a psychological support helpline was available to all Company employees.

PKP CARGO as the patron of rail technology history

The area according to the ISO 26000 Standard: social involvement and local community development

Continuation of a long-term practice with particular emphasis on the development of initiatives focused on the local community: educating the public and promoting important historical and cultural values.

The PKP CARGO Group is Poland's largest rail freight carrier. Besides its everyday activity, PKP CARGO also acts as a patron of rail technology monuments. For 17 years, PKP CARGO S.A., as the main patron of rail technology history, has been maintaining historic rolling stock in Chabówka, Małopolskie Voivodship, and has been co-funding, jointly with the local governments of Wielkopolskie Voivodship, the operations of 113-year-old Wolsztyn Railway Roundhouse, which has had the status of a Cultural Institution since 1 January 2017.

The Company also promotes rail traditions by organizing the following events in Chabówka:

- "Parowozjada"** – one of the largest events aimed at promoting the history of railways in Poland. It has been held regularly in summer since 2005 in the form of a picnic attended by approx. 5 thousand participants, chiefly families with children. The focal point of the first day of the event is a presentation of steam locomotives and historic trains from Poland and abroad. On the second day, a contest is held for teams of steam engine drivers and a presentation of the preparation of steam engines. Additional attractions include vintage train rides on picturesque mountain routes around Chabówka. Moreover, a rich educational and entertainment program is prepared for the participants, especially for children. In 2020, due to the Covid-19 pandemic, "Parowozjada" took place virtually in a meeting series entitled **"Virtually Ready to Roll with the Open Air Museum of Rolling Stock in Chabówka"**. Throughout the week from 17 to 22 August, the PKP CARGO Facebook profile targeting rail enthusiasts provided everyday coverage of the events at the Open Air Museum. Despite the pandemic, the Open Air Museum continued its normal operations. Scheduled repairs of historic rolling stock were performed and, in the period from 1 June to 18 August, summer vacation rides in vintage trains were running, while maintaining sanitary rules applicable to means of public transport. As part of the event, participants could take a virtual trip to Nowy Sącz and visit of the

Open Air Museum to see a Tkt48 steam locomotive, renovated and still smelling with paint, and two historic passenger wagons.

- **“Summer with Steam Locomotives”** – an educational program addressed to children and entire families, which popularizes historical and modern trains through fun activities. Besides Chabówka, the program is also carried out in the Museum Station, in the Wolsztyn and Skierniewice Roundhouses, and in the Open-Air Museum of Locomotives in Zduńska Wola Karsznice. In 2020, to protect children and their parents against coronavirus, the “Summer with Steam Locomotives” was replaced by the **“Virtually Ready to Roll”** event described above.
- **“Tourist Rail Trails of Małopolska”** – a very popular tourist destination provided with the Małopolska Marshal Office. It taps into the cultural and natural resources of the southern region of Małopolskie Voivodship as well as the historical qualities of the Galicia Transversal Railway, with its main axis of the Chabówka – Nowy Sącz rail line and the Open Air Museum of Rolling Stock in Chabówka. Every year over 10 thousand people take a trip on retro trains as part of the program, which operates 40 trains. Besides a trip on a historical train, the program also offers artistic performances, picnics, and local guided sightseeing tours. This year, due to the pandemic, this event was held on a very limited scale. From September to December, 10 retro trains rolled out on track, including two without passengers. However, they could take the train virtually, via an online broadcast.
- **Open-Air Museum in Chabówka** – it contains the largest Polish collection of historical rolling stock, including steam locomotives, diesel and electric engines, passenger and freight wagons, snow plows and rail handcars. Some of the steam locomotives are maintained in operating condition. They are used to operate tourist trains on the most picturesque trails of Małopolskie Voivodship. During the year, approx. 22 thousand people travel by vintage trains operated by the Open Air Museum, and the Open Air Museum itself was visited by 30 thousand people. In 2020, these numbers had to be reduced due to the health concerns.

PKP CARGO also cooperates with non-profit community organizations working to protect monuments of rail history as well as the development of rail tourism and tourism promotion by offering financial and technical support. PKP CARGO strives to serve as an integrator of historical heritage activities in Poland. One of the projects carried out to this end in consultation with railroad enthusiasts is the restoration of historical colors to selected locomotives and promotion of historical knowledge among youths by organizing open-access meetings with people creating rail history.

“A Running-Friendly Company”

The area according to the ISO 26000 Standard: social involvement and local community development

PKP CARGO S.A. employs approximately 17,000 staff across Poland. Sports activities are often among their declared interests. As a “Running-Friendly Company”, PKP CARGO has for many years been supporting these interests and promoting a healthy life style by integrating employees working in different locations in Poland and in various positions. Annual projects organized by the Running-Friendly Company initiative among employees also have a positive impact on strengthening the work and life balance. In addition, it supports employees in adopting pro-social and help-oriented attitudes. Among the initiatives pursued by the Company are nationwide charitable running events during which, apart from integration, participants have an opportunity to support people with physical disabilities by raising funds for the distances covered.

For a few years now, PKP CARGO has been carrying out a project entitled “A Running-Friendly Company”, which rests on the following three pillars:

- **sport and integration** – promotion of a healthy and active life style. Under this pillar of activities, team of PKP CARGO S.A. employees take part in running initiatives, as well as marathon and half-marathon events organized in Poland and across the world. In 2020, due to COVID-19, this dimension acquired a motivational aspect: maintaining physical activity despite social isolation (motivational slogan contests, mailing campaigns targeted at a group of regular runners, etc.).
- **charitable** – running, employees help beneficiaries of the foundations they work with. For three years now, the Company has taken part in the national charitable event Poland Business Run, with the money paid as the entry fee in the run going to a foundation supporting people with motor disabilities. The extensive geographical structure of the Company lets it find runner employees in almost all locations in which the Poland Business Run is held.
- **symbolic/historical** – commemoration of important anniversaries and jubilees, celebration of significant events in Poland’s history, with the memory of those events integrating both the Company’s employees and their families.

However, in 2020, due to the sanitary restrictions, the Company opted out of participation in collective events in order to ensure the safety of its employees. Such activities will be resume as soon as the threat posed by the dissemination of the COVID-19 pandemic has come to an end.

“Direction: Safety at Work” campaign

In 2019-2020, one of the initiatives we pursued at PKP CARGO S.A. was to build a safe workplace culture. Life and health are the greatest values that should be protected whenever and wherever our employees are involved in the performance of their professional duties. For this reason, we consider the development of a safe workplace culture to be among the Company’s most responsible pursuits. Transportation processes and the freight of cargo require continuous improvement of occupational safety conditions but also fostering the awareness of the key role of safety in the workplace at all levels of both management and conduct of each stage of the transportation process.

Improvement in the safety of employees at work is the goal of the “Program to improve occupational safety” launched at PKP CARGO S.A. in 2019. Joint action under the Program is taken in all areas of the Company’s business that may affect the safety of transportation processes. Both the services responsible for occupational safety and health and experts managing the organization of rail traffic are involved in carrying out the program. A very significant aspect is also a social campaign which aims to build a safe workplace culture and shape attitudes conducive to the safe performance of professional duties. The campaign’s main objective is to reach more than 7,000 employees working in positions directly related to train traffic. As part of the project, a consistent information campaign for employees (posters, Intranet site, leaflets distributed with payslips, leaflets on the Post-Accident Psychological Support, promotional video, dedicated e-mail address and thematic mailings distributed from it) was carried out. In 2020, the use of tablets adapted to the performance of professional duties by train drivers was added to the campaign’s communication channels. This solution enabled a direct outreach to the key target group with communication campaigns.

Milestones in the Program to improve occupational safety and the “Direction: Safety at Work” campaign

- Number of people who received information materials: over 7,000 employees in positions of key significance for rail traffic safety.
- Involvement of the Company’s social partners in promoting a safe workplace (joint declaration with the PKP CARGO Management Board).
- Approx. 40 representatives of key rail sector companies were involved in the dialog to improve safety at work (including representatives of the Office of Rail Transport, PKP Group companies, PKP CARGO Group companies, the State Labor Inspection Service who participated in the “Culture of a Safe Workplace” conference).
- Promotion of safety at work issues among representatives of the whole rail sector in Poland.
- Greater involvement of teams responsible for ensuring a safe workplace.
- Ongoing improvement of factors that are significant for the safety of day-to-day duties – from the inspection of rail infrastructure, the level of compliance with health and safety standards, assessment of the technical condition of the rolling stock, to ensuring the proper visibility of staff and the safety and comfort of work clothing.
- Greater awareness of the role and significance of work safety among employees.
- Push to change attitudes towards compliance with health and safety regulations. Shaping attitudes such as: it is worth being safe, because I love coming home – building the internal conviction among employees that safety also depends on their own actions and must also be treated as a priority by them.

Social dialog

The PKP CARGO S.A. Management Board supports the development of social dialog with the Company’s social partners – the trade unions. The dialog follows the principles of respect for the law, equality, mutual respect, trust and search for the best solutions for both parties. At the same time, the Management Board promotes the idea of partnership, and considers it the natural evolution of social dialog in the world of free market economy, globalization and increased competition. The Company appreciates the benefits of conducting business activity where the social party is involved in efforts to increase the company’s efficiency and achieve the set goals. It respects and improves the principles of cooperation between the Social Partners, which is conducive to the implementation of state-of-the-art and development-focused solutions designed to raise the Company’s efficiency. The important role of social dialog in PKP CARGO S.A. is also validated by the fact that the initiatives in this area are a permanent element of the Company’s activities pertaining to corporate social responsibility (CSR). The Company believes that ensuring the proper spirit for a partnership-based dialog is one of the fundamental elements of the CSR Policy. This approach is consistent with both PKP CARGO’s Strategy and recognized legal and market standards, such as the ISO 26000 Standard (in two key areas: “corporate governance” and “labor relations”).

In 2020, activities in all the above mentioned areas were continued, in formats that were changed and adapted to all the health measures imposed both by the law, OHS procedures, as well as undertaken responsibly to protect the safety of employees and working teams. Furthermore, in 2020 the Company sought to adapt the communications channels the implementation of individual initiatives, taking all CSR activities online.

Due to the COVID-19 pandemic, PKP CARGO also started new initiatives:

- **“CSR News” Newsletter** – in 2020, nine editions of the online newsletter were published and addressed to CSR coordinators in the PKP CARGO Group subsidiaries. The Newsletter promotes the idea of a socially responsible business and sustainable development goals, and presents news on the implemented social projects. It is a platform of exchange between and integration of the PKP CARGO Group companies around the CSR themes, as well as a space to share best practice in this area.
- **Kids say: We can do it!** - given that new formats of communications are required in the wake of the pandemic, in April 2020 two online editions were staged of the initiative: “Kids say: We can do it!”. The online communication was addressed to employees taking care of their children at the time face-to-face teaching at schools had been suspended, when working remotely themselves. It contained educational contents and elements supporting the organization of everyday life in the changed circumstances of the epidemic in the whole country.
- **Active Business “Healthy Lifestyle on Your Bike”** – to counter the pandemic, a new healthy lifestyle campaign was initiated as an attempt to reach out to employees pursuing other activities than running. In 2020, the campaign ran three communication actions. A biking group was started, which will engage in new ventures as the campaign progresses.
- **“Socially Responsible”** - a new initiative was developed to promote social involvement of employees. It will be implemented in 2021.

HUMAN RIGHTS



Freedom of association

Table 61 Trade unions in PKP CARGO S.A. in 2016-2020

Item	2020	2019	2018	2017	2016
Number of trade unions [organizations]	116	116	123	129	131
Number of employees who are members of trade unions [persons]	13,365	14,458	14,620	14,595	14,944
trade union membership percentage ratio	84.7%	84.2%	84.0%	85.6%	85.7%

Source: Proprietary material

Right to a safe working environment

In PKP CARGO, a campaign is conducted designed to build a safe workplace culture. It is addressed to all employees, in particular individuals employed in positions directly related to the operation and safety of rail traffic. Work safety is a priority, regardless of the place and type of work duties. Therefore, the campaign “Direction: Safety at Work” aims at growing employee awareness and emphasize everyone’s co-responsibility for their own safety.

Table 62 Number of accidents and accident ratio in PKP CARGO S.A. in 2016-2020

Item	2020	2019	2018	2017	2016
Number of accidents at work [cases]	72	82	119	119	118
Accident ratio [%]	4.5	4.7	6.9	6.9	6.7

Source: Proprietary material

COUNTERACTING CORRUPTION AND BRIBERY


In November 2020, PKP CARGO S.A. adopted and implemented the updated *Code of Ethics*.

The Code of Ethics is one of the fundamental elements supporting the process of building and developing the organizational culture in the Company. The values and standards of conduct it contains are desirable in any organization. The Code of Ethics sets out the fundamental rules of conduct developed by the representatives of PKP CARGO S.A., with the participation of its Employees and Clients, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect: these are the principles that employees should be guided by in their everyday work.

The main purpose of the Code of Ethics is to recommend attitudes and rules of conduct at the workplace. The Code serves as a road map for the actions undertaken in the Company in the relations with Employees, Clients, Suppliers, Competitors and with the social and natural environment. The implementation of the Code of Ethics will improve the quality of the Company's services and increase job satisfaction, both for Employees and Clients. It will also enhance the organizational culture, improve the image and strengthen PKP CARGO S.A.'s position in the Polish and international markets.

PKP CARGO S.A. has maintained anonymous reporting channels for PKP CARGO S.A.'s employees who would like to report a breach/irregularity. The channels include: a dedicated hotline, an e-mail address and a traditional mail address.

Moreover, in November 2020, by force of the PKP CARGO Management Board resolution, the *"Anti-corruption and Gift Policy of PKP CARGO S.A."* was adopted. The anti-corruption and gift policy supports the development process of the Company's organizational culture. It contains norms of conduct which are universal, and it serves the purpose of enhancing the image, competitiveness and economic value of PKP CARGO S.A.

By implementing the Policy, the Company's Management Board responded to market expectations and legal changes in the spirit of the "zero tolerance for corruption" principle. The rules defined in the Policy cover both the Company's employees as well as all collaborators under civil-law agreements performing any kind of activities on behalf or for PKP CARGO S.A. The Policy is communicated to customers, so that they observe the internal anti-corruption rules of the Company in contacts with its representatives. All employees are obliged to familiarize themselves with the anti-corruption Policy and follow it in the performance of their professional duties or provision of services. Customers, suppliers, and business partners can acquaint themselves with the Anti-corruption Policy at: <https://www.pkpcargo.com/pl/>.


 PKPCARGO


**Kodeks
Etyki**

PKP CARGO S.A.

10.2.3 Applied policies and the results of their application

PKP CARGO S.A., as a key rail freight transport operator in Poland and one of the largest in Europe, provides domestic and international transport of cargo and freight-related transport logistics services.

The Company operates the *Integrated Management System* based on the requirements of the following standards: PN-EN ISO 9001: 2015-10, PN-EN ISO 14001: 2015-9, PN-EN/IEC 27001:2017-06 and PN-ISO 45001:2018-06. The system is geared towards continual improvement and adaptation of services to Client requirements. It commits the Company to a high quality of services and operation of safe processes.

Within the framework of the Integrated Management System, the Company seeks to:

- ensure the availability, timeliness and safety of transport services,
- improve the quality of services provided,
- identify the client's needs and expectations,
- ensure the client's satisfaction,
- conduct an appropriate information policy,
- cooperate with trusted and reliable suppliers who fulfill its requirements,
- invest in a modern rolling stock,
- ensure compliance with the requirements imposed by applicable regulations,
- ensure the proper level of quality of welding processes,
- ensure a proper organization of welding processes with a view to preventing the occurrence of welding inconsistencies during the welding of rail vehicles,
- protect the natural environment by taking responsible actions to prevent its pollution, including by promoting and deploying rail transport as an environmentally friendly form of freight carriage,
- reasonably use raw materials, other materials and energy and water in accordance with the legal requirements of environmental protection and sustainable development,
- improve the qualifications of employees in the spirit of responsibility for the quality of services offered and the natural environment,
- create safe and ergonomic work conditions, prevent the occurrence of accidents at work and occupational diseases in accordance with the applicable legal requirements by establishing and respecting procedures that protect the life and health of employees,
- apply proper and commensurate safeguards to ensure an appropriate level of protection for the information assets of PKP CARGO S.A.,
- improve own credibility by ensuring clients that their information and data are properly protected,
- ensure business continuity for organization by preventing or minimizing any losses,
- guarantee to the organization and all stakeholders the confidentiality, integrity and availability of information,
- deploy business processes with the use of modern and safe information technologies,
- continuously monitor processes in terms of the security of information used therein,
- monitor the effectiveness of any applied safeguards and react quickly to any incidents,
- ensure the security of information processed in the ICT systems comprising the Information System used to provide the key service.

PKP CARGO S.A ensures the necessary means and resources to implement its integrated policy of quality, environment, OHS and information security. With the scope of their duties and in every job position, employees are obliged to follow the Company's policy in respect of the IMS.

Moreover, all the Company's employees bear individual responsibility for the security of the information they process and personal commitment to the continual improvement of the Integrated Management System.

The safety certificate is the fundamental document giving a rail operator access to the rail infrastructure. To obtain a safety certificate, rail carriers are required to develop a *Safety Management System* (SMS), which meets the requirements of national regulations and reflects the situation of a given operator.

The Safety Management System guarantees not only a high quality of the Group's services and highly qualified staff but also, above all, an acceptable level of safety of the services.

The Safety Management System ensures:

- the highest level of service safety without compromising its quality,
- safety of the rail system participants (other rail operators, infrastructure administrators, subcontractors),
- collaboration with other rail operators and rail infrastructure administrators, to jointly achieve shared safety objectives,
- a satisfactory level of safety indicators,
- safe working conditions for employees and subcontractors;
- compliance with rail safety standards and regulations,
- prevention of accidents at the workplace and occupational illnesses,
- continuous improvement of occupational health and safety, and continual improvement in this area,
- ongoing identification and minimization of technical and occupational risk.

PKP CARGO's freight wagon Maintenance Management System ("MMS") represents a systemic approach to the organization and supervision of activities designed to ensure rail traffic safety through keeping the freight wagons for which PKP CARGO is responsible in good technical condition.

The System is developed by, and applicable to, a given company which conducts its operations as part of the rail system. Having an MMS System in place and ensuring its proper implementation and operation is mandatory for all enterprises responsible for maintenance of freight wagons; it is the condition necessary for conducting operations in that area. The System is subject to oversight by the Office of Rail Transport.

The basic scope of the System includes the area of maintaining the good technical condition of freight wagons as part of the main process as well as auxiliary processes that ensure correct operations, such as risk analysis, management of staff competences or collaboration with other enterprises.

PKP CARGO S.A.'s policy related to social issues

The PKP CARGO S.A. Management Board supports the development of social dialog with the Company's social partners – the trade unions. The dialog follows the principles of respect for the law, equality, mutual respect, trust and search for the best solutions for both parties. At the same time, the Management Board promotes the idea of partnership, and considers it the natural evolution of social dialog in the world of free market economy, globalization and increased competition. The Company appreciates the benefits of conducting business activity where the social party is involved in efforts to increase the company's efficiency and achieve the set goals. The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's efficiency.

The continued promotion of the idea of partnership is treated as a long-term Company practice. In 2019-2020, PKP CARGO S.A. continued activities to promote the idea of partnership-based dialog, based on, among other aspects, internal Best Practices of Social Dialog, developed jointly with the Social Partners of PKP CARGO S.A. at the Partnership-Based Dialog Workshop in 2017.

The jointly developed standards, adapted to the Company's business needs, serve to increase the awareness of the role of an open and partnership-based attitude in searching for optimal solutions for both Partners involved in the dialog, to contribute to better efficiency of the Company's decision-making processes.

The significant role played by the trade unions operating in PKP CARGO S.A. results in particular from:

- the rights provided for both in the generally applicable laws and in the Company's internal regulations,
- participation in managing the Company through selection of employee representatives to the corporate bodies (there are three union representatives in the Supervisory Board and one in the Management Board),
- a high degree of unionization of the workforce (84.7%).

Within PKP CARGO, which acts as a group of employers, social dialog is conducted by:

- at the Company level - the President of the Management Board or a person designated thereby and the competent statutory bodies of supra-company trade unions operating at the level of PKP CARGO S.A. and company trade unions being a party to the CCBA;
- at the Company's Head Office level - a person designated by the President of the Management Board and the competent statutory bodies of company trade unions;
- at the Company's unit level – the Company's unit manager and the competent statutory bodies of company trade unions;

The Company's Management Board supports a dialog based on the principle of equality of the parties and mutual trust, pursuit of compromise and respect for the law. The development of the partnership idea has had a long-standing tradition at PKP CARGO S.A. In 2020, the Company continued activities to promote it, based on, among others, internal Best Practices of Social Dialog, developed jointly with the Social Partners.

The Company also creates conditions conducive to the dissemination and upgrading of knowledge, in its aspects which are important for social dialog parties. To this end, representatives of the Social Partners are provided on an ongoing basis with information about legislative changes in areas having a direct impact on jointly executed processes.

In 2020, the Social Partners were kept regularly advised about, among others, the situation of the Company and the safety rules to be followed at the workplace in the wake of the introduction in Poland of the state of epidemic. Seeking to ensure good functioning of the Company and protect jobs, the Agreement on setting the conditions and rules of work in the period of a shorter working time regime was concluded under the Anti-Crisis Act. The agreement allowed the Company to receive payroll support financing from the Guaranteed Employee Benefits Fund.

The Company employs various communication channels to inform about its social dialog:

- Regular meetings of Company-Level Collective Bargaining Agreement signatories – regular quarterly meetings, and thematic meetings and consultations. In 2020, in order to continue to address the issues covered by the scope of social dialog, meetings with the representatives of the Social Partners were continued on line despite the COVID-19 pandemic,
- The Company Intranet Page of the Management Board Member – Employee Representative,
- Announcements/letters to employees,
- Mailings to Trade Unions - signatories to Company-Level Collective Bargaining Agreement (ZUZP),
- Articles in the "INFO CARGO" in-house newsletter (presenting views of both representatives of the Employer, as well as the Social Partner leaders),
- Issues which are crucial for the development of best practice in the Company's social dialog are also communicated via external channels, among others in trade union press.

The important role of social dialog in PKP CARGO S.A. is validated by the fact that the initiatives in this area are a permanent element of the Company's activities pertaining to corporate social responsibility (CSR):

- The Company believes that ensuring the proper spirit for a partnership-based dialog is one of the fundamental elements of the CSR Policy. This approach is consistent with both PKP CARGO's Strategy and recognized legal and market standards, such as ISO 26000 in two key areas: "corporate governance" and "labor relations".
- "Dialog Academy": a permanent column in the INFO CARGO newsletter and a dedicated tab on the Company's intranet site.
- Declaration of Partnership for a safe workplace, signed by the Company's Management Board and Company-Level Collective Bargaining Agreement signatories, and support of the Social Partners for activities undertaken by the "Direction: Safety at Work" Campaign, are an expression of the Social Dialog Partners will to jointly solidify the workplace safety culture in PKP CARGO S.A.

The jointly developed standards, adapted to the Company's business needs, serve to increase the awareness of the role of an open and partnership-based attitude in searching for optimal solutions for both Partners involved in the dialog, to contribute to better efficiency of the Company's decision-making processes.

PKP CARGO S.A.'s policy related to employee issues

Employee recruitment

In 2020, similarly to 2019, internal and external recruitment processes were ongoing. In view of the restrictions introduced to reduce the spread of the COVID-19 virus, the majority of recruitment processes moved online.

In 2020, the Vocational Internship Program and the Summer Internships Program were suspended, as students of secondary schools and universities studied remotely. In 2020, the Scholarships Program was continued with the students who joined in 2019. The Program is addressed to pupils of the final and penultimate year of secondary technical schools and vocational secondary schools. The PKP CARGO S.A. scholarship holders who met specified criteria received the study scholarships again in 2020. Additionally, after they graduate and obtain professional qualifications, they may be offered a job in positions responsible for rolling stock operation and maintenance in the Company. The measure had the objective of recruiting to PKP CARGO S.A. able and promising graduates of technical and vocational secondary schools who, upon completing their education, would be employed in positions related to the Company's core business.

Adaptation program

In 2020, the professional adaptation program was continued, adjusted to the needs and expectations of selected groups of positions: administrative employees, managerial staff and non-administrative employees. In view of the restrictions introduced to reduce the spread of the COVID-19 virus, the adaptation program moved online. An optimally selected professional training program ensured that new employees were able to take up their duties quickly and effectively. A well designed adaptation program results in decreased employee turnover. To improve personnel qualifications and competences related to their duties, periodic refresher training was held.

Training and development

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge- and experience-based management and various forms of professional development that would support the accomplishment of business goals.

In 2020, activities begun in the previous year were continued, aiming to improve competences through the participation of selected employees in post-graduate studies organized in cooperation with the Association of Railway Employers (ZPK). In addition, management staff improved their competences in post-graduate MBA studies organized for employees employed with railway companies.

Training in the form of e-learning was continued and developed. Furthermore, in 2020 the series of training in soft competencies and MS Office skills were continued. The training courses took place in face-to-face and remote formats.

Social activity and travel benefits

The Company Social Benefits Fund (CSBF) has been created at PKP CARGO S.A., based on the rules following from generally applicable regulations and the Company's Collective Bargaining Agreement. The social activity is conducted separately by employers forming the Company on the basis of a given company's CSBF Regulations, taking into account the local needs and preferences of the staff. The CSBF, depending on its capabilities, satisfies the living, social and cultural needs of Company employees and former employees. In particular, use of CSBF funds is granted to employees, old age and disability pensioners and members of their families.

Employees can take advantage of a wide-ranging package of social benefits. CSBF benefits are dependent on so-called social criteria, or the personal, family and material situation of eligible employees. Decisions on granting aid and its amount are taken by social committees consisting of the representatives of employers and company trade unions.

The CSBF, depending on its capabilities, satisfies the living, social and cultural needs of Company employees and former employees. In particular, use of CSBF funds is granted to employees, old age and disability pensioners and members of their families.

Employees can take advantage of a wide-ranging package of social benefits:

- Vacation allowance
- Allowance for cultural, educational, leisure and sports events
- Allowance for preschool/nursery fees
- Material assistance/relief aid

- Low-interest loans for housing purposes

Employees and members of their families, as well as old age and disability pensioners, are eligible for discounted travel services in the form of preferential fares on trains throughout the country. In 2020, such benefits were purchased for 22,025 persons, including:

- 50% for employees,
- 8% for members of employees' families,
- 42% for old age and disability pensioners from the rail sector.

In 2020, PKP CARGO S.A. was awarded the HR Top Quality certificate by the Polish HR Management Association (PSZK). This award confirms that the Company is a credible and reliable employer, following the highest standards of human resources management. It is a sign that the employer's efforts to develop a growth-nurturing workplace are noticed and appreciated, and the measures taken to this end are appropriate and effective.



Support of education

In 2020, thanks to the efforts of the Company, new rail occupations have been introduced in to the schooling system: Rail Vehicle Mechanic and Rail Vehicle Technician. As a result of the commitment of rail companies, the curricula for these occupations have been adapted to reflect business needs of the industry.

In 2020, a project implemented jointly with the Higher Secondary Schools no. 6 in Siedlce was continued, providing education to 28 students of the school overseen by expert teachers in the occupation of Rail Vehicle Mechanic, in a lower secondary vocational school. The teaching program was provided as a part of a teaching experiment and in a dual education system mode. In other words, the practical vocational classes took place in actual railway plants providing rolling stock maintenance. Moreover, the vocational education stream taking place at school was supported employees of rail companies holding the required teaching qualifications.

“HR Policy of PKP CARGO S.A.”

The “HR Policy of PKP CARGO S.A.” is a long-term policy based on the application and improvement of best practices in the areas of: recruitment and hiring, adaptation, development of employee competences and compliance with ethical and safety rules. Shaping responsible social relations with employees is one of the most significant areas of HR Policy. Implementation of the Policy is a reflection of the highest level of care for the employee and is a shared ambition of the Management Board, Social Partners and employees. The primary areas of PKP CARGO S.A.’s HR Policy comprise:

- Development of a safe workplace,
- Attracting and education of experts,
- Caring for employees,
- Further training and development,
- Compensation, reward and motivation,
- Respect of partnership in dialog,
- Operating a socially responsible business.

PKP CARGO S.A.'s policy related to natural environment.

Businesses across the world have a growing awareness of their significant impact on the environment. Consequently, they can take efficient and effective measures conducive to, among others, achievement of the UN Sustainable Development Goals. The Goals implement business objectives, concurrently focusing on caring for the natural and social environments. To achieve sustainable development, three interconnected elements must be harmonized: economic growth, care for the development of the society and protection of the environment. In other words, one of the key areas of sustainable development is integrated and sustainable management of raw materials and ecosystems.

The strategic objective of PKP CARGO S.A. is to ensure a safe carriage of commodities, using rolling stock that meets the applicable environmental requirements. Rail transport is environmentally friendly and competitive in comparison with road transport thanks to its low CO₂ emissions, low fuel consumption relative to the carried freight volume, no dust emissions from use of tires and asphalt surfaces, high traffic safety and noise exposure which is limited to only a fraction of the population.

Key actions taken by PKP CARGO S.A. in the area of environment protection:

- Implementation and operation of an integrated management system;
- Environmental education - building of environmental awareness, responsible involvement of employees in sustainable development through training and educational materials;
- International cooperation - participation in International Union of Railways teams, e.g. the commission on noise emission prevention, the of European Railway and Infrastructure Companies (CER), and Rail Freight Forward in the area of sustainable development;
- Security of transport: training and oversight over carriage of hazardous goods;
- State-of-the-art rolling stock and innovation - purchase and modernization of locomotives and wagons, including from the viewpoint of emission levels and energy efficiency;
- State-of-the-art maintenance and repair infrastructure, efficient resources management - renovations, modernization, investment to safeguard low levels of emissions into the air and the earth's surface, as well as energy efficiency.

The environmental protection control system is governed by internal procedures and monitored. The development of rail transport strategies may contribute to measurable benefits for the natural environment: improvement in air quality and mitigation of the effects of progressing climate change.

PKP CARGO seeks to combine the professional implementation of business objectives with a responsible attitude towards the natural environment. It looks for new solutions and improves the ones it already uses with a view to minimizing its adverse impact on the environment. The Company's employees care for the natural environment when performing their daily professional duties. In making any investment decisions, they take into consideration the impact of such decisions on the ecosystem. All purchased equipment has the proper approvals and fulfills the applicable environmental protection standards. All relevant environmental and health and safety regulations governing daily work are also observed. The Company supports innovative solutions that contribute to reducing any adverse impact exerted on the environment by the conduct of its business and engages in education initiatives aimed at shaping environmental awareness among its employees.

PKP CARGO contributes into the achievement of climate policy objectives by minimizing the consumption of traction energy and fuel in diesel traction, as well as by increasing the efficiency of the transportation process. The Company carries over 85% of its freight via electrical traction. It is environmentally friendly and smog-free transport. Given that the Company uses electricity, its carbon footprint is mostly determined by the structure of fuels and other primary energy sources used to generate the electricity it needs. Any increase in the share of energy generated from RES provided by the traction energy producer will translate into a clear drop in emissions.

The primary objective is the development and growth of the rail market, resulting in an increased share of this type of transport in the overall transport. Increasing the share of rail in the total volume of transport is conducive to the achievement of the objectives of the Strategy of sustainable and smart mobility, and contributes to the reduction of CO₂ emissions. We expect emissions to be lowered in the future thanks to innovative technological solutions. The measures taken by PKP CARGO S.A. in the implementation of the objectives of the Strategy of sustainable and smart mobility include:

- Purchase of new cargo wagons and electric locomotives, and continued modernization of diesel locomotives,
- Participation in projects to design traction vehicles powered by alternative primary energy sources, such as fuel cells, or secondary energy from such reservoirs as: batteries, super-condensers, kinetic energy batteries (plungers),
- Participation in the project of introduction in Europe of Digital Automatic Coupling,

- Continuation of the acoustic modernization of wagons, consisting in the replacement of wheel sets, or modernization of brakes (replacement of brake blocks),
- Installation of smart traction energy meters in electric locomotives and fuel consumption meters in diesel locomotives,
- Implementation of state-of-the-art IT solutions in the administration and management of the transport and logistical processes in the Company.

PKP CARGO S.A.'s policy related to respecting human rights

Human rights, such as equality regardless of sex, prohibition of discrimination, freedom and personal inviolability, the right to privacy and protection of personal data and freedom of association and freedom of opinion, are a reference point for Polish law and form the grounds for the activities relating to the employees' affairs also in the PKP CARGO Group.

Code of Ethics

In PKP CARGO, relations are open, honest and based on mutual trust. Employees work in teams and respect diversity. They take part in the creation of a safe working environment, which is conducive not only to professional development, but also to the raising of qualifications. Employees are respectful to one another. The Company ensures equal and fair access to employment and professional advancement. No forms of discrimination are allowed or accepted towards employees, customers and suppliers, neither due to age, gender, disability, race, religious denomination, sexual orientation, nationality, ethnic origin, nor due to political or trade union activities. In PKP CARGO, no forms of harassment or mobbing maltreatment are tolerated, neither physical nor psychological. It is unacceptable to abuse one's position by favoritism in respect of relatives or nepotism.

Anti-mobbing policy

Anti-mobbing policy in PKP CARGO S.A. is based on internal regulations, establishing Trustees and Anti-mobbing Committees in the individual employer organizations. The role of the Anti-mobbing Committees is to examine cases and submit recommendations to the employer for actions aimed at preventing any instances of mobbing. The duty resting on employers to counteract mobbing is also reflected in the provisions of labor bylaws aimed at protecting employees against mobbing.

In accordance with the rules adopted by the Company, every employee has the right to report a mobbing case and obtain information and assistance from a Trustee, while maintaining full confidentiality.

The role of the Anti-mobbing Committees is to counteract and combat cases of mobbing in the workplace, in particular examination of matters described in reported cases, after the exhaustion of the procedure by the Trustee, including the establishment of facts, assessment of the situation and taking of actions aimed at resolving the conflict, along with a recommendation for the employer to apply preventive measures to reduce the scale of mobbing in the future.

In its anti-mobbing policy, the Company pays particular emphasis on preventive actions. Issues of mobbing are discussed in induction training for newly hired employees, in particular by providing the contact details of the Trustee of a given employer organization, who is chosen by employees.

A lot of emphasis is put on training, including of members of Anti-mobbing Committees, Trustees and those in managerial positions.

PKP CARGO S.A.'s policy related to preventing corruption and bribery

Adopted and implemented in November 2020, the Code of Ethics serves as a road map for the actions undertaken in the Company in the relations with employees, clients, suppliers, competitors, as well as with the social and natural environment.

Employees provide reliable information to clients about products, services and operation of PKP CARGO S.A. They do not disclose technical, technological or trade secrets. Neither do they abuse trust or exploit potential lack of knowledge or experience on the part of clients, taking full responsibility for the products and services they offer. Procurement in PKP CARGO is operated based on responsible plans and objective criteria. Situations in which personal preferences or profits could influence the decision-maker are not permitted. The supplier and service selection criteria regulation ensure full transparency of the process. Corruption or dishonest practices are not tolerated. Procurement bidding procedures to select a supplier are prepared and carried out based on internal procedures and requirements. Every person applying for work at PKP CARGO S.A. has equal access to information.

Giving or accepting gifts in return for preferential treatment, or any encouragement to such behavior, is prohibited; principles of giving or accepting gifts are laid down in the “Anti-corruption and Gift Policy of PKP CARGO S.A.”. The key purpose of the Anti-corruption Policy is to create the right ethical culture, which is possible only when the management bodies and senior management are involved as well.

The purpose of the Anti-corruption Policy in particular is:

- definition of rights and obligations of the process of preventing and combating corruption in PKP CARGO S.A.,
- specification of how suspected corrupt behavior can be reported,
- implementation of adequate anti-corruption procedures in PKP CARGO S.A., including reporting and documenting potential corruption incidents,
- laying down uniform rules as regards counteracting and combating any forms of corruption and economic malpractice,
- development of employee awareness as regards identification of counteracting corrupt behaviors,
- definition of the rules of accepting and giving gifts at PKP CARGO S.A.

10.2.4 Due diligence procedures

The PKP CARGO Group takes efforts on an ongoing basis to ensure that assigned tasks are effectively completed and legal provisions are complied with. The adopted internal regulations are regularly adjusted to current business needs and must be consistent with mandatory provisions of law. At the same time, the use of good practices contributes to improving the standards of conducted activities and increases the qualifications and competences of human resources.

Systematic risk assessment, including in relation to social, employee and human rights issues, allow to identify threats early and keep their consequences down to a minimum.

The human resources management area is subject to a system of internal audits, part of the Integrated Management System, which allows to identify processes, ensure their compliance with assumed requirements, and implement improvements.

The Integrated Management System is overseen by, among others, internal audits, which are an effective and reliable tool providing input information for further improvement. It is a process ensuring an assessment of the strengths and weaknesses of the management systems in respect of quality, information security, environmental protection, as well as occupational health and safety, verifying compliance with the standards: PN-EN ISO 9001: 2015-10, PN-EN ISO/IEC 27001: 2017-06, PN-EN ISO 14001: 2015-9, PN-ISO 45001: 2018-06, the WSK criteria, as well as confirming their implementation and operation. IMS internal audits are conducted as per the “Internal Audit Program of the Integrated Management System at PKP CARGO S.A.” adopted for a given calendar year.

Holding the IMS certificate and operating in keeping with the requirements of the standards guarantees high quality of services and underpins the prestige of the brand in the eyes of the clients, who value the reliability of the organization and its commitment for continual improvement. It is an important element of developing a positive image.

The IMS Certificate is not only of commercial importance, but administrative as well. Without it, the Company would not be able to engage into international freight transport of strategic importance (i.e. the so-called “dual-use goods or arms”).

Pursuant to the ISO standards and the Act on trade in strategic goods, to maintain the IMS certificate, the Company is required to undergo regular External Oversight Audits. In 2020, after the External certification audit of the IMS and WSK systems, the Management Board of the Polish Center for Testing and Certification (PCBC S.A.) took the decision to renew the certificates held by the Company.

10.2.5 Risks related to the activity of PKP CARGO S.A. and management of these risks

On 7 April 2020, the PKP CARGO S.A. Management Board adopted a resolution on introducing the “Risk Management Policy in PKP CARGO S.A.” Risk management is a coordinated process interlinked with and embedded in all activities and process in the Company, with the purpose of risk management and control. It supports the management in the decision process, making informed choices, setting priorities, setting quality levels, information security level, specific actions, as well as identification of potential alternative courses of action.

Risk management supports the Company in its improvement, increasing its effectiveness in the implementation of tasks by using adequate control mechanisms, as well as collecting information on threats to the achievement of the planned objectives and tasks.

An effective risk management process contributes to the Company’s higher shareholder value.

Risk management in the Company proceeds in the following stages:

1. **risk assessment**, which comprises the following steps:
 - *risk identification* - analysis of the planned objectives, tasks, assets to be protected, processes in the Company, as well as the potential threats to its operations.
 - *risk analysis* - developing in-depth understanding of risk, its causes and consequences, and then defining the level of risk according to specified risk assessment criteria. Risk assessment is based on likelihood and potential consequences of the occurrence of a specified event on the performance of the Company's tasks and achievement of its objectives.
 - *risk evaluation* - comparing the results of the risk analysis with the risk criteria, to determine whether the risk level is acceptable. Result of the evaluation indicate actions to be taken in respect of this risk.
2. **risk response** - the following risk responses are available: risk acceptance, transfer, withdrawal or action.
3. **risk handling** - a plan of handling the risk should specify:
 - definition of the asset in question,
 - description of the risk,
 - proposed actions to mitigate the risk,
 - persons responsible for implementing the actions,
 - information regarding the implementation costs of the risk handling plan,
 - expected effects of the risk handling plan implementation,
 - implementation timeframe and schedule
4. **monitoring and review** - risk owner are required to monitor the risks, in the form of regular checks if:
 - the risk has changed,
 - the risk assessment remains correct (in respect of its likelihood and consequences),
 - the applied control mechanism are effective,
 - risk management activities are performed,
 - the implemented risk handling plan is effective as expected
5. **risk validation** - in order to perform risk validation, key risk indicators (KIR) are established for selected risks across the entire Company. KRI may be preventive or detective in nature. Preventive KRI are formulated around the sources of risk. Detective KRI are formulated around the effects of risk.
6. **assessment of the risk management system** - the Supervisory Board Audit Committee of the Company assesses the risk management system

The primary task of the PKP CARGO S.A. Supervisory Board Audit Committee (SBAC) is to examine the correctness and effectiveness of carrying out internal financial audits in the Company, and monitoring the effective operation of internal control, internal audit and risk management systems. The Supervisory Board Audit Committee assesses the risk management system.

The PKP CARGO Management Board is responsible for risk management on the basis of the adopted strategy of the PKP CARGO Group; it primarily defines the directions of development and makes decisions regarding risk handling plans.

The Unit or Department Director is responsible for risk management in the area of their responsibility. Its tasks include:

- identifying risks related to activities,
- analyzing and assessing the risks,
- and then comparing them with expected results.

Depending on the comparison results obtained, actions are taken to either retain the status quo or reduce the risk level. PKP CARGO employees are obliged to comply with the provisions of the Policy within the scope of their powers.

The Policy designates a Risk Leader whose task is to coordinate all matters associated with risk management. Gathering and analysis of information and subsequent reporting to the Management Board and Supervisory Board Audit Committee. Risks identified as material are subject to special monitoring.

From the viewpoint of rail traffic safety, PKP CARGO S.A. operates based on relevant part A and part B safety certificates issued by the President of the Office of Rail Transport. The basic requirement for obtaining the certificates necessary to pursue an independent business activity was to implement the Safety Management System (SMS), and it was satisfied in 2009. In 2019,

the Company's Safety Certificate part A was renewed until 25 June 2024, and the Safety Certificate part B was renewed in 2020 until 24 April 2025.

The SMS covers risks related to the pursued activity and provides for appropriate supervision and control measures in order to reduce them and ensure the appropriate safety level:

- the risk arisen from a direct activity, including occupational risk (related to the performed work) and technical risk (related to the rolling stock and technical resources used),
- the shared risk, which is a risk arisen from an interaction between the entities being part of the railway system (e.g. infrastructure administrators, other rail operators, entities in charge of maintenance),
- the risk of third parties, which are not directly involved in the operation of the railway system.
- Moreover, the processes and procedures serving the purpose of monitoring the effectiveness of the measures taken in the area of risk supervision and introducing the necessary changes are applied within the SMS. These changes apply to:
 - technology and methods,
 - operating procedures, rules and standards,
 - organizational structure.

Among the material risks associated with the entity's operations (social issues, employee issues, human rights) one should list:

Risks in the area of environmental protection

Key risks in the area of environmental protection:

- the risk of failure to comply with the legal requirements as regards environmental protection – the legal and financial consequences (fines, reclamation costs, increased environmental fees) in the case of identification of non-compliance by environmental protection inspection authorities) – negative impact on the image of the organization, in the case of identification of irregularities, environmental contamination, use of the environment without the required decisions, permits, authorizations and filings and without the required waste records and reporting;
- the risk of failing to meet PL-EN ISO 14001:2015-9 requirements – finding a critical non-compliance during a third party audit and loss of IMS certificate in respect of environmental management

Environment risks have been defined in the "PKP CARGO S.A. risk management policy" in the context of environmental processes such as managing emissions into air from technology processes and burning fuels in installations and equipment, managing equipment containing substances that deplete the ozone layer and fluorinated greenhouse gases, managing water and sewage, managing produced industrial and municipal waste, managing noise emissions to the environment, managing green areas and damage to the environment. Risk handling plans have been designed for environmental processes that require actions to be taken.

Management of risks related to social dialog



Management of the risks related to employee issues, connected with remote forms of working introduced to counteract and prevent the spread of COVID-19

Development of employee discipline, commitment and responsibility in remote working is achieved by the way of:

- Internal regulations specifying the principles of remote work and the related duties of the employer and the employee,
- Organizational and technical measures designed to ensure correct and safe performance of duties outside of the usual place of work,
- Information and training measures as regards working remotely and securing information protected under the law,
- Regular risk assessments in order to ensure effective and safe performance of tasks.

Management of risks related to mobbing



Corruption risk management

Minimizing the risk of corruption takes place through introduction of the “Policy of handling corruption and gifts at PKP CARGO S.A., as well as through the introduction of the whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be recruited from among both employees and persons/entities outside the Company which cooperate with it (customers, business partners, suppliers, etc.). The rules defined in the Policy cover both the Company’s employees as well as all collaborators under civil-law agreements performing any kind of activities on behalf or for PKP CARGO S.A. The Policy is communicated to customers, so that they observe the internal anti-corruption rules of the Company in contacts with its representatives. All employees are obliged to familiarize themselves with the anti-corruption Policy and follow it in the performance of their professional duties or provision of services. Customers, suppliers, and business partners can acquaint themselves with the Anti-corruption Policy at: <https://www.pkpcargo.com/pl/>.

11. Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts.

Other than the information presented in this Management Board Report on the activity of the PKP CARGO Group, 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 Management Board Report on the Activity of the PKP CARGO Group has been prepared by the PKP CARGO S.A. Management Board.

Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 31 March 2021

REPRESENTATION

BY THE PKP CARGO S.A. MANAGEMENT BOARD

on the consistency of the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020, prepared in accordance with EU IFRS, with the Management Board Report on the activity of the PKP CARGO Group for 2020

I, the undersigned, hereby represent that, to the best of my knowledge, the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020 prepared in accordance with EU IFRS and the comparative data have been prepared in compliance with the applicable accounting policies and they give a true, fair and clear presentation of the financial position and financial performance of the PKP CARGO Group.

I also represent that the Management Board Report on the activity of the PKP CARGO Group in 2020 gives a true view of the developments, achievements and standing of the PKP CARGO Group, including a description of key threats and risks.

Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 31 March 2021

Information from the PKP CARGO S.A. Management Board, prepared on the basis of the representation of the PKP CARGO S.A. Supervisory Board of 31 March 2021 on the selection of an audit firm to audit the annual Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2020, prepared in accordance with EU IFRS, and the annual Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020, prepared in accordance with EU IFRS

(as required pursuant to §70(1)(7) and §71(1)(7) of the Finance Minister's Regulation of 29 March 2018 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018, Item 757))

The PKP CARGO S.A. Management Board, based on the representation by the PKP CARGO S.A. Supervisory Board dated 31 March 2021 on the selection of an audit firm to audit the annual Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2020, prepared in accordance with EU IFRS (hereinafter: "Standalone Financial Statements"), and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020, prepared in accordance with IFRS EU (hereinafter: "Consolidated Financial Statements"), hereby reports that an audit firm has been selected to audit the Standalone Financial Statements and the Consolidated Financial Statements and the Consolidated Financial Statements in accordance with the generally applicable provisions of law and internal regulations of PKP CARGO S.A. (hereinafter: "Company") in effect as at the date of selection of the audit firm performing the audit, and specifies that:

- 1) the audit firm selected for the purposes of auditing the Standalone Financial Statements and the Consolidated Financial Statements is BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, entered in the register of audit firms kept by the Polish Audit Supervision Agency under file no. 3355;
- 2) the audit firm and members of the audit team fulfilled the conditions for preparing an impartial and independent audit report on the Standalone Financial Statements and the Consolidated Financial Statements in compliance with the applicable laws, professional standards and professional ethics principles and in accordance with the statement contained in the Supplementary Report for the Audit Committee of the PKP CARGO S.A. Supervisory Board;
- 3) the applicable laws providing for the rotation of the audit firm and the key statutory auditor and waiting periods have been complied with;
- 4) PKP CARGO S.A. has adopted a policy governing the selection of an audit firm and a policy governing the provision of additional non-audit services to the Company by an audit firm, its related parties and members of its network,

including services conditionally exempt from the prohibition on being provided by an audit firm.

Czesław Warsewicz – President of the Management Board

Leszek Borowiec – Management Board Member in charge of Finance

Witold Bawor – Management Board Member in charge of Operations

Piotr Wasaty – Management Board Member in charge of Commerce

Zenon Kozendra – Management Board Member – Employee Representative

REPRESENTATION
BY THE PKP CARGO S.A. SUPERVISORY BOARD
on the establishment and operation of the Audit Committee
of the PKP CARGO S.A. Supervisory Board

The PKP CARGO S.A. Supervisory Board, in performance of § 70 Section 1 Item 8 and § 71 Section 1 Item 8 of the Finance Minister's Regulation of 29 March 2018 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018 Item 757) hereby represents that:

- 1) the Audit Committee of the PKP CARGO S.A. Supervisory Board of the 7th term of office was appointed on 26 June 2019 and that, as at the date of this representation, the following members of the PKP CARGO S.A. Supervisory Board are members of the Audit Committee:
 - a) Mr. Dariusz Górski – Chairman of the Audit Committee of the PKP CARGO S.A. Supervisory Board;
 - b) Ms. Zofia Dzik – Member of the Audit Committee of the PKP CARGO S.A. Supervisory Board;
 - c) Mr. Władysław Szczepkowski – Member of the Audit Committee of the PKP CARGO S.A. Supervisory Board;
- 2) the laws governing the appointment, composition and operation of the Audit Committee of the PKP CARGO S.A. Supervisory Board have been complied with, including in terms of the fulfillment by its members of the independence criteria and requirements pertaining to the knowledge and skills in the specific industry in which PKP CARGO S.A. operates and in the domain of accounting or audit of financial statements;
- 3) The Audit Committee of the PKP CARGO S.A. Supervisory Board performed duties of an audit committee provided for in the applicable laws.

REPRESENTATION
BY THE PKP CARGO S.A. SUPERVISORY BOARD
on the assessment of the Consolidated Financial Statements of the
PKP CARGO Group for the financial year ended
31 December 2020, prepared in accordance with EU IFRS

The PKP CARGO S.A. Supervisory Board, acting pursuant to Article 382 § 3 of the Commercial Company Code in conjunction with § 71(1)(12) of the Finance Minister's Regulation of 29 March 2018 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018 Item 757), is of the opinion that the annual Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2020, prepared in accordance with EU IFRS (hereinafter: "**Consolidated Financial Statements**"), are consistent with the accounting ledgers, documents and facts.

The PKP CARGO S.A. Supervisory Board has assessed the Consolidated Financial Statements on the basis of:

- 1) the content of the Consolidated Financial Statements and the report on the audit thereof included in the unqualified report on the audit issued for the PKP CARGO S.A. Shareholder Meeting and Supervisory Board by the independent statutory auditor;
- 2) information obtained during meetings and teleconferences with representatives of BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, i.e. the audit firm, including the key statutory auditor;
- 3) information provided to the PKP CARGO S.A. Supervisory Board by the Audit Committee of the PKP CARGO S.A. Supervisory Board as part of the performance, by the Audit Committee of the PKP CARGO S.A. Supervisory Board, of assignments provided for in the applicable laws and internal regulations;
- 4) information and data presented to the PKP CARGO S.A. Supervisory Board by the PKP CARGO S.A. Management Board;
- 5) information obtained by the PKP CARGO S.A. Supervisory Board in the capacity of a supervisory body based on the powers vested in the PKP CARGO S.A. Supervisory Board, including in particular information on internal control and audit activities and access to documents and financial ledgers.

In the opinion of the independent statutory auditor, the Consolidated Financial Statements:

- 1) give a true and fair view of the financial position of PKP CARGO Group as at 31 December 2020 and the financial performance and cash flows of the PKP CARGO Group for the financial year ended 31 December 2020 in accordance with the applicable International Financial Reporting Standards as endorsed by the European Union and the accepted accounting policies;
- 2) are consistent as to the form and content with the legal regulations applicable to the PKP CARGO Group and the Articles of Association of PKP CARGO S.A. (Parent Company).

In light of the foregoing, the Supervisory Board hereby issues a positive assessment of the Consolidated Financial Statements.

REPRESENTATION
BY THE PKP CARGO S.A. SUPERVISORY BOARD
on the assessment of the Management Board Report on the
activity of the PKP CARGO Group for 2020

The PKP CARGO S.A. Supervisory Board, acting pursuant to Article 382 § 3 of the Commercial Company Code in conjunction with § 71(1)(12) of the Finance Minister's Regulation of 29 March 2018 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018 Item 757), is of the opinion that the Management Board Report on the activity of the PKP CARGO Group for 2020 (hereinafter: "**Management Board Report**") is consistent with the accounting ledgers, documents and facts.

The PKP CARGO S.A. Supervisory Board has assessed the Management Board Report on the basis of:

- 1) the content of the Management Board Report and the opinion on the Management Board Report included in the unqualified report on the audit issued for the PKP CARGO S.A. Shareholder Meeting and Supervisory Board by the independent statutory auditor;
- 2) information obtained during meetings and teleconferences with representatives of BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, i.e. the audit firm, including the key statutory auditor;
- 3) information provided to the PKP CARGO S.A. Supervisory Board by the Audit Committee of the PKP CARGO S.A. Supervisory Board as part of the performance, by the Audit Committee of the PKP CARGO S.A. Supervisory Board, of assignments provided for in the applicable laws and internal regulations;
- 4) information and data presented to the PKP CARGO S.A. Supervisory Board by the PKP CARGO S.A. Management Board;
- 5) information obtained by the PKP CARGO S.A. Supervisory Board in the capacity of a supervisory body based on the powers vested in the PKP CARGO S.A. Supervisory Board, including in particular information on internal control and audit activities and access to documents and financial ledgers.

In opinion of the independent statutory auditor, the Management Board Report (which includes the Management Board Report on the activity of PKP CARGO S.A. in 2020) was prepared in accordance with Article 49 of the Accounting Act (consolidated text: Journal of Laws of 2021, Item 217, as amended) and § 71 of the Finance Minister's Regulation of 29 March 2018 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the

Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018 Item 757) and is consistent with information included in the Consolidated Financial Statements.

Furthermore, the independent statutory auditor stated that in the light of its knowledge about the PKP CARGO Group and its environment obtained during the audit, the statutory auditor had not identified any material misstatements in the Management Board Report.

In light of the foregoing, the PKP CARGO S.A. Supervisory Board hereby issues a positive assessment of the Management Board Report.



**For more information on PKP CARGO please contact
Development, Investor Relations & Promotion Department**

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