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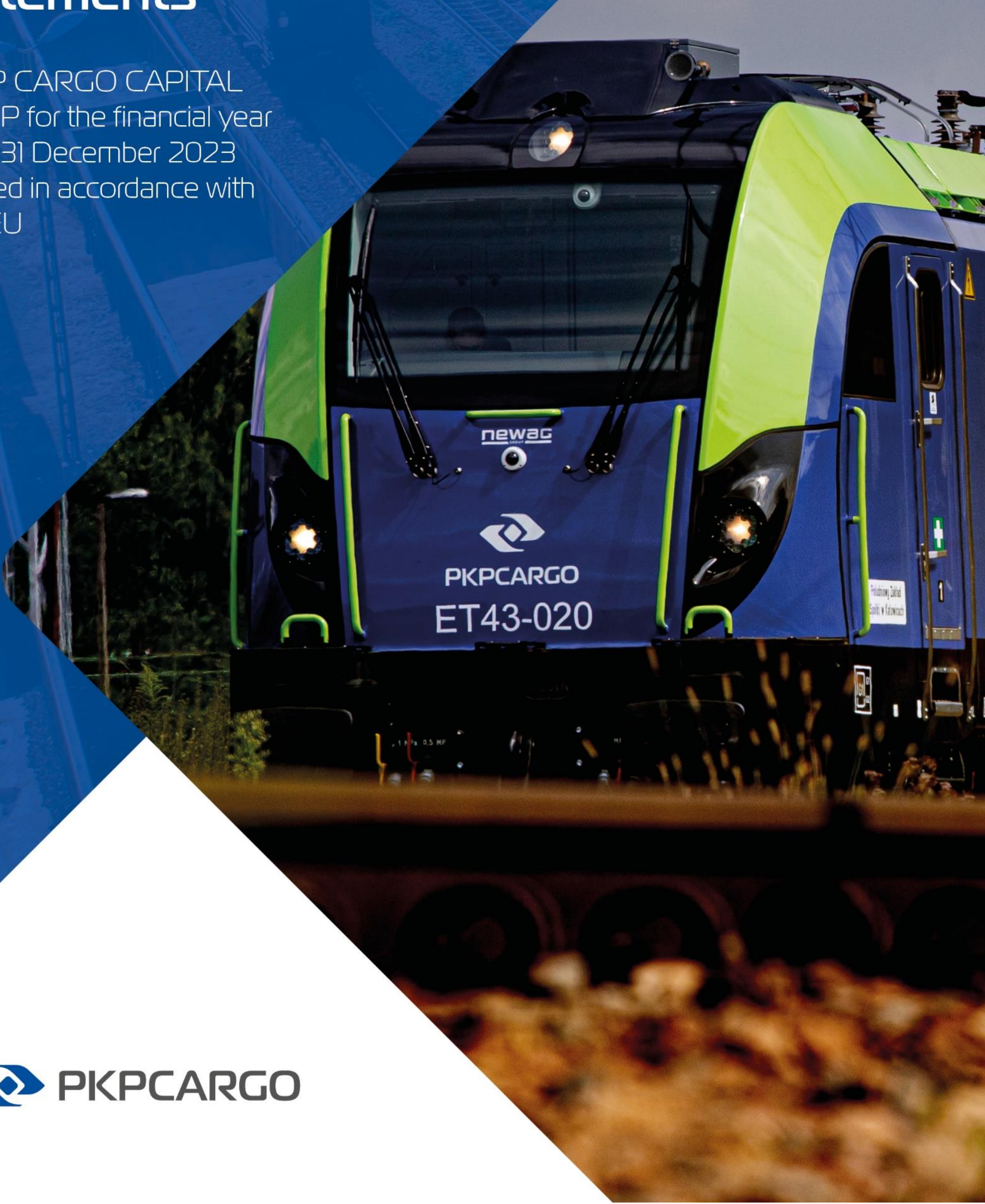
Consolidated Financial Statements

of PKP CARGO CAPITAL GROUP for the financial year ended 31 December 2023 prepared in accordance with IFRS EU



PKPCARGO

Table of contents

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2023	2022	
Revenues from contracts with customers	5,491.9	5,390.1	*Note 2.1*
Consumption of traction electricity and traction fuel	(796.3)	(762.5)	*Note 2.2*
Services of access to infrastructure	(473.9)	(562.5)	
Transport services	(285.9)	(361.3)	
Other services	(477.0)	(537.9)	*Note 2.2*
Employee benefits	(1,958.4)	(1,738.4)	*Note 2.2*
Other expenses	(372.4)	(359.5)	*Note 2.2*
Other operating revenue and (expenses)	(44.9)	(1.7)	*Note 2.3*
Operating profit without depreciation (EBITDA)	**1,083.1**	**1,066.3**	
Depreciation, amortization and impairment losses	(791.7)	(733.0)	*Note 2.2*
Profit on operating activities (EBIT)	**291.4**	**333.3**	
Financial revenue and (expenses)	(181.5)	(150.6)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	9.1	9.1	*Note 5.3*
Profit before tax	**119.0**	**191.8**	
Income tax	(36.9)	(43.8)	*Note 3.1*
NET PROFIT	**82.1**	**148.0**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	41.5	(6.7)	*Note 6.1*
Income tax	(7.9)	1.3	*Note 3.1*
FX differences resulting from translation of financial statements	(67.3)	34.4	
Total other comprehensive income subject to reclassification in the financial result	**(33.7)**	**29.0**	
Actuarial profits / (losses) on post-employment benefits	(102.0)	18.9	*Note 5.9*
Income tax	19.4	(3.6)	*Note 3.1*
Measurement of equity instruments at fair value	3.8	-	*Note 6.1*
Total other comprehensive income not subject to reclassification in the financial result	**(78.8)**	**15.3**	
Total other comprehensive income	**(112.5)**	**44.3**	
TOTAL COMPREHENSIVE INCOME	**(30.4)**	**192.3**	
Net profit attributable:			
Net profit attributable to shareholders of the Parent Company	82.1	148.0	
Total other comprehensive income attributable:			
Total other comprehensive income attributable to shareholders of the Parent Company	(30.4)	192.3	
Earnings per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic earnings per share	**1.83**	**3.31**	
Diluted earnings per share	**1.83**	**3.31**	

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2023	31/12/2022	
ASSETS			
Rolling stock	4,440.3	4,208.3	*Note 5.1*
Other property, plant and equipment	857.7	891.1	*Note 5.1*
Rights-of-use assets	1,436.1	972.2	*Note 5.2*
Investments in entities accounted for under the equity method	42.7	41.8	*Note 5.3*
Trade receivables	1.2	7.3	*Note 5.5*
Lease receivables	8.9	8.7	
Other assets	52.4	48.6	*Note 5.6*
Deferred tax assets	191.3	176.1	*Note 3.1*
Total non-current assets	**7,030.6**	**6,354.1**	
Inventories	200.2	200.8	*Note 5.4*
Trade receivables	668.3	769.4	*Note 5.5*
Lease receivables	0.9	0.6	
Income tax receivables	10.1	1.6	
Other assets	146.2	151.9	*Note 5.6*
Cash and cash equivalents	263.7	181.5	*Note 4.3*
Total current assets	**1,289.4**	**1,305.8**	
Non-current assets classified as held for sale	-	0.3	
TOTAL ASSETS	**8,320.0**	**7,660.2**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	797.1	678.0	
Other items of equity	(111.1)	(65.9)	
FX differences resulting from translation of financial statements	109.6	176.9	
Retained earnings	167.6	204.6	
Total equity	**3,202.5**	**3,232.9**	
Debt liabilities	2,089.7	1,711.5	*Note 4.1*
Trade liabilities	3.4	7.9	*Note 5.7*
Investment liabilities	15.6	46.7	*Note 5.8*
Provisions for employee benefits	578.9	483.5	*Note 5.9*
Other provisions	3.6	0.5	*Note 5.10*
Deferred tax liability	93.0	94.5	*Note 3.1*
Total long-term liabilities	**2,784.2**	**2,344.6**	
Debt liabilities	804.1	660.7	*Note 4.1*
Trade liabilities	844.4	803.8	*Note 5.7*
Investment liabilities	141.3	143.0	*Note 5.8*
Provisions for employee benefits	170.2	156.7	*Note 5.9*
Other provisions	17.7	21.4	*Note 5.10*
Other liabilities	355.6	297.1	*Note 5.11*
Total short-term liabilities	**2,333.3**	**2,082.7**	
Total liabilities	**5,117.5**	**4,427.3**	
TOTAL EQUITY AND LIABILITIES	**8,320.0**	**7,660.2**	

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

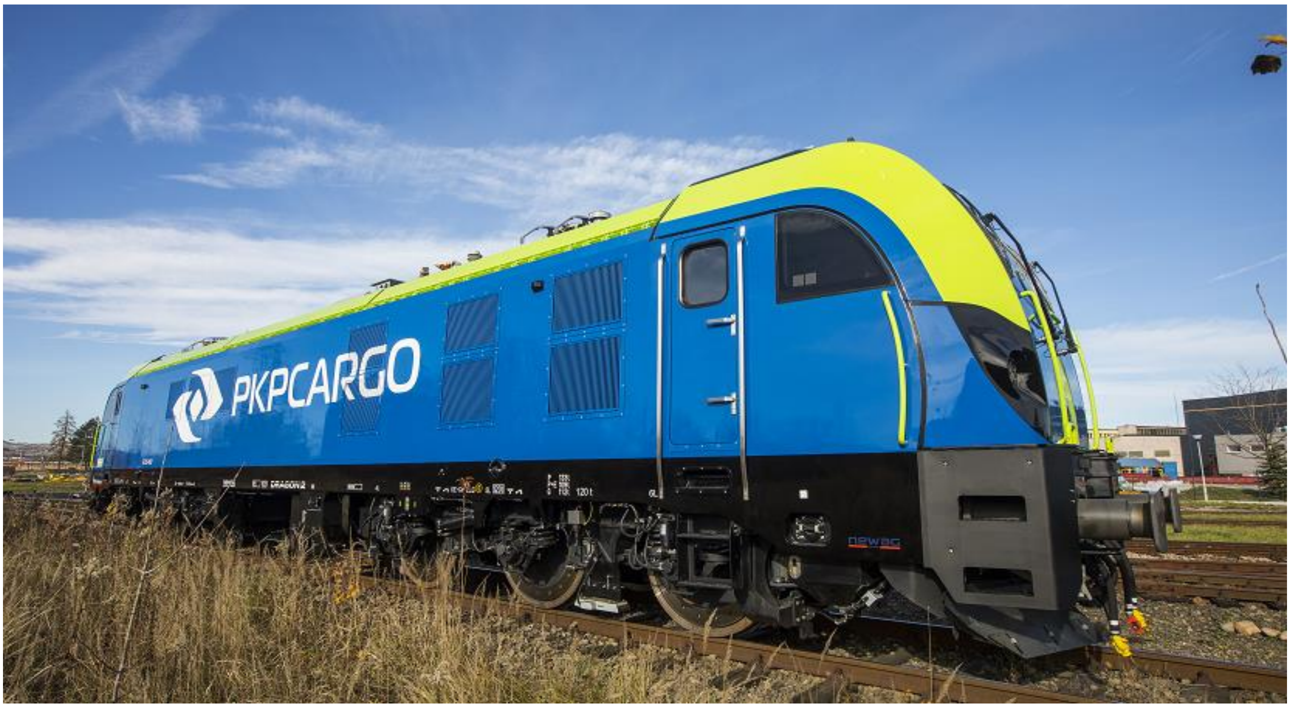
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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				
1/01/2023	**2,239.3**	**678.0**	**(12.9)**	**(26.7)**	**(26.3)**	**176.9**	**204.6**	**3,232.9**	
Net result for the financial year	-	-	-	-	-	-	82.1	**82.1**	
Other comprehensive income for the financial year (net)	-	-	3.8	(82.6)	33.6	(67.3)	-	**(112.5)**	
Total comprehensive income	-	-	3.8	(82.6)	33.6	(67.3)	82.1	**(30.4)**	
Other changes for the financial year	-	119.1	-	-	-	-	(119.1)	**-**	*Note 4.2*
31/12/2023	**2,239.3**	**797.1**	**(9.1)**	**(109.3)**	**7.3**	**109.6**	**167.6**	**3,202.5**	
1/01/2022	**2,239.3**	**771.7**	**(12.9)**	**(42.0)**	**(20.9)**	**142.5**	**(37.1)**	**3,040.6**	
Net result for the financial year	-	-	-	-	-	-	148.0	**148.0**	
Other comprehensive income for the financial year (net)	-	-	-	15.3	(5.4)	34.4	-	**44.3**	
Total comprehensive income	-	-	-	15.3	(5.4)	34.4	148.0	**192.3**	
Other changes for the financial year	-	(93.7)	-	-	-	-	93.7	**-**	
31/12/2022	**2,239.3**	**678.0**	**(12.9)**	**(26.7)**	**(26.3)**	**176.9**	**204.6**	**3,232.9**	

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

CONSOLIDATED CASH FLOW STATEMENT

	2023	2022	
Cash flows from operating activities			
Profit before tax	**119.0**	**191.8**	
Adjustments			
Depreciation, amortization and impairment losses	791.7	733.0	*Note 2.2*
(Profits) / losses on the sale and liquidation of non-financial non-current assets	(15.6)	(18.8)	
(Profits) / losses on FX differences	1.9	7.8	
(Profits) / losses on interest, dividends	140.7	122.4	
Received / (paid) interest	0.7	0.3	
Received / (paid) income tax	(30.0)	(14.0)	
Movement in working capital	313.0	(17.1)	*Note 4.4*
Other adjustments	(110.4)	13.0	*Note 4.4*
Net cash from operating activities	**1,211.0**	**1,018.4**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(1,359.0)	(856.9)	
Proceeds from the sale of non-financial non-current assets	357.0	75.9	
Proceeds from dividends received	7.7	4.4	
Other inflows from investing activities	7.2	3.7	
Net cash from investing activities	**(987.1)**	**(772.9)**	
Cash flows from financing activities			
Payments on lease liabilities	(166.5)	(140.1)	*Note 4.1*
Proceeds from bank loans and borrowings	392.2	141.4	*Note 4.1*
Repayment of bank loans and borrowings	(360.0)	(309.0)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(149.4)	(104.6)	*Note 4.1*
Grants received	139.0	96.1	
Inflow / (outflow) as part of cash pool	13.0	-	
Other outflows from financing activities	(1.7)	(3.3)	
Net cash from financing activities	**(133.4)**	**(319.5)**	
Net increase / (decrease) in cash and cash equivalents	90.5	(74.0)	
Cash and cash equivalents at the beginning of the reporting period	181.5	254.5	*Note 4.3*
Impact exerted by FX rate movements on the cash balance in foreign currencies	(8.3)	1.0	
Cash and cash equivalents at the end of the reporting period, including:	**263.7**	**181.5**	*Note 4.3*
Restricted cash	*37.5*	*47.3*	*Note 4.3*



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

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). Key information about the Parent Company is presented in the table below.

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

In 2023, the Parent Company did not change its name or other identification details.

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 December 2023 were presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2023 in **Chapters 8.11** and **8.4**, 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:
- intermodal services,
- shipping (domestic and international),
- terminals,
- rail sidings and traction,
- rolling stock maintenance and repairs,
- reclamation services.

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

The duration of individual Group companies is unlimited.

Changes in the Group's structure

On 30 January 2023, the share capital of PKP CARGOTABOR Sp. z o.o. was increased through creation of new shares, which were covered by a cash contribution made by the Company in the amount of PLN 13.5 million.

On 2 March 2023, the share capital of PKP CARGOTABOR USŁUGI Sp. z o.o. was increased through creation of new shares worth PLN 28.3 million, which were covered by a cash contribution made by the Parent Company.

With effect from 6 March 2023, AWT Čechofracht a.s. with its registered office in Ostrava, a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s., changed its name to AWT CFT a.s.

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

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

Detailed information about members of the Group as at 31 December 2023 and 31 December 2022 is as follows:

Name	Type	Registered office	% of shares held	
			31/12/2023	31/12/2022
Centralny Terminal Multimodalny Sp. z o.o.	other subsidiary	Warsaw	100%	100%
PKP CARGO SERVICE Sp. z o.o.	subsidiary – consolidated by the full method	Warsaw	100%	100%
PKP CARGO TERMINALE Sp. z o.o.	subsidiary – consolidated by the full method	Żurawica	100%	100%
PKP CARGOTABOR Sp. z o.o.	subsidiary – consolidated by the full method	Warsaw	100%	100%
CARGOTOR Sp. z o.o.	subsidiary – consolidated by the full method	Warsaw	100%	100%
PKP CARGOTABOR USŁUGI Sp. z o.o.	subsidiary – consolidated by the full method	Warsaw	100%	100%
PKP Linia Chełmska Szerokotorowa Sp. z o.o.	other subsidiary	Warsaw	100%	100%
ONECARGO CONNECT Sp. z o.o.	other subsidiary	Warsaw	100%	100%
COSCO Shipping Lines (POLAND) Sp. z o.o.	associate	Gdynia	20%	20%
PKP CARGO CONNECT Sp. z o.o.	subsidiary – consolidated by the full method	Warsaw	100%	100%
Transgaz S.A.	other subsidiary	Zalesie near Małaszewicze	64%	64%
Cargosped Terminal Braniewo Sp. z o.o.	subsidiary – consolidated by the full method	Braniewo	100%	100%
PKP CARGO CONNECT GmbH	other subsidiary	Hamburg	100%	100%
Terminale Przeładunkowe Sławków Medyka Sp. z o.o.	shares in joint ventures	Sławków	50%	50%
PKP CARGO INTERNATIONAL a.s.	subsidiary – consolidated by the full method	Ostrava	100%	100%
PKP CARGO INTERNATIONAL HU Zrt.	subsidiary – consolidated by the full method	Budapest	100%	100%
AWT ROSCO a.s.	subsidiary – consolidated by the full method	Ostrava	100%	100%
AWT CFT a.s. (formerly AWT Čechofracht a.s.)	subsidiary – consolidated by the full method	Ostrava	100%	100%
AWT Rekultivace a.s.	subsidiary – consolidated by the full method	Petřvald	100%	100%
DEPOS Horni Sucha a.s.	associate	Horní Suchá	20.6%	20.6%
PKP CARGO INTERNATIONAL SK a.s.	other subsidiary	Bratislava	100%	100%
AWT DLT s.r.o.	other subsidiary	Kladno	100%	100%
PKP CARGO INTERNATIONAL SI d.o.o.	other subsidiary	Grčarevec	80%	80%

Other subsidiaries are not consolidated by the full method due to the materiality criterion adopted by the Group. The companies are valued using the equity method, which is presented in **Note 5.3** to these Consolidated Financial Statements or presented as other assets.

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 in 2023.

On the basis of the financial forecasts approved in the Group, these Consolidated Financial Statements for the year ended 31 December 2023 have been prepared on the assumption that the Company will continue to be a going concern in the foreseeable future. As at the preparation date of the financial statements, there are no material 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 derivatives measured at fair value 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.

Note	Title	Amount recognized in the Consolidated Financial Statements		Accounting Policy	Significant estimates and judgments
		2023	2022		
2.1	Revenues from contracts with customers	5,491.9	5,390.1	X	X
2.2	Operating expenses	(5,155.6)	(5,055.1)		
2.3	Other operating revenue and (expenses)	(44.9)	(1.7)		
2.4	Financial revenue and (expenses)	(181.5)	(150.6)		
3.1	Income tax	(36.9)	(43.8)	X	X
5.1	Rolling stock	4,440.3	4,208.3	X	X
5.1	Other property, plant and equipment	857.7	891.1	X	X
5.2	Rights-of-use assets	1,436.1	972.2	X	X
5.3	Investments in entities accounted for under the equity method	42.7	41.8		
3.1	Deferred tax assets	191.3	176.1	X	X
5.4	Inventories	200.2	200.8	X	
5.5	Trade receivables	669.5	776.7	X	X
	Lease receivables	9.8	9.3		
	Income tax receivables	10.1	1.6		
5.6	Other assets	198.6	200.5	X	
4.3	Cash and cash equivalents	263.7	181.5	X	
	Non-current assets classified as held for sale	-	0.3		
4.2	Equity	3,202.5	3,232.9	X	
4.1	Debt liabilities	2,893.8	2,372.2	X	X
5.7	Trade liabilities	847.8	811.7	X	X
5.8	Investment liabilities	156.9	189.7	X	
5.9	Provisions for employee benefits	749.1	640.2	X	X
5.10	Other provisions	21.3	21.9		X
5.11	Other liabilities	355.6	297.1	X	
3.1	Deferred tax liability	93.0	94.5	X	X
7.3	Contingent liabilities	251.7	284.7	X	X

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

1.2 Basis for drawing up the Consolidated Financial Statements (cont.)

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 2023 and 31 December 2022. 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. Some of the companies are not consolidated on the basis of materiality.

Transactions in foreign currencies are translated to the functional currency at the exchange rate from the date of the transaction or measurement when the items are restated. As at the balance sheet date, cash assets and liabilities denominated in foreign currencies are restated according to the average NBP exchange rate binding on that date. Foreign exchange profits and losses obtained as a result of settlements of those transactions and balance sheet valuation of assets and liabilities denominated in foreign currencies are recorded in the result, provided they are not deferred in other comprehensive income when they are eligible for recognition as security for cash flows. Non-cash items carried at historical cost expressed in a foreign currency are converted using the exchange rate from the transaction date.

The financial data of foreign entities have been translated into the Polish currency for consolidation purposes in the following manner:

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

FX differences from the above translations are presented in the equity as FX differences from translation of financial statements of foreign operations.

As at 31 December 2023 and 31 December 2022, 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	
	31/12/2023	31/12/2022	2023	2022
EUR	4.3480	4.6899	4.5284	4.6883
CZK	0.1759	0.1942	0.1889	0.1910

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 23 April 2024.

1.3 Applied International Financial Reporting Standards platform

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

Approving the Consolidated Financial Statements the Group applied the following amendments of the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

Standard / Interpretation	Effective date
IFRS 17 "Insurance contracts" and amendments to IFRS 17	1 January 2023
Amendments to IFRS 17 "Insurance contracts: First application of IFRS 17 and IFRS 9" – Comparative information	1 January 2023
Amendments to IAS 1 "Presentation of financial statements" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023
Amendments to IAS 12 "Income Tax" – Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IAS 12 "Income Tax" – International Tax Reform – Pillar Two Model Rules	1 January 2023

The Parent Company's Management Board believes that the above standards and interpretations had no material influence on the Group's financial statements.

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

1.3 Applied International Financial Reporting Standards platform (cont.)

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

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

Standard / Interpretation	Effective date
Amendments to IFRS 16 "Leases" – Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term and non-current liabilities with covenants	1 January 2024

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

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which have not yet been approved by the EU and have not entered into effect. The Management Board of the Parent Company believes that the approval of the standards mentioned below by the EU will not result in any major changes to the Group's financial statements in the successive reporting periods:

Standard / Interpretation	Effective date
Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments: Disclosures – Supplier Finance Arrangements"	1 January 2024
Amendment to IAS 21 "The Effects of Changes in Foreign Exchange Rates" – Lack of Exchangeability	1 January 2025

1.4 Liquidity position of the Group and liquidity risk management

The Group is exposed to liquidity risk following from the ratio of current assets to current liabilities. In order to minimize the possibility of disruption in cash flows and the risk of losing liquidity, in 2023, the Group undertook measures aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the medium term.

On 2 January 2023, the Parent Company signed an Investment Loan Agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. up to the maximum amount of PLN 100.0 million with the availability term until 29 December 2023. On 26 September 2023, the Parent Company signed an investment loan agreement with the European Investment Bank with the availability period until 26 September 2026 up to the amount of PLN 177.1 million. Also, in 2023, the Parent Company used an additional source of financing for its activity in the form of lease agreements. The most significant agreements were the lease of 16 locomotives with a total value of PLN 270.4 million and the sale and leaseback of 45 locomotives with a total value of PLN 344.8 million.
Information on the financing sources available as at 31 December 2023 is presented in **Note 4.1** to these Consolidated Financial Statements.

An update on the risks arising from Russia's invasion of Ukraine may affect the Group's financial position in subsequent reporting periods.

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)

31/12/2023	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	404.5	486.4	1,640.3	874.1	**3,405.3**	**2,893.8**
Trade liabilities	841.5	2.9	3.4	-	**847.8**	**847.8**
Investment liabilities	122.7	18.8	15.7	-	**157.2**	**156.9**
Cash pool	14.2	-	-	-	**14.2**	**14.2**
Derivatives – swap contract	0.1	-	-	-	**0.1**	**0.1**
Total	**1,383.0**	**508.1**	**1,659.4**	**874.1**	**4,424.6**	**3,912.8**

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

1.4 Liquidity position of the Group and liquidity risk management (cont.)

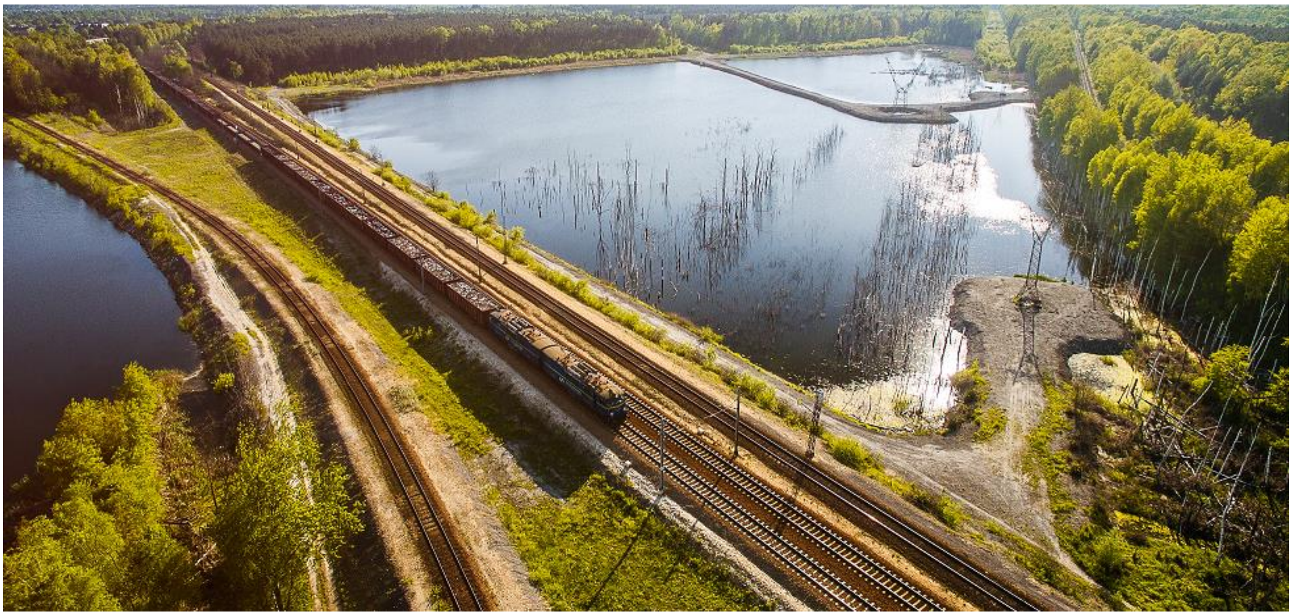
31/12/2022	Contractual maturities from the end of the reporting period: Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total (no discount)	Carrying amount
Debt liabilities	303.9	451.4	1,352.7	662.3	**2,770.3**	**2,372.2**
Trade liabilities	797.7	6.1	7.9	-	**811.7**	**811.7**
Investment liabilities	94.5	49.6	47.2	-	**191.3**	**189.7**
Cash pool	1.2	-	-	-	**1.2**	**1.2**
Derivatives – swap contract	0.3	-	-	-	**0.3**	**0.3**
Total	**1,197.6**	**507.1**	**1,407.8**	**662.3**	**3,774.8**	**3,375.1**

Age structure of trade liabilities and investment liabilities

	31/12/2023			31/12/2022		
	Trade liabilities	Investment liabilities	Total	Trade liabilities	Investment liabilities	Total
Non-overdue liabilities	589.7	149.7	739.4	534.0	177.7	711.7
Overdue liabilities						
to 30 days	156.2	7.2	163.4	146.7	6.6	153.3
31 - 90 days	92.3	-	92.3	124.7	5.4	130.1
91 - 180 days	3.1	-	3.1	3.0	-	3.0
181 - 365 days	3.0	-	3.0	1.2	-	1.2
over 365 days	3.5	-	3.5	2.1	-	2.1
Total	**847.8**	**156.9**	**1,004.7**	**811.7**	**189.7**	**1,001.4**

Age analysis of trade receivables

	31/12/2023			31/12/2022		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	585.3	(0.5)	584.8	710.0	(1.1)	708.9
Overdue receivables						
to 30 days	47.3	(0.3)	47.0	34.8	(0.2)	34.6
31 - 90 days	17.6	(1.2)	16.4	16.6	(1.0)	15.6
91 - 180 days	2.9	(1.0)	1.9	4.3	(2.0)	2.3
181 - 365 days	11.3	(6.8)	4.5	4.3	(1.4)	2.9
over 365 days	135.8	(120.9)	14.9	141.7	(129.3)	12.4
Total	**800.2**	**(130.7)**	**669.5**	**911.7**	**(135.0)**	**776.7**



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. 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.

Revenue from sales of materials, goods and finished products is 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.

For most commercial contracts, the Group does not use payment terms beyond 12 months. For a small number of contracts, the Group applies longer terms of payment, however these contracts contain no significant financing component.

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.

Assets from contracts with customers

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.

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.

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

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.

2023	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	10.0	1,500.5	2,975.2	**4,485.7**
Revenue from other transportation activity	-	0.5	124.0	**124.5**
Revenue from siding and traction services	14.6	170.7	172.3	**357.6**
Revenue from transshipment services	0.6	24.1	161.5	**186.2**
Revenue from reclamation services	2.3	-	71.5	**73.8**
Revenue from sales of goods and materials	-	-	83.9	**83.9**
Other revenues	25.0	11.4	143.8	**180.2**
Total	**52.5**	**1,707.2**	**3,732.2**	**5,491.9**
Revenue recognition date				
At a point of time	1.6	-	84.3	**85.9**
Over a period	50.9	1,707.2	3,647.9	**5,406.0**
Total	**52.5**	**1,707.2**	**3,732.2**	**5,491.9**

2022	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	5.0	1,354.3	2,899.4	**4,258.7**
Revenue from other transportation activity	-	0.4	163.2	**163.6**
Revenue from siding and traction services	10.2	162.5	165.2	**337.9**
Revenue from transshipment services	0.1	6.1	192.6	**198.8**
Revenue from reclamation services	6.4	0.5	108.0	**114.9**
Revenue from sales of goods and materials	-	-	138.2	**138.2**
Other revenues	28.3	12.9	136.8	**178.0**
Total	**50.0**	**1,536.7**	**3,803.4**	**5,390.1**
Revenue recognition date				
At a point of time	-	-	139.6	**139.6**
Over a period	50.0	1,536.7	3,663.8	**5,250.5**
Total	**50.0**	**1,536.7**	**3,803.4**	**5,390.1**

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

2.1 Revenues from contracts with customers (cont.)

Geography

The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity. Revenues from contracts with customers of the Group generated on external customers and broken down based on their country of incorporation is presented below:

	2023	2022
Poland	4,159.0	3,960.7
Czech Republic	589.8	649.7
Germany	245.8	274.1
Italy	77.2	58.3
Slovakia	66.6	70.4
Ukraine	65.6	27.6
Other countries	287.9	349.3
Total	**5,491.9**	**5,390.1**

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

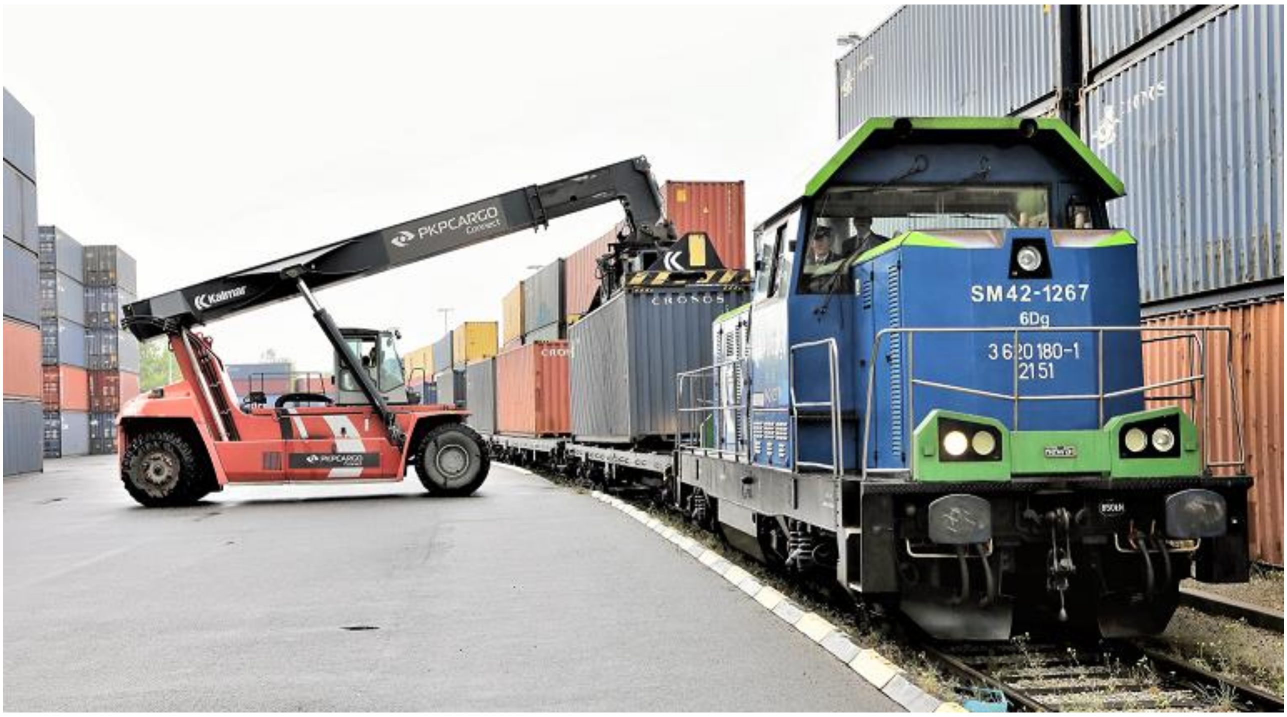
	2023	2022
Poland	6,173.6	5,411.0
Czech Republic	634.7	733.7
Other countries	11.4	11.5
Total	**6,819.7**	**6,156.2**

Information on key customers

In the financial year ended 31 December 2023 and 31 December 2022, 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

	2023	2022
As at the beginning of the reporting period	**49.8**	**33.9**
Recognition of revenue before the sales document is issued	35.7	49.8
Reclassification to receivables	(49.7)	(34.5)
FX differences from valuation	(0.1)	0.6
As at the end of the reporting period	**35.7**	**49.8**



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

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	2023	2022
Consumption of traction fuel	(137.3)	(208.8)
Consumption of traction electricity	(659.0)	(553.7)
Total	**(796.3)**	**(762.5)**

Other services

	2023	2022
Repair and maintenance services for non-current assets	(109.0)	(103.0)
Rent and fees for the use of property and rolling stock	(106.3)	(135.5)
Telecommunications services	(6.3)	(6.1)
Legal, consulting and similar services	(11.7)	(10.9)
IT services	(53.6)	(47.3)
Transshipment services	(57.7)	(64.0)
Reclamation services	(47.4)	(84.7)
Traction and shunting services, train drivers	(41.3)	(41.7)
Other services	(43.7)	(44.7)
Total	**(477.0)**	**(537.9)**

Employee benefits

	2023	2022
Payroll	(1,483.0)	(1,315.3)
Social security expenses	(312.2)	(277.6)
Expenses for contributions to the Company Social Benefits Fund	(32.9)	(31.6)
Other employee benefits during employment	(53.4)	(41.8)
Post-employment benefits	(8.5)	(5.4)
Movement in provisions for employee benefits	(68.4)	(66.7)
Total	**(1,958.4)**	**(1,738.4)**

Other expenses

	2023	2022
Consumption of non-traction fuel	(28.7)	(39.7)
Consumption of electricity, gas and water	(70.7)	(54.6)
Consumption of materials	(103.8)	(96.9)
Taxes and charges	(49.4)	(41.3)
Cost of goods and materials sold	(51.2)	(76.3)
Business trips	(36.8)	(29.1)
Other	(31.8)	(21.6)
Total	**(372.4)**	**(359.5)**

Depreciation, amortization and impairment losses

	2023	2022
Depreciation of rolling stock	(607.0)	(546.3)
Depreciation of other property, plant and equipment	(63.9)	(67.0)
Depreciation of rights-of-use assets	(122.7)	(114.6)
Amortization of intangible assets	(6.9)	(7.4)
(Recognized) / reversed impairment losses:		
Rolling stock	9.0	3.8
Other property, plant and equipment	(0.2)	(1.5)
Total	**(791.7)**	**(733.0)**

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

2.3 Other operating revenue and (expenses)

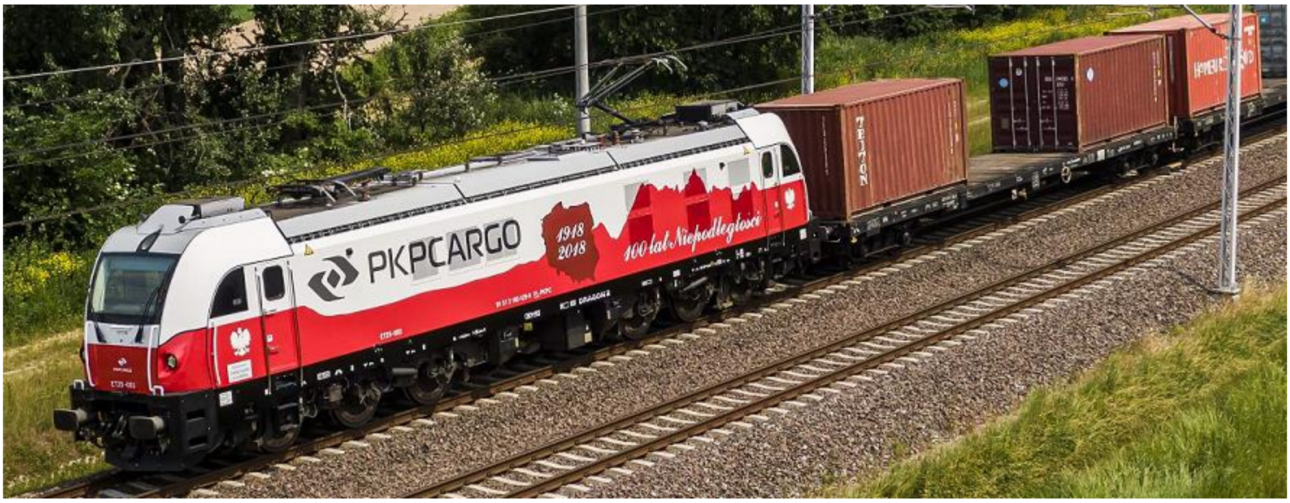
Other operating revenue and (expenses)

	2023	2022
Profit on sales of non-financial non-current assets	15.6	25.0
Reversed impairment losses for trade receivables	2.5	3.6
Penalties and compensations	20.2	14.0
Interest on trade and other receivables	4.5	2.6
Reversal of other provisions	2.9	2.4
Net result on FX differences on trade receivables and liabilities	-	1.1
Grants	8.6	6.6
Other	5.8	3.4
Total other operating revenue	**60.1**	**58.7**
Recognized impairment losses on trade receivables	(10.8)	(4.3)
Penalties and compensations	(13.0)	(13.7)
Interest on trade and other liabilities	(54.0)	(17.9)
Recognized other provisions	(9.1)	(6.4)
Costs of liquidation of non-current and current assets	(7.1)	(12.3)
Net result on FX differences on trade receivables and liabilities	(3.8)	-
Other	(7.2)	(5.8)
Total other operating expenses	**(105.0)**	**(60.4)**
Other operating revenue and (expenses)	**(44.9)**	**(1.7)**

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2023	2022
Interest income	6.2	3.0
Other	0.2	0.6
Total financial revenue	**6.4**	**3.6**
Interest expenses	(149.2)	(124.7)
Settlement of the discount on provisions for employee benefits	(35.2)	(26.8)
Net result on FX differences	(2.6)	(0.8)
Other	(0.9)	(1.9)
Total financial expenses	**(187.9)**	**(154.2)**
Financial revenue and (expenses)	**(181.5)**	**(150.6)**



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 and liabilities and if the deferred 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 recorded in the future, allowing the Group to use the asset. As at 31 December 2023, the Group recognized deferred tax assets on the tax loss incurred in 2020 and 2021.

In 2016, the Parent Company generated a tax loss of PLN 141 million. At the stage of planning to join the Tax Group, the Parent Company applied for a tax ruling concerning the impact of the Tax Group on the period to settle the loss incurred in 2016 (i.e. before the Tax Group was established). In the tax ruling of 4 October 2016 ref. no. 1462-IPPB5.4510.860.2016.1.RS, the Director of the State Tax Chamber agreed with the position presented by the Parent Company and stated that the term of the Tax Group is not included in the term intended for the settlement of a loss incurred by the Parent Company prior to the establishment of the Tax Group. This meant in practice that the term of operation of the Tax Group suspended the period given to settle the tax loss, for the duration of the Tax Group. The same position was also presented by administrative court, as well as the General Interpretation no. DD6.8202.4.2021 of the Minister of Finance, Funds and Regional Policy issued on 19 October 2021. In 2017-2019, the Parent Company functioned within the Tax Group. After the end of the Tax Group's term, the Parent Company incurred a tax loss in 2020 and 2021. Given the above, by posting taxable income during 2022, the Parent Company decided to settle 50% of the 2016 taxable loss, i.e. PLN 70.5 million. Accordingly, the Parent Company did not pay due CIT advances for the individual months of 2022 (because the 2016 loss reduced the taxable income, on which advances would have had to be paid).

As of 1 January 2022, the provisions on tax groups in the CIT Act have been relaxed and two new rules for loss settlements in tax groups have been introduced, which are directly related to each other:

- on the one hand, companies that are part of a tax group can settle within them losses incurred before the tax group was formed,
- at the same time, the regulations stipulated clearly that such loss may be settled by the company itself after the tax group is dissolved (but since the Parent Company had the right to settle it also within the tax group, the 5-year term for loss settlement will include the duration of the tax group). No transitional provisions have been adopted for the new regulation, which raised concern after the law came into force.

In October 2022, the parliament adopted transitional provisions specifying that the above changes apply to losses incurred after 31 December 2021. However, in the final text of the law (with relevant changes introduced by the Senate), the transitional provision has been completely changed and specifies that the new rules will also apply to losses incurred before 1 January 2022. This wording of the regulation gives rise to the risk associated with the Parent Company's approach of settling the 2016 loss against advances due for 2022. The Parent Company's Management Board believes that the tax regulations governing tax losses incurred before 2022, which came into force on 1 January 2023, violate a number of principles derived from the Constitution of the Republic of Poland, including the principle of the protection of vested rights and the principle of non-retroactivity of laws.

After analyzing all available scenarios, in order to minimize the risk of potential tax arrears and fines being levied under the Fiscal Penal Code, a decision was made to pay the income tax advance in the amount resulting from the settled 2016 loss in the amount of PLN 13.4 million and then file a tax return for 2022 showing an overpayment resulting from the recognition of the 2016 loss available for settlement. When the Parent Company filed a claim for refund of the overpayment resulting from the 2022 returns, it submitted a detailed position on the matter to the tax authorities. On 20 September 2023, the Parent Company received a refund of the overpaid income tax in the amount reported in the 2022 tax return. The Parent Company settled the remaining 50% of the 2016 tax loss against the 2023 taxable income.

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

3.1 Income tax (cont.)

Income tax recognized in profit / loss

	2023	2022
Current income tax		
Current tax charge	(33.0)	(22.5)
Adjustments recognized in the current year relating to tax from previous years	0.1	(0.1)
Deferred tax		
Deferred income tax of the reporting period	(4.0)	(21.2)
Income tax recognized in profit / loss	**(36.9)**	**(43.8)**

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

Deferred income tax recognized in other comprehensive income

	2023	2022
Deferred tax on the measurement of hedging instruments	(7.9)	1.3
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	19.4	(3.6)
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income [1]	9.2	(4.7)
Deferred income tax recognized in other comprehensive income	**20.7**	**(7.0)**

[1] This item is presented in equity as FX differences from translation of financial statements of foreign operations.

Reconciliation of the effective tax rate

	2023	2022
Profit / (loss) before tax	**119.0**	**191.8**
Income tax expense at 19%	(22.6)	(36.4)
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Reversal of non-tax provisions and impairment losses	-	2.0
Valuation under the equity method	1.7	1.7
Other	2.1	1.1
Tax effect of non-deductible expenses arising from tax regulations, including:		
PFRON disability fund	(5.4)	(4.9)
Establishment of non-tax provisions and impairment losses	-	(0.5)
Permanent differences in expenses related with property, plant and equipment	(0.5)	(0.5)
Representation expenses	(0.5)	(0.5)
Penalties and compensations	(1.7)	(2.0)
Value added tax and other public law liabilities	(1.0)	(0.7)
Other	-	(2.9)
Effect of tax losses used in a period in which deferred tax was not recognized	**(0.5)**	**-**
Effect of application of various tax rates	**(8.4)**	**(0.1)**
Adjustments posted in the current year relating to tax from previous years	**(0.1)**	**(0.1)**
Income tax recognized in profit / loss	**(36.9)**	**(43.8)**
Effective tax rate	**31.0%**	**22.8%**

The corporate income tax rate effective in Poland in the years 2022-2023 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. Starting in 2024, the corporate income tax rate effective in the Czech Republic increased to 21%.

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

3.1 Income tax (cont.)

Balance of deferred tax assets and liabilities

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

	31/12/2023	31/12/2022
Deferred tax assets	191.3	176.1
Deferred tax liabilities	(93.0)	(94.5)
Total	**98.3**	**81.6**

Table of movements in deferred tax before the set-off

2023	1/01/2023	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2023
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(83.7)**	(14.8)	-	8.8	**(89.7)**
Rights-of-use assets and lease liabilities	**(16.3)**	13.6	-	0.7	**(2.0)**
Other provisions and liabilities	**23.3**	1.8	-	(0.1)	**25.0**
Inventories	**(9.3)**	1.8	-	-	**(7.5)**
Lease receivables	**(1.7)**	(0.2)	-	-	**(1.9)**
Trade receivables	**(4.1)**	3.0	-	-	**(1.1)**
Provisions for employee benefits	**121.7**	1.7	19.4	(0.2)	**142.6**
Other	**9.0**	7.3	(7.9)	-	**8.4**
Unused tax losses	**42.7**	(18.2)	-	-	**24.5**
Total	**81.6**	**(4.0)**	**11.5**	**9.2**	**98.3**

2022	1/01/2022	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2022
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(118.2)**	39.0	-	(4.5)	**(83.7)**
Rights-of-use assets and lease liabilities	**(12.7)**	(3.4)	-	(0.2)	**(16.3)**
Other provisions and liabilities	**17.7**	5.6	-	-	**23.3**
Inventories	**(7.9)**	(1.4)	-	-	**(9.3)**
Lease receivables	**(1.7)**	-	-	-	**(1.7)**
Trade receivables	**1.2**	(5.3)	-	-	**(4.1)**
Provisions for employee benefits	**124.7**	0.5	(3.6)	0.1	**121.7**
Other	**17.0**	(9.2)	1.3	(0.1)	**9.0**
Unused tax losses	**89.7**	(47.0)	-	-	**42.7**
Total	**109.8**	**(21.2)**	**(2.3)**	**(4.7)**	**81.6**

Maturity analysis of deferred tax assets from tax losses

Expiration dates of the tax losses to which deferred tax assets were applied as at 31 December 2023

Year	2024	2025	2026	2027	2028	Total
Unused tax losses	1.2	69.3	46.3	5.7	6.1	**128.6**

Expiration dates of the tax losses to which deferred tax assets were applied as at 31 December 2022

Year	2024	2025	2026	2027	2028	Total
Unused tax losses	72.4	106.1	46.2	-	-	**224.7**

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

3.1 Income tax (cont.)

Tax loss not recognized in calculation of deferred tax assets

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

	31/12/2023	31/12/2022
PKP CARGO INTERNATIONAL HU Zrt.	8.0	14.2
AWT CFT a.s. (formerly AWT Čechofracht a.s.)	8.2	9.5
PKP CARGOTABOR USŁUGI Sp. z o.o.	3.1	0.1
Total	**19.3**	**23.8**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2023

Year	2024	2025	2026	2027	2028	Total
Unused tax losses	4.4	11.5	0.2	1.6	1.6	**19.3**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2022

Year	2023	2024	2025	2026	2027	Total
Unused tax losses	6.0	5.3	12.2	0.3	-	**23.8**

4. Explanatory notes on debt and equity management

4.1 Reconciliation of debt liabilities

Accounting policy applied

Bank loans and borrowings are initially recognized at fair value minus 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 cannot be determined easily, 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 made; 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 of 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.

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

4.1 Reconciliation of debt liabilities (cont.)

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:

- 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.

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

Items in foreign currencies

31/12/2023	In the functional currency – PLN	In foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	980.1	500.2	-	**1,480.3**
Leases	1,361.9	26.5	25.1	**1,413.5**
Total	**2,342.0**	**526.7**	**25.1**	**2,893.8**

31/12/2022	In the functional currency – PLN	In foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	848.1	646.2	-	**1,494.3**
Leases	793.0	52.6	32.3	**877.9**
Total	**1,641.1**	**698.8**	**32.3**	**2,372.2**

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

4.1 Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

2023	Bank loans and borrowings	Leases	Total
1/01/2023	**1,494.3**	**877.9**	**2,372.2**
New liabilities contracted	392.2	310.0	**702.2**
Modifications of existing agreements	-	81.2	**81.2**
Leaseback	-	346.2	**346.2**
Transaction costs	0.5	-	**0.5**
Accrual of interest	86.3	61.6	**147.9**
Payments under debt, including:			
Repayments of the principal	(360.0)	(166.5)	**(526.5)**
Interest paid	(90.0)	(59.4)	**(149.4)**
Transaction costs	(0.5)	-	**(0.5)**
Set off	-	(35.0)	**(35.0)**
Other	-	(0.1)	**(0.1)**
FX differences recognized in the result	(40.6)	(0.6)	**(41.2)**
FX translation differences	(1.9)	(1.8)	**(3.7)**
31/12/2023	**1,480.3**	**1,413.5**	**2,893.8**
Long-term	879.0	1,210.7	**2,089.7**
Short-term	601.3	202.8	**804.1**
Total	**1,480.3**	**1,413.5**	**2,893.8**

2022	Bank loans and borrowings	Leases	Total
1/01/2022	**1,632.9**	**931.3**	**2,564.2**
New liabilities contracted	141.4	31.4	**172.8**
Modifications of existing agreements	-	35.9	**35.9**
Leaseback	-	18.9	**18.9**
Transaction costs	1.5	-	**1.5**
Accrual of interest	81.3	41.3	**122.6**
Payments under debt, including:			
Repayments of the principal	(309.0)	(140.1)	**(449.1)**
Interest paid	(66.8)	(37.8)	**(104.6)**
Transaction costs	(1.2)	-	**(1.2)**
Set off	-	(1.6)	**(1.6)**
Other	(0.3)	(5.2)	**(5.5)**
FX differences recognized in the result	13.8	0.3	**14.1**
FX translation differences	0.7	3.5	**4.2**
31/12/2022	**1,494.3**	**877.9**	**2,372.2**
Long-term	986.1	725.4	**1,711.5**
Short-term	508.2	152.5	**660.7**
Total	**1,494.3**	**877.9**	**2,372.2**

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

	Presentation in the statement of profit or loss and other comprehensive income	2023	2022
Revenues from operating leases	Revenues from contracts with customers	59.3	52.5
Costs of short-term leases	Other services	(58.8)	(77.1)

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

4.1 Reconciliation of debt liabilities (cont.)

Terms and conditions of loan agreements

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

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

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

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

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

As at 31 December 2023, the covenants defined in loan agreements for the Parent Company and subsidiaries were satisfied and therefore under IAS 1 non-current loan liabilities did not have to be reclassified to the current part.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2023	31/12/2022
Overdraft	Bank Gospodarstwa Krajowego [1)]	29/02/2024	PLN	100.0	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A. [2)]	19/03/2024	PLN	2.8	58.7
Overdraft	Bank Polska Kasa Opieki S.A. [3)]	24/05/2024	PLN	100.0	100.0
Overdraft	Bank Polska Kasa Opieki S.A.	09/07/2024	PLN	1.6	1.6
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A. [4)]	27/07/2024	PLN	0.5	-
Overdraft	ING Bank N.V.	22/11/2028	EUR	13.1	-
Leasing facility	PEKAO LEASING sp. z o.o.	09/10/2023	PLN	-	99.0
Leasing facility	PKO Leasing S.A.	31/12/2023	PLN	-	200.0
Leasing facility	ING Lease (Polska) sp. z o.o. [5)]	13/06/2024	PLN	18.0	-
Leasing facility	PKO Leasing S.A. [6)]	26/10/2024	PLN	51.8	-
Total				**287.8**	**559.3**

[1)] On 19 October 2023, the Parent Company executed an annex the overdraft facility agreement extending the availability period of the facility until 29 February 2024. On 29 February 2024, the Parent Company executed another annex extending the availability period of the facility until 28 February 2025.

[2)] On 17 March 2023, the Parent Company executed an annex to the overdraft facility agreement extending the availability period of the facility until 19 March 2024. On 19 March 2024, the Parent Company executed another annex extending the availability period of the facility until 30 June 2024.

[3)] On 24 May 2023, the Parent Company executed an annex the overdraft facility agreement extending the availability period of the facility until 24 May 2024.

[4)] On 28 July 2023, PKP CARGO TERMINALE Sp. z o.o. signed an overdraft facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. with the availability period until 27 July 2024 up to the maximum amount of PLN 10.0 million.

[5)] On 5 July 2023, the Parent Company signed a Master Lease Agreement with ING LEASE (Polska) Sp. z o.o. for the lease of fixed assets up to a maximum total net value of PLN 200.0 million with the availability period until 13 June 2024. Pursuant to the annex of 29 November 2023, the PKP CARGO Terminale sp. z o.o. subsidiary was added to the Master Lease Agreement. On 21 December 2023, an annex to this Agreement was signed also by PKP CARGO Service Sp. z o.o.

[6)] On 27 October 2023, the Parent Company signed a Master Lease Agreement with PKO Leasing S.A. for the lease of fixed assets up to a maximum total net value of PLN 200.0 million with the availability period until 26 October 2024.

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

4.2 Equity and capital management policy

Accounting policy applied

Share capital in the consolidated financial statements is carried in the amount stated in the Articles of Association of the Parent Company.

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 profits / (losses) on employee benefits, the effect of measurement of equity instruments at fair value and the effective portion of profits and losses on hedging instruments in hedge accounting applied by the Group.

Retained earnings / (Accumulated losses) include the financial result of the current year undistributed earnings and uncovered losses from previous years, as well as the 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

	31/12/2023	31/12/2022
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 31 December 2023 and 31 December 2022, 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 the articles of association of the Parent Company, PKP S.A. holds special personal rights to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board plus one. PKP S.A. has a personal right to appoint the Supervisory Board Chairperson and to determine the number of Supervisory Board Members. Additionally, in the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have an exclusive personal right to propose candidates for the President of the Parent Company's Management Board. The personal rights of PKP S.A. shall be vested always when PKP S.A. holds at least 25% of the Parent Company's share capital.

In the financial year ended 31 December 2023 and 31 December 2022, there were no movements in the share capital of the Parent Company.

Movement in supplementary capital and retained earnings

On 29 June 2023, the Ordinary Shareholder Meeting of the Parent Company adopted a resolution on the distribution of the net profit earned in 2022 in the amount of PLN 102.7 million, and decided to allocate it in full to the supplementary capital.

The changes in the Group's supplementary capital in 2023 resulted also from a resolution of 31 May 2023 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. to allocate part of the net profit generated in 2022 in the amount of PLN 13.2 million to supplementary capital, a resolution of 2 June 2023 adopted by the Ordinary Shareholder Meeting of Cargosped Terminal Braniewo Sp. z o.o. to allocate part of the net profit generated in 2022 in the amount of PLN 2.0 million to supplementary capital, and the resolution of 13 July 2023 adopted by the Ordinary Shareholder Meeting of CARGOTOR Sp. z o.o. to allocate the net profit generated in 2022 of PLN 1.2 million to supplementary capital.

The Management Board of the Parent Company proposes to allocate the entire net profit for the year 2023 reported in the Standalone Financial Statements to the supplementary capital.

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 selected facility agreements, the Group accepts the maximum level of debt up to 60% of total assets. As described in detail in **Note 4.1**, in order to verify covenants under loan agreements, the total debt ratio was calculated based on the data presented in the Consolidated Financial Statements of the PKP CARGO Group and adjusted for the impact of IFRS 16. The total debt ratio adjusted for the impact of IFRS 16 was 58% as at 31 December 2023 and 54% as at 31 December 2022. 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.

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

4.3 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

	31/12/2023	31/12/2022
Cash on hand and on bank accounts	171.5	114.7
Bank deposits up to 3 months	91.4	52.8
Other cash	0.8	14.0
Total	**263.7**	**181.5**
including restricted cash	*37.5*	*47.3*

Restricted cash included mostly cash accumulated on VAT accounts and bank accounts kept for tender deposits and guarantees.

4.4 Notes to the cash flow statement

Movement in working capital

2023	Movement in statement of financial position	Net cash flow from investing activities	Net cash flow from financing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	0.6	8.8	-	-	9.4
Trade receivables	107.2	(1.4)	-	1.2	107.0
Lease receivables	(0.5)	0.5	-	-	-
Other assets	1.9	7.7	-	-	9.6
Provisions	108.3	-	-	-	108.3
Trade liabilities	36.1	0.2	-	-	36.3
Investment liabilities	(32.8)	41.5	-	-	8.7
Other liabilities	58.5	(0.7)	(13.1)	(11.0)	33.7
Total working capital	**279.3**	**56.6**	**(13.1)**	**(9.8)**	**313.0**

2022	Movement in statement of financial position	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(36.2)	58.1	-	21.9
Trade receivables	(160.8)	(0.9)	0.4	(161.3)
Lease receivables	(0.2)	-	-	(0.2)
Other assets	(56.9)	10.0	-	(46.9)
Provisions	(24.6)	-	-	(24.6)
Trade liabilities	170.4	-	-	170.4
Investment liabilities	(143.5)	129.3	-	(14.2)
Other liabilities	43.0	0.6	(5.8)	37.8
Total working capital	**(208.8)**	**197.1**	**(5.4)**	**(17.1)**

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

4.4 Notes to the cash flow statement (cont.)

Other adjustments

	2023	2022
Actuarial profits / (losses) on post-employment benefits recognized in other comprehensive income	(102.0)	18.9
Measurement of equity instruments at fair value	3.8	-
FX differences resulting from translation of financial statements	(1.6)	3.3
Other	(10.6)	(9.2)
Other adjustments in the cash flow statement	**(110.4)**	**13.0**

Non-financial transactions

In the financial years ended 31 December 2023 and 31 December 2022, major non-financial transactions concerning investing and financial activity which were not reflected in the cash flow statement were as follows:

- Setting off mutual settlements

In 2023, 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 2023 amounted to PLN 1.4 million, whereas in 2022 it was PLN 0.8 million. Additionally, during 2023 the Group set off receivables from sales of fixed assets and other receivables against lease liabilities in the total amount of PLN 35.0 million in 2023 and PLN 1.6 million in 2022.

- Derecognition of rolling stock

When it is decided to derecognize a rolling stock component, its residual value is posted in the item of inventories. In 2023, the residual value of non-current assets reclassified to inventories amounted to PLN 8.8 million, whereas in 2022 it was PLN 58.1 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 subsidies 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.
The Group presents perpetual usufruct rights that are exempted from payments as property, plant and equipment.
Fixed assets under construction are 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, less cost to sell. 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.

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

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

Accounting policy applied

Repairs and periodic inspections of rolling stock

Rolling stock undergoes planned maintenance operations at five levels, the extent of which is based on the rules set forth 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 is subject to planned maintenance operations according to repair cycles defined in the Maintenance System Documentation (DSU), depending on the permissible time and/or course of the vehicle's operation.
Upon completion of a level 4 and 5 modernization or repair, reinstatements to operation are issued indicating the period of possible operation of the rolling stock component until the next P4 or P5 level repair indicated in the repair cycle specified in the Maintenance System Documentation (DSU). An asset may be operated over the entire 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 repairs and periodic 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 specified in the reinstatement.
Other costs of ongoing maintenance and repairs for property, plant and equipment and costs of ongoing overhauls (which are not costs of P3, P4 or P5 periodic inspections and repairs) 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 equally over the useful life. The initial value of an asset subject to depreciation 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:

Real properties, including:	
Land and perpetual usufruct rights to land	are not subject to 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 allowance.
Recoverable amount is determined as the higher of: fair value less cost to sell, 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 had an impairment loss 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 2023 and 31 December 2022 did not reveal the need to correct the previously applied depreciation rates.

Residual value of the rolling stock

As at 31 December 2023, the Parent Company carried out a review of the residual value of its rolling stock based on a valuation performed by an independent appraiser. The price of scrap is an important factor affecting the measurement of residual value. Due to the recent fall in scrap metal prices, the residual value of rolling stock, as determined by an expert appraiser, has been reduced compared to the previous valuation. Accordingly, the Parent Company decided to reduce the residual value of its rolling stock, but this change did not have a material impact on the amount of impairment loss for rolling stock. The residual value update will increase the amounts of depreciation charges recognized in subsequent reporting periods.

Impairment of non-current assets

In accordance with IAS 36, the Group assesses at the end of each reporting period whether there is any objective evidence of impairment of non-current assets. If such grounds exist then the Group is required to determine the recoverable amount of the assets showing signs of impairment. According to IAS 36, recoverable amount is measured at the higher of: fair value less cost to sell, or value in use.

As at 31 December 2023 the Group has identified indications of impairment for four cash-generating units defined at the level of assets of the Parent Company, PKP CARGOTABOR Sp. z o.o., CARGOTOR Sp. z o.o. and the PKP CARGO INTERNATIONAL Group.

PKP CARGO S.A.

As at 31 December 2023, the main indication of the possible impairment of assets was the fact that the market value of net assets remained persistently lower than their carrying amount.

In the case of the Parent Company the risk of impairment was identified at the level of components of rolling stock and properties. The recoverable amount of these assets was determined based on their fair value less cost to sell. The fair value was determined on the basis of valuations prepared by independent appraisers.
The fair value of rolling stock was determined using the cost method with elements of the comparative method. The market value of rolling stock was estimated based on the replacement cost, while taking into account, among other things, the loss in value due to physical, functional and external (economic) factors. The replacement cost is the cost as at the valuation date that would have to be incurred in order to receive a new technical asset, which is identical or has similar parameters. Other factors considered in the valuation process included:

- production year,
- number and types of repairs accompanied by modernizations,
- number of kilometers traveled,
- costs of individual repairs,
- date of most recent repairs,
- whether the design is contemporary,
- prices and availability of new units.

The appraisers used their knowledge of locomotive and rail car prices on the primary and secondary markets, for domestic and international companies. They also utilized, among others, the price catalogs of machinery and equipment of railway vehicles of a given type.

The fair value of the appraised properties was determined using a mixed approach with elements of comparative, income-based or replacement valuation methods. Land was measured using a comparative method and the building placed on such land with an income or cost method, depending on the type of property.

In order to determine the recoverable amount, the cost to sell of the measured assets were disregarded, as they were deemed insignificant.
Based on the valuations, as at 31 December 2023:
a) the fair value exceeded the carrying amount of all rolling stock components. The analysis at the level of individual asset items resulted in the reversal of an impairment allowance in the amount of PLN 8.9 million;
b) no impairment of the appraised properties was identified.
The fair value of the remaining assets comprising a cash-generating unit at the Parent Company level that are not subject to valuation did not differ materially from their carrying amounts.

For the remaining of the above cash-generating units, the Group carried out impairment tests by estimating their recoverable amount at the level of value in use by using the discounted cash flow method.

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

PKP CARGOTABOR Sp. z o.o.

As at 31 December 2023, the main indications of the possible impairment of assets owned by PKP CARGOTABOR Sp. z o.o. were persistently high market rates of return on investments, which affected the discount rates used in impairment tests and changes in assumptions about future cash flows.

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:
a) discounted cash flows were developed on the basis of detailed financial projections for the period from 2024 to 2028,
b) in the period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 4.4% in nominal terms,
c) in the whole period covered by the detailed projection, CAPEX will reach the level of 3.7% of annual operating revenue in nominal terms,
d) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 10.2% in nominal terms,
e) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in nominal 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 2023 the Group recognized no impairment charge for assets owned by PKP CARGOTABOR Sp. z o.o.

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

CARGOTOR Sp. z o.o.

As at 31 December 2023, the main indication of the possible impairment of assets owned by CARGOTOR Sp. z o.o. was the lower than expected financial results in connection with the lower number of trains handled in the Małaszewicze transshipment region, which is an element of the Brześć-Terespol rail border crossing in connection with the continuing armed conflict in Ukraine.

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:
a) discounted cash flows were developed on the basis of detailed financial projections for the period from 2024 to 2028,
b) for the projection period of 2024-2028, it was assumed that the current conflict in Ukraine would end in early 2025,
c) in the period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 14.5% in nominal terms,
d) in the whole period covered by the detailed projection, CAPEX will reach the level of 6.6% of annual operating revenue in nominal terms,
e) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 10.2% in nominal terms,
f) after the detailed projection period, the growth of future cash flows was assumed at 2.5% in nominal terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the tested assets owned by CARGOTOR Sp. z o.o., as at 31 December 2023 the Group recognized no impairment charge for assets owned by PKP CARGOTOR Sp. z o.o.

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

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

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

PKP CARGO INTERNATIONAL GROUP

As at 31 December 2023, the main indication of the possible impairment of assets owned by the PKP CARGO INTERNATIONAL Group was the fact that financial volumes of cargo transported were lower than expected.

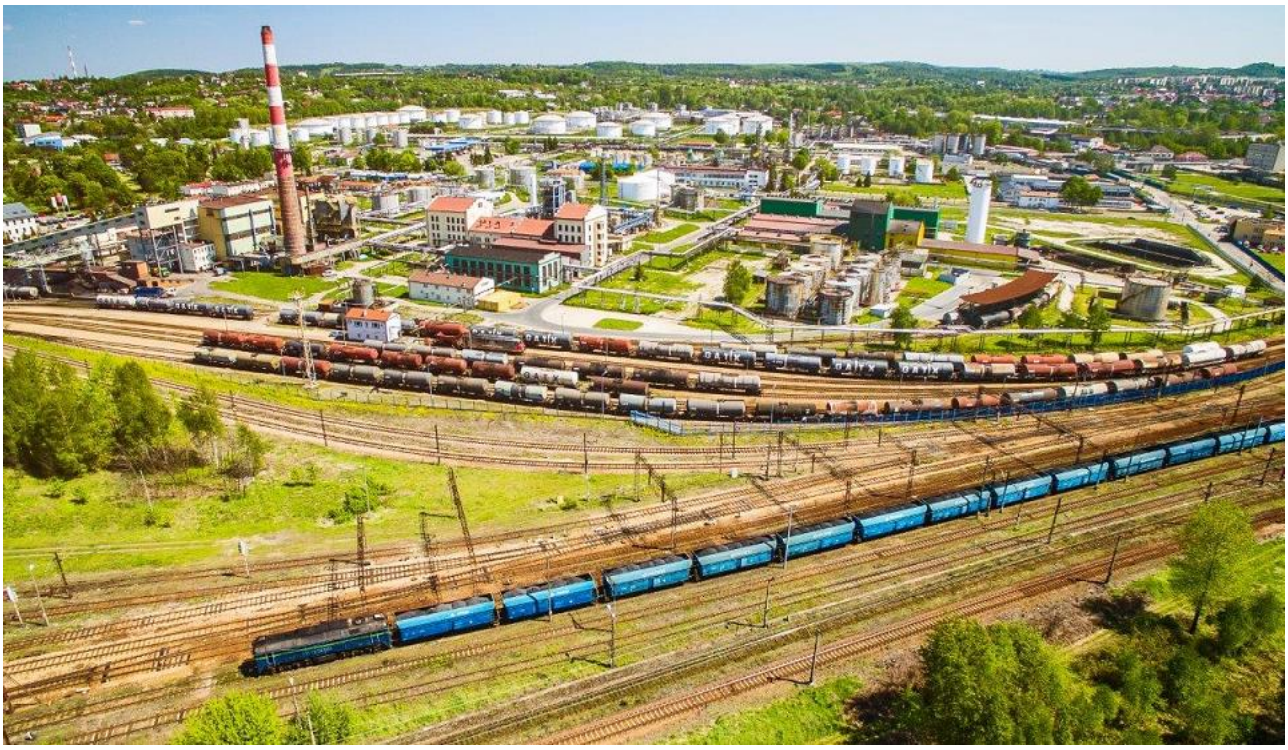
Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:

a) the cash-generating unit was considered to be all owned by the PKP CARGO INTERNATIONAL Group, used mainly to service customers on the Czech rail market,
b) discounted cash flows were developed on the basis of detailed financial projections for the period from 2024 to 2033; in the opinion of the subsidiary's Management Board, it is reasonable to adopt financial projections for more than five years because the property, plant and equipment used by PKP CARGO INTERNATIONAL a.s. have a considerably longer period of economic life.
c) in the detailed projection period of 2024-2033, the compound annual growth rate (CAGR) of operating revenue will be at 2.8% in real terms,
d) in the whole period covered by the detailed projection, CAPEX will reach the level of 5.3% of annual operating revenue in real terms,
e) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 6.0% in real terms,
f) 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 exceeded the carrying amount of the tested assets owned by the PKP CARGO INTERNATIONAL Group, the Group did not revalue the impairment loss for the assets as at 31 December 2023, which as at that date amounted to PLN 108.0 million.

Presented below is the estimated amount of impairment loss as at 31 December 2023 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	(45.2)	32.4
Increase after the detailed projection period	18.6	(29.8)



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

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

Movement in rolling stock and other property, plant and equipment

2023	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2023	**7,343.7**	**1,033.2**	**483.6**	**104.5**	**46.0**	**103.1**	**1,770.4**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	982.2	**982.2**
Other acquisitions	-	-	-	-	-	324.2	**324.2**
Purchase of leased items	93.2	-	4.8	2.4	-	-	**7.2**
Settlement of fixed assets under construction	1,183.9	113.2	28.8	7.9	4.1	(1,337.9)	**(1,183.9)**
Grant for non-current assets	(96.3)	(49.3)	(1.0)	-	-	-	**(50.3)**
Sales (including leaseback)	(309.3)	(20.6)	(2.1)	(4.0)	(0.2)	-	**(26.9)**
Liquidation	(358.0)	(1.0)	(4.3)	(0.3)	(0.6)	(0.3)	**(6.5)**
FX translation differences	(80.6)	(19.0)	(5.3)	(4.7)	(0.3)	(1.3)	**(30.6)**
Other	0.4	0.3	(0.1)	-	-	(3.9)	**(3.7)**
31/12/2023	**7,777.0**	**1,056.8**	**504.4**	**105.8**	**49.0**	**66.1**	**1,782.1**
Accumulated depreciation							
1/01/2023	**(2,950.2)**	**(363.3)**	**(381.8)**	**(88.3)**	**(41.6)**	**-**	**(875.0)**
Increases / (decreases):							
Depreciation	(607.0)	(34.6)	(22.7)	(4.7)	(1.9)	-	**(63.9)**
Purchase of leased items	(39.2)	-	(3.0)	(1.9)	-	-	**(4.9)**
Sales (including leaseback)	49.7	1.3	1.4	2.5	0.1	-	**5.3**
Liquidation	348.4	0.8	4.3	0.3	0.6	-	**6.0**
FX translation differences	28.9	6.1	3.4	3.9	0.2	-	**13.6**
Other	(0.2)	(0.3)	(0.9)	(0.1)	(0.1)	-	**(1.4)**
31/12/2023	**(3,169.6)**	**(390.0)**	**(399.3)**	**(88.3)**	**(42.7)**	-	**(920.3)**
Accumulated impairment							
1/01/2023	**(185.2)**	**(0.9)**	**(1.8)**	**-**	**-**	**(1.6)**	**(4.3)**
Increases / (decreases):							
Recognition	-	-	-	-	-	(0.3)	**(0.3)**
Derecognition, including:	9.0	0.1	-	-	-	-	**0.1**
effect of fair value measurement	8.9	-	-	-	-	-	**-**
Utilization	0.3	-	-	-	-	0.2	**0.2**
FX translation differences	8.8	-	0.1	-	-	0.1	**0.2**
31/12/2023	**(167.1)**	**(0.8)**	**(1.7)**	**-**	**-**	**(1.6)**	**(4.1)**
Net value							
1/01/2023	**4,208.3**	**669.0**	**100.0**	**16.2**	**4.4**	**101.5**	**891.1**
31/12/2023	**4,440.3**	**666.0**	**103.4**	**17.5**	**6.3**	**64.5**	**857.7**

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

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

2022	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2022	**7,155.4**	**1,014.3**	**468.3**	**96.0**	**45.0**	**83.7**	**1,707.3**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	511.7	**511.7**
Other acquisitions	-	-	-	-	-	195.3	**195.3**
Purchase of leased items	46.3	-	2.7	1.1	-	-	**3.8**
Settlement of fixed assets under construction	623.2	36.3	21.9	8.1	1.0	(690.5)	**(623.2)**
Grant for non-current assets	(80.3)	(16.0)	(2.0)	-	-	5.9	**(12.1)**
Sales (including leaseback)	(37.8)	(9.7)	(7.9)	(2.8)	-	-	**(20.4)**
Liquidation	(395.5)	(1.2)	(1.9)	-	(0.1)	(2.2)	**(5.4)**
Reclassified to assets held for sale	(8.2)	-	-	-	-	-	**-**
FX translation differences	41.2	9.5	2.6	2.1	0.1	1.1	**15.4**
Other	(0.6)	-	(0.1)	-	-	(1.9)	**(2.0)**
31/12/2022	**7,343.7**	**1,033.2**	**483.6**	**104.5**	**46.0**	**103.1**	**1,770.4**
Accumulated depreciation							
1/01/2022	**(2,726.7)**	**(327.0)**	**(354.6)**	**(84.9)**	**(39.9)**	**-**	**(806.4)**
Increases / (decreases):							
Depreciation	(546.3)	(35.6)	(26.0)	(3.6)	(1.8)	-	**(67.0)**
Purchase of leased items	(19.0)	-	(1.7)	(0.7)	-	-	**(2.4)**
Sales (including leaseback)	18.2	1.2	0.7	2.8	-	-	**4.7**
Liquidation	331.5	1.0	1.9	-	0.1	-	**3.0**
Reclassified to assets held for sale	5.6	-	-	-	-	-	**-**
FX translation differences	(14.3)	(2.7)	(1.5)	(1.9)	-	-	**(6.1)**
Other	0.8	(0.2)	(0.6)	-	-	-	**(0.8)**
31/12/2022	**(2,950.2)**	**(363.3)**	**(381.8)**	**(88.3)**	**(41.6)**	**-**	**(875.0)**
Accumulated impairment							
1/01/2022	**(187.1)**	**(0.9)**	**(1.7)**	**-**	**-**	**(4.9)**	**(7.5)**
Increases / (decreases):							
Recognition	(0.2)	-	-	-	-	(1.5)	**(1.5)**
Derecognition, including:	4.0	-	-	-	-	-	**-**
effect of fair value measurement	4.0	-	-	-	-	-	**-**
Utilization	0.8	-	-	-	-	4.9	**4.9**
FX translation differences	(2.7)	-	(0.1)	-	-	(0.1)	**(0.2)**
31/12/2022	**(185.2)**	**(0.9)**	**(1.8)**	**-**	**-**	**(1.6)**	**(4.3)**
Net value							
1/01/2022	**4,241.6**	**686.4**	**112.0**	**11.1**	**5.1**	**78.8**	**893.4**
31/12/2022	**4,208.3**	**669.0**	**100.0**	**16.2**	**4.4**	**101.5**	**891.1**

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

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 valuable 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 initial recognition, the Group measures a rights-of-use asset at cost less any accumulated depreciation charges and total impairment losses, adjusted for any remeasurement of the lease liability.

In the case of expenditures on repairs and periodic inspections of rights-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 lives of rights-of-use assets

The Group applies straight-line depreciation. The value of a rights-of-use asset is 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
Machinery and equipment	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 until which these rights have been granted unless the circumstances require the adoption of a longer or shorter period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Useful lives of rights-of-use assets

The Group estimates the economic useful lives and consequently the depreciation rates for individual rights-of-use assets. 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 rights-of-use asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the rights-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 2023 and 31 December 2022 did not reveal the need to correct the previously applied depreciation rates.

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

5.2 Rights-of-use assets (cont.)

Movement in rights-of-use assets

2023	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2023	**486.9**	**844.4**	**61.4**	**25.5**	**1.4**	**1,419.6**
Increases / (decreases):						
New leases	271.8	14.8	18.3	5.0	-	**309.9**
Modifications of agreements	0.3	77.4	0.2	2.7	0.6	**81.2**
Leaseback	258.9	-	-	1.5	-	**260.4**
Periodic repairs of rolling stock	2.4	-	-	-	-	**2.4**
Return of leased items	(68.6)	(3.7)	-	(0.1)	-	**(72.4)**
Purchase of leased items	(93.2)	-	(4.8)	(2.4)	-	**(100.4)**
Other	(0.2)	(1.9)	(0.4)	-	-	**(2.5)**
FX translation differences	(11.3)	(4.6)	(2.5)	(0.9)	-	**(19.3)**
31/12/2023	**847.0**	**926.4**	**72.2**	**31.3**	**2.0**	**1,878.9**
Accumulated depreciation						
1/01/2023	**(186.4)**	**(220.9)**	**(20.5)**	**(18.4)**	**(1.2)**	**(447.4)**
(Increases) / decreases:						
Depreciation	(41.4)	(69.6)	(6.4)	(4.9)	(0.4)	**(122.7)**
Return of leased items	68.6	3.1	-	0.1	-	**71.8**
Purchase of leased items	39.2	-	3.0	1.9	-	**44.1**
Other	-	(0.1)	-	-	-	**(0.1)**
FX translation differences	7.1	2.7	1.3	0.4	-	**11.5**
31/12/2023	**(112.9)**	**(284.8)**	**(22.6)**	**(20.9)**	**(1.6)**	**(442.8)**
Net value						
1/01/2023	**300.5**	**623.5**	**40.9**	**7.1**	**0.2**	**972.2**
31/12/2023	**734.1**	**641.6**	**49.6**	**10.4**	**0.4**	**1,436.1**

2022	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2022	**527.5**	**799.1**	**53.0**	**21.5**	**1.4**	**1,402.5**
Increases / (decreases):						
New leases	-	22.5	7.6	1.3	-	**31.4**
Modifications of agreements	-	31.7	0.2	3.7	-	**35.6**
Leaseback	13.6	-	3.1	-	-	**16.7**
Periodic repairs of rolling stock	0.3	-	-	-	-	**0.3**
Return of leased items	(16.2)	(16.8)	(0.8)	(0.2)	-	**(34.0)**
Purchase of leased items	(46.3)	-	(2.7)	(1.1)	-	**(50.1)**
FX translation differences	8.0	7.9	1.0	0.3	-	**17.2**
31/12/2022	**486.9**	**844.4**	**61.4**	**25.5**	**1.4**	**1,419.6**
Accumulated depreciation						
1/01/2022	**(175.2)**	**(166.5)**	**(14.9)**	**(14.3)**	**(0.9)**	**(371.8)**
(Increases) / decreases:						
Depreciation	(41.2)	(60.8)	(7.6)	(4.7)	(0.3)	**(114.6)**
Return of leased items	16.2	13.1	0.8	0.1	-	**30.2**
Purchase of leased items	19.0	-	1.7	0.7	-	**21.4**
Other	(0.7)	-	-	-	-	**(0.7)**
FX translation differences	(4.5)	(6.7)	(0.5)	(0.2)	-	**(11.9)**
31/12/2022	**(186.4)**	**(220.9)**	**(20.5)**	**(18.4)**	**(1.2)**	**(447.4)**
Net value						
1/01/2022	**352.3**	**632.6**	**38.1**	**7.2**	**0.5**	**1,030.7**
31/12/2022	**300.5**	**623.5**	**40.9**	**7.1**	**0.2**	**972.2**

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

5.3 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Carrying amount	
	31/12/2023	31/12/2022
COSCO Shipping Lines (POLAND) Sp. z o.o.	0.2	0.9
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	22.7	22.3
Transgaz S.A.	8.2	7.3
PKP CARGO CONNECT GmbH	3.6	3.3
PKP CARGO INTERNATIONAL SK a. s.	2.5	2.8
PKP CARGO INTERNATIONAL SI d.o.o.	4.2	4.0
Centralny Terminal Multimodalny Sp. z o.o.	1.3	1.2
Total	**42.7**	**41.8**

Investments in entities accounted for under the equity method

	2023	2022
As at the beginning of the reporting period	**41.8**	**36.7**
Share in the profit / (loss) of entities accounted for under the equity method	9.1	9.1
Movement in equity on account of dividends	(7.8)	(4.2)
FX differences from translation of financial statements	(0.4)	0.2
As at the end of the reporting period	**42.7**	**41.8**

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

	31/12/2023	31/12/2022
Non-current assets	29.5	27.7
Current assets	67.9	78.5
Total assets	**97.4**	**106.2**
Long-term liabilities	2.6	1.5
Short-term liabilities	24.3	33.4
Total liabilities	**26.9**	**34.9**
Net assets	**70.5**	**71.3**
Group’s shares in the net assets of the entities accounted for under the equity method	41.5	40.6
Total revenues	98.4	104.6
Net result for the financial year	13.2	15.7
Group’s shares in the result of the entities accounted for under the equity method	9.1	9.1
Group’s shares in the comprehensive income of the entities accounted for under the equity method	8.7	9.3

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 recognizes impairment losses for inventories if useless or damaged inventories exist or when the net sales price of such inventories is lower than their carrying amount. The amount of the impairment loss for inventories is determined on the basis of usefulness analysis carried out at least at the end of each financial year. Based on this analysis, impairment losses for inventories are recognized for those inventories that are not useful from the Group’s point of view.

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

5.4 Inventories (cont.)

Structure of inventories

	31/12/2023	31/12/2022
Strategic inventories	36.8	31.8
Rolling stock during liquidation	23.2	42.5
Other inventories	143.5	130.3
Impairment losses	(3.3)	(3.8)
Net inventories	**200.2**	**200.8**

List of changes in impairment losses for inventories

	2023	2022
As at the beginning of the reporting period	**(3.8)**	**(7.0)**
Recognition	(3.1)	(5.4)
Reversal	-	5.1
Utilization	3.5	3.6
FX differences from translation of financial statements	0.1	(0.1)
As at the end of the reporting period	**(3.3)**	**(3.8)**

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 the 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 for 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 for 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 judgments are made by debt collection units in Group companies. 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 2020-2023 obtained from financial and accounting systems. The current war in Ukraine had no material impact on the level of expected credit losses. The reconciliation of impairment losses for receivables is presented in the tables below.

Structure of trade receivables

	31/12/2023	31/12/2022
Trade receivables	800.2	911.7
Impairment loss for receivables	(130.7)	(135.0)
Total	**669.5**	**776.7**
Non-current assets	1.2	7.3
Current assets	668.3	769.4
Total	**669.5**	**776.7**

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

5.5 Trade receivables (cont.)

Reconciliation of impairment losses for trade receivables

	Expected credit losses					
	2023			2022		
	without impairment	with impairment	Total	without impairment	with impairment	Total
As at the beginning of the reporting period	**(1.5)**	**(133.5)**	**(135.0)**	**(1.5)**	**(138.7)**	**(140.2)**
Recognition	-	(10.8)	**(10.8)**	-	(4.3)	**(4.3)**
Reversal	0.1	2.4	**2.5**	-	3.6	**3.6**
Utilization	-	3.9	**3.9**	-	9.5	**9.5**
Balance sheet measurement	-	0.2	**0.2**	-	0.7	**0.7**
FX differences resulting from translation of financial statements	-	8.5	**8.5**	-	(4.3)	**(4.3)**
As at the end of the reporting period	**(1.4)**	**(129.3)**	**(130.7)**	**(1.5)**	**(133.5)**	**(135.0)**

Movement in the carrying amount of gross trade receivables

	2023			2022		
	without impairment	with impairment	Total	without impairment	with impairment	Total
As at the beginning of the reporting period	**776.4**	**135.3**	**911.7**	**614.9**	**141.2**	**756.1**
Recognized	5,907.1	0.8	**5,907.9**	5,747.4	0.3	**5,747.7**
Interest accrued	4.4	0.3	**4.7**	3.4	-	**3.4**
Written off	-	(3.9)	**(3.9)**	-	(10.0)	**(10.0)**
Repaid	(5,995.3)	(2.5)	**(5,997.8)**	(5,592.2)	(3.9)	**(5,596.1)**
Transferred	(9.9)	9.9	**-**	(4.1)	4.1	**-**
Balance sheet measurement	(0.4)	(0.2)	**(0.6)**	0.7	(0.8)	**(0.1)**
FX differences resulting from translation of financial statements	(13.2)	(8.6)	**(21.8)**	6.3	4.4	**10.7**
As at the end of the reporting period	**669.1**	**131.1**	**800.2**	**776.4**	**135.3**	**911.7**

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 captured in the amount of incurred expenses that relate to future periods and will generate future economic benefits for the Group. Prepaid expenses are written off in line with the passage of time.
Other receivables include predominantly public law receivables measured at the amount due.
Intangible assets are presented at purchase price or production cost less amortization and the total amount of impairment losses for intangible assets. The Group applies straight-line depreciation.
The period of useful life and the amortization method are verified at the end of each reporting period, and the results of estimate changes are settled prospectively.

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

5.6 Other assets (cont.)

Structure of other assets

	31/12/2023	31/12/2022
Financial assets		
Shares in unlisted companies	9.5	5.8
Non-financial assets		
Costs settled over time		
Prepayments for purchase of electricity	36.7	74.1
Insurance	9.0	5.1
IT services	7.9	4.8
Other costs settled over time	5.5	3.9
Prepayments for purchase of non-financial non-current assets	3.4	18.2
Other	4.0	1.5
Other receivables		
VAT settlements	63.7	46.3
Receivables from the sale of shares	2.7	4.1
Other	22.5	16.0
Intangible assets		
Licenses	24.3	12.9
Other intangible assets	0.8	0.3
Intangible assets under development	8.6	7.5
Total	**198.6**	**200.5**
Non-current assets	52.4	48.6
Current assets	146.2	151.9
Total	**198.6**	**200.5**

5.7 Trade liabilities

Accounting policy applied

Trade liabilities are initially measured at fair value adjusted for transaction costs and subsequently at amortized cost. Liabilities with a maturity of up to 1 year are measured in the amount payable, because they do not contain a significant financing component.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

At each balance sheet date, the Group measures the amount of interest due from its counterparty related to late payment of its liabilities. At this stage, it also examines cases where the counterparty has the right to charge interest to the Group, but has not yet done so. In such cases, the Group assesses the probability of cash outflows and decides to recognize these liabilities on this basis.

On 21 November 2023, the Parent Company received two interest notes from one of its contractors for the total amount of PLN 23.4 million on account of late payments. Receivables arising from purchase contracts affected by delays in payment were subjected to factoring arrangements between the supplier and the factor, and all payments for the performance of the contracts were made to the factor. In the Parent Company's opinion, the right to charge interest on overdue receivables is undisputed in this case, as there has been an actual delay in payment. However, the Parent Company challenges the jurisdiction of the entity that made the claim to the Company. After reviewing the case, the Parent Company's Management Board decided to recognize interest on delayed payments in full due to the existence of a legal title to make a claim to the Company for payment of the interest due and the likelihood exists of a cash outflow associated with the need to settle this claim. Assessment of the estimates may change in subsequent periods as a result of future events.

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

5.7 Trade liabilities (cont.)

Structure of trade liabilities

	31/12/2023	31/12/2022
Trade liabilities	742.9	733.0
Interest liabilities	49.5	12.7
Prepayments and accruals	55.4	66.0
Total	**847.8**	**811.7**
Long-term liabilities	3.4	7.9
Short-term liabilities	844.4	803.8
Total	**847.8**	**811.7**

5.8 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, because they do not contain a significant financing component.

Structure of investment liabilities

	31/12/2023	31/12/2022
Investment liabilities related to rolling stock	131.5	149.7
Investment liabilities related to real properties	3.6	31.5
Other	21.8	8.5
Total	**156.9**	**189.7**
Long-term liabilities	15.6	46.7
Short-term liabilities	141.3	143.0
Total	**156.9**	**189.7**

5.9 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 pays, transportation benefits and benefits from the Company Social Benefits Fund for retirement and disability pensioners, post-mortem benefits). Jubilee awards are paid out to the employees after working for specified number of years. Retirement and disability severance pays are paid out as lump sum 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 captures 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 projected 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 employment 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. The costs of past employment are recognized directly in profit or loss. 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.

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

5.9 Provisions for employee benefits (cont.)

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2023 and 31 December 2022, the actuarial valuation of provisions for employee benefits for the Parent Company was based on the following main assumptions:

	Valuation as at [%]	
	31/12/2023	31/12/2022
Discount rate	5.3	6.8
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards		
2023	-	13.9
2024	9.6 - 12.7	4.1
2025	3.6	3.4
2026	3.2	2.5
2027	2.7	2.5
2028	2.1	2.5
from 2029	2.5	2.5
Assumed growth of the price of transportation benefits		
2023	-	3.5
2024	11.6	3.5
from 2025	2.1 - 3.6	3.5
Assumed average annual growth of the base for calculation of provisions on account of charge for the Company Social Benefits Fund	6.3	5.2
Weighted average employee mobility ratio	up to 3.1	up to 2.9

The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using actuarial methods, was approx. 86%.

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

	31/12/2023	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	271.3	(3.9)	4.0	3.5	(3.4)	(3.0)	3.1
Retirement and disability severance pays	245.3	(3.1)	3.2	2.9	(2.8)	(1.8)	1.9
Post-mortem benefits	6.8	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	150.6	(5.7)	6.1	4.9	(4.7)	(0.6)	0.6
Transportation benefits	26.6	(0.9)	0.9	0.8	(0.7)	(0.1)	0.1
Total	**700.6**	**(13.7)**	**14.3**	**12.2**	**(11.7)**	**(5.6)**	**5.8**

	31/12/2022	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	252.6	(3.3)	3.4	3.1	(3.0)	(2.6)	2.7
Retirement and disability severance pays	217.5	(2.6)	2.7	2.5	(2.5)	(1.6)	1.6
Post-mortem benefits	7.1	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	91.7	(2.8)	3.0	2.6	(2.4)	(0.3)	0.3
Transportation benefits	20.5	(0.6)	0.7	0.6	(0.6)	(0.1)	0.1
Total	**589.4**	**(9.4)**	**9.9**	**8.9**	**(8.6)**	**(4.7)**	**4.8**

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

5.9 Provisions for employee benefits (cont.)

Movement in provisions for employee benefits

	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2023	**217.5**	**91.7**	**20.5**	**7.1**	**252.6**	**50.8**	**640.2**
Current service cost	7.0	1.8	0.4	0.4	11.2	-	**20.8**
Interest expenses	11.8	6.6	1.4	0.4	15.0	-	**35.2**
Actuarial (profits)/ losses recognized in other comprehensive income	40.3	56.4	5.4	(0.1)	-	-	**102.0**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	48.1	-	**48.1**
Recognition of provisions	-	-	-	-	-	14.0	**14.0**
Reversal of provisions	-	-	-	-	-	(14.5)	**(14.5)**
Benefits paid out	(31.2)	(5.9)	(1.1)	(1.0)	(55.2)	(1.3)	**(95.7)**
FX translation differences	(0.1)	-	-	-	(0.4)	(0.5)	**(1.0)**
31/12/2023	**245.3**	**150.6**	**26.6**	**6.8**	**271.3**	**48.5**	**749.1**
Long-term provisions	184.0	144.0	25.2	5.7	220.0	-	**578.9**
Short-term provisions	61.3	6.6	1.4	1.1	51.3	48.5	**170.2**
Total	**245.3**	**150.6**	**26.6**	**6.8**	**271.3**	**48.5**	**749.1**

	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2022	**205.2**	**125.5**	**24.0**	**6.7**	**259.4**	**35.6**	**656.4**
Current service cost	6.7	1.8	0.4	0.4	11.0	-	**20.3**
Interest expenses	8.7	5.2	0.9	0.3	11.7	-	**26.8**
Actuarial (profits)/ losses recognized in other comprehensive income	19.9	(35.4)	(4.0)	0.6	-	-	**(18.9)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	26.6	-	**26.6**
Recognition of provisions	-	-	-	-	-	28.0	**28.0**
Reversal of provisions	-	-	-	-	-	(8.2)	**(8.2)**
Benefits paid out	(23.0)	(5.4)	(0.8)	(0.9)	(56.3)	(5.0)	**(91.4)**
FX translation differences	-	-	-	-	0.2	0.4	**0.6**
31/12/2022	**217.5**	**91.7**	**20.5**	**7.1**	**252.6**	**50.8**	**640.2**
Long-term provisions	169.5	86.2	19.4	5.9	202.5	-	**483.5**
Short-term provisions	48.0	5.5	1.1	1.2	50.1	50.8	**156.7**
Total	**217.5**	**91.7**	**20.5**	**7.1**	**252.6**	**50.8**	**640.2**

Items recognized in the result in reference to employee benefits programs

	31/12/2023	31/12/2022
Employee benefits	(68.4)	(66.7)
Financial expenses	(35.2)	(26.8)
Total recognized in the profit before tax	**(103.6)**	**(93.5)**

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

5.9 Provisions for employee benefits (cont.)

Actuarial (profits) / losses

2023	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses / (profits) – post-employment benefits				
Retirement and disability severance pays	1.1	17.3	21.9	**40.3**
Company Social Benefits Fund	10.5	43.3	2.6	**56.4**
Transportation benefits	1.9	0.6	2.9	**5.4**
Post-mortem benefits	(1.0)	0.6	0.3	**(0.1)**
Actuarial losses / (profits) – other long-term benefits				
Jubilee awards	0.4	21.9	25.8	**48.1**
Total	**12.9**	**83.7**	**53.5**	**150.1**

2022	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses / (profits) – post-employment benefits				
Retirement and disability severance pays	(2.4)	(11.7)	34.0	**19.9**
Company Social Benefits Fund	(3.8)	(26.3)	(5.3)	**(35.4)**
Transportation benefits	(0.8)	(5.3)	2.1	**(4.0)**
Post-mortem benefits	0.3	(0.4)	0.7	**0.6**
Actuarial losses / (profits) – other long-term benefits				
Jubilee awards	(3.5)	(13.4)	43.5	**26.6**
Total	**(10.2)**	**(57.1)**	**75.0**	**7.7**

Analysis of maturities of paid out employee benefits

31/12/2023	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	61.3	6.6	1.4	1.1	51.3	48.5	**170.2**
1 to 5 years	103.7	27.3	5.8	2.8	125.2	-	**264.8**
over 5 years	80.3	116.7	19.4	2.9	94.8	-	**314.1**
Total	**245.3**	**150.6**	**26.6**	**6.8**	**271.3**	**48.5**	**749.1**

31/12/2022	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	48.0	5.5	1.1	1.2	50.1	50.8	**156.7**
1 to 5 years	97.9	21.2	4.6	3.2	120.7	-	**247.6**
over 5 years	71.6	65.0	14.8	2.7	81.8	-	**235.9**
Total	**217.5**	**91.7**	**20.5**	**7.1**	**252.6**	**50.8**	**640.2**

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

5.10 Other provisions

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

If it is impossible to unequivocally determine whether the present liability exists, for example in the event of a court case, the Group creates provisions 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 that 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. 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. Assessment of the estimates may change in subsequent periods as a result of future events.

Structure of other provisions

2023	Provision for land reclamation	Other provisions	Total
1/01/2023	**7.9**	**14.0**	**21.9**
Recognition	-	9.0	**9.0**
Reversal	(0.1)	(2.7)	**(2.8)**
Utilization	(3.9)	(2.3)	**(6.2)**
FX translation differences	(0.4)	(0.2)	**(0.6)**
31/12/2023	**3.5**	**17.8**	**21.3**
Long-term provisions	3.2	0.4	**3.6**
Short-term provisions	0.3	17.4	**17.7**
Total	**3.5**	**17.8**	**21.3**

2022	Provision for land reclamation	Other provisions	Total
1/01/2022	**6.8**	**23.5**	**30.3**
Recognition	0.9	5.5	**6.4**
Reversal	-	(14.0)	**(14.0)**
Utilization	(0.1)	(1.1)	**(1.2)**
FX translation differences	0.3	0.1	**0.4**
31/12/2022	**7.9**	**14.0**	**21.9**
Long-term provisions	-	0.5	**0.5**
Short-term provisions	7.9	13.5	**21.4**
Total	**7.9**	**14.0**	**21.9**

Provision for land reclamation

The provision has been established 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 claims, litigation and contractual penalties, which are more likely than not to result in an outflow of cash in order to satisfy the claim.

According to the Parent Company's Management Board, the amount of other provisions as at 31 December 2023, and as at 31 December 2022, 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.

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

5.11 Other liabilities

Accounting policy applied

Liabilities are the Group's present obligation resulting from future 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

	31/12/2023	31/12/2022
Financial liabilities		
Cash pool	14.2	1.2
Derivatives - swap contract	0.1	0.3
Other liabilities		
Liabilities arising out of collateral (deposits, bid deposits, guarantees)	45.1	41.6
Public law liabilities	134.9	116.8
Settlements with employees	113.9	105.6
VAT settlements	8.8	18.5
Current income tax liabilities	17.7	6.6
Other settlements	20.9	6.5
Total	**355.6**	**297.1**
Short-term liabilities	355.6	297.1
Total	**355.6**	**297.1**

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' ("SPPI"). 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) cash and cash equivalents.

As at 31 December 2023 and 31 December 2022, 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.

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

6. Financial instruments and principles of financial risk management (cont.)

Accounting policy applied

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. The Group derecognizes a financial asset when, and only when, the contractual rights to the cash flows generated from the financial asset expire or when 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	31/12/2023	31/12/2022
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	9.5	5.8
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	669.5	776.7
Receivables from the sale of shares	*Note 5.6*	2.7	4.1
Cash and cash equivalents	*Note 4.3*	263.7	181.5
Financial assets excluded from the scope of IFRS 9		9.8	9.3
Total		**955.2**	**977.4**

Financial liabilities by categories and classes	Note	31/12/2023	31/12/2022
Financial liabilities at fair value through profit or loss			
Derivatives – swap contract	*Note 5.11*	0.1	0.3
Hedging financial instruments			
Bank loans and borrowings	*Note 4.1*	495.2	640.3
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	3.9	26.7
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	985.1	854.0
Trade liabilities	*Note 5.7*	847.8	811.7
Investment liabilities	*Note 5.8*	156.9	189.7
Cash pool	*Note 5.11*	14.2	1.2
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	1,409.6	851.2
Total		**3,912.8**	**3,375.1**

Impairment losses on trade receivables are presented in **Note 1.4** and in **Note 5.5** to these Consolidated Financial Statements.

Hedge accounting

In the period from 1 January 2023 to 31 December 2023, the Group applied hedge accounting to its cash flows. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly likely cash flow denominated in EUR.

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

6.1 Financial instruments (cont.)

As at 31 December 2023, 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 2023, the nominal amount of the hedging instrument was EUR 113.9 million, which is an equivalent of PLN 495.2 million.
- leases denominated in EUR. The hedged cash flows will be realized until May 2024. As at 31 December 2023, the nominal amount of the hedging instrument was EUR 0.9 million, which is an equivalent of PLN 3.9 million.

Fair value hierarchy

As at 31 December 2023 and 31 December 2022, financial instruments measured at fair value included a swap contract and investments in equity instruments.

	31/12/2023		31/12/2022	
	Level 2	Level 3	Level 2	Level 3
Assets				
Investments in equity instruments - shares in unlisted companies	-	9.5	-	5.8
Liabilities				
Derivatives – swap contract	0.1	-	0.3	-

Measurement methods for financial instruments measured at fair value

a) Derivatives – swap contract

Fair value of the swap contract was determined on the basis of a difference between the price from the contract date and the market price as at the balance sheet date. The forward price is calculated based on the market price of diesel fuel.

b) Investments in equity instruments

This line item includes predominantly an equity stake in Euroterminal Sławków Sp. z o.o. worth PLN 8.7 million, the value of which was measured by an independent adviser using the modified Swiss method. The Swiss method is a mixed measurement method as it combines the asset value aspect with the ability to generate future cash flows. According to the Swiss method, the value of the enterprise is calculated as the weighted average of the values determined by the asset-based approach and the income-based approach. This method attaches a greater weight (twice as large) to the value determined by the income-based approach. The adoption of the Swiss method is justified on the grounds that Euroterminal Sławków Sp. z o.o. has a moderate ability to generate profits in the future but owns material assets in the form of land plots and property.

c) Other financial instruments

For the category of financial instruments that are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because as at 31 December 2023 and 31 December 2022 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

	2023	2022
As at the beginning of the reporting period	**5.8**	**5.6**
Profit for the period recognized in other comprehensive income	3.8	-
Exchange differences resulting from translation of financial statements	(0.1)	0.2
As at the end of the reporting period	**9.5**	**5.8**

In the financial year ended 31 December 2023 and 31 December 2022, there were no transfers between levels 2 and 3 of the fair value hierarchy.

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

6.1 Financial instruments (cont.)

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

2023	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)	(18.5)	-	10.0	0.4	(122.9)	(61.2)	**(192.2)**
FX differences	-	-	(7.8)	(0.6)	0.7	1.3	**(6.4)**
Impairment losses / revaluation	-	-	(8.3)	-	-	-	**(8.3)**
Transaction costs related to loans	-	-	-	-	(0.5)	-	**(0.5)**
Effect of settlement of cash flow hedge accounting	(5.3)	-	-	-	-	-	**(5.3)**
Profit / (loss) before tax	**(23.8)**	**-**	**(6.1)**	**(0.2)**	**(122.7)**	**(59.9)**	**(212.7)**
Revaluation	41.5	3.8	-	-	-	-	**45.3**
Other comprehensive income	**41.5**	**3.8**	**-**	**-**	**-**	**-**	**45.3**

In the financial year ended 31 December 2023, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (5.3) million.
In the financial year ended 31 December 2023, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of bank loans in the amount of PLN 42.7 million and lease liabilities in the amount of PLN (1.2) million, which are recognized under the hedge accounting applied by the Group.

2022	Hedging financial instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(8.2)	4.9	0.4	(93.6)	(40.4)	**(136.9)**
FX differences	-	(0.1)	-	0.6	(0.2)	**0.3**
Impairment losses / revaluation	-	(0.7)	-	-	-	**(0.7)**
Transaction costs related to loans	-	-	-	(1.5)	-	**(1.5)**
Effect of settlement of cash flow hedge accounting	(8.6)	-	-	-	-	**(8.6)**
Other	-	-	-	0.3	-	**0.3**
Profit / (loss) before tax	**(16.8)**	**4.1**	**0.4**	**(94.2)**	**(40.6)**	**(147.1)**
Revaluation	(6.7)	-	-	-	-	**(6.7)**
Other comprehensive income	**(6.7)**	**-**	**-**	**-**	**-**	**(6.7)**

In the financial year ended 31 December 2022, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (8.6) million.

In the financial year ended 31 December 2022, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of bank loans in the amount of PLN (6.8) million and lease liabilities in the amount of PLN 0.1 million, which are recognized under the hedge accounting applied by the Group.

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

6.1 Financial instruments (cont.)

Offsetting financial assets

31/12/2023	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	669.5	669.5	(0.8)	668.7
Total	**669.5**	**669.5**	**(0.8)**	**668.7**

31/12/2022	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	776.7	776.7	(0.8)	775.9
Total	**776.7**	**776.7**	**(0.8)**	**775.9**

Offsetting financial liabilities

31/12/2023	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	847.8	847.8	(1.0)	846.8
Total	**847.8**	**847.8**	**(1.0)**	**846.8**

31/12/2022	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	811.7	811.7	(2.5)	809.2
Total	**811.7**	**811.7**	**(2.5)**	**809.2**

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, including:
  a) currency risk
  b) interest rate risk
- credit risk
- liquidity 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.

In 2023, the Group did not use forward transactions for the EUR/PLN currency pair.

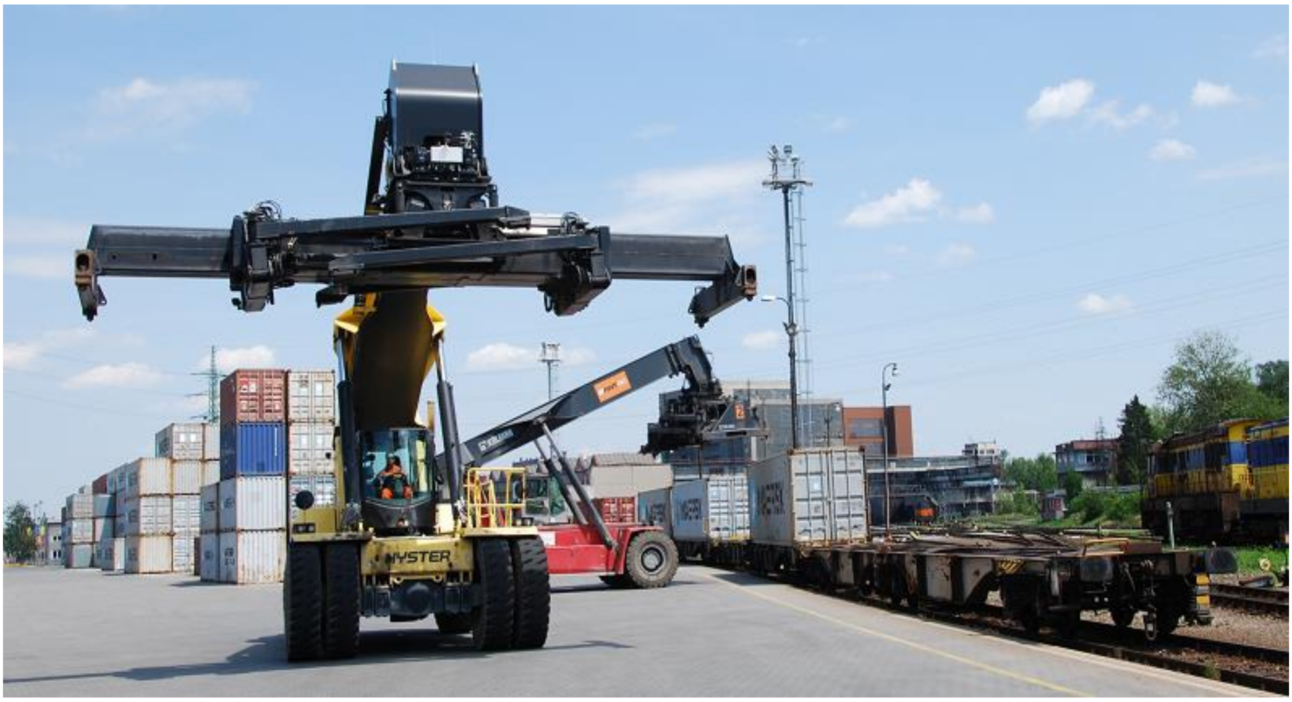
Foreign exchange risk management

As at 31 December 2023, 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 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.



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

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

Items in foreign currencies

31/12/2023	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	1.2	-	-	6.8	1.2
Other assets	2.4	-	0.2	12.6	2.2
Current assets					
Trade receivables	175.1	25.3	110.1	369.6	65.0
Other assets	12.2	1.3	5.8	36.5	6.4
Cash and cash equivalents	134.3	16.4	71.3	358.3	63.0
Total	**325.2**	**43.0**	**187.4**	**783.8**	**137.8**
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	438.5	96.4	419.2	109.6	19.3
Trade liabilities	0.3	-	-	1.9	0.3
Short-term liabilities					
Debt liabilities	113.3	24.7	107.5	33.0	5.8
Trade liabilities	73.5	6.8	29.5	249.9	44.0
Investment liabilities	12.2	-	0.2	68.0	12.0
Other liabilities	0.4	0.1	0.4	-	-
Total	**638.2**	**128.0**	**556.8**	**462.4**	**81.4**
Net currency item	**(313.0)**	**(85.0)**	**(369.4)**	**321.4**	**56.4**

31/12/2022	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	7.3	-	-	37.3	7.3
Current assets					
Trade receivables	233.3	26.4	123.9	563.5	109.4
Cash and cash equivalents	108.7	9.9	46.3	321.5	62.4
Total	**349.3**	**36.3**	**170.2**	**922.3**	**179.1**
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	589.7	120.2	563.8	133.2	25.9
Trade liabilities	4.7	-	-	24.3	4.7
Short-term liabilities					
Debt liabilities	141.5	28.8	135.0	33.2	6.5
Trade liabilities	102.7	7.8	36.5	341.1	66.2
Investment liabilities	7.5	-	0.1	38.4	7.4
Other financial liabilities - swap contract	0.3	0.1	0.3	-	-
Total	**846.4**	**156.9**	**735.7**	**570.2**	**110.7**
Net currency item	**(497.1)**	**(120.6)**	**(565.5)**	**352.1**	**68.4**

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

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. The 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 in foreign exchange rates. The tables below present the Group's exposure to the foreign exchange risk in 2023 and 2022.

31/12/2023	Value of the item in PLN	Foreign exchange risk							
		EUR/PLN						CZK/PLN	
		impact on the result		impact on other comprehensive income		impact on equity		impact on other comprehensive income and equity	
		+3%	-3%	+3%	-3%	+3%	-3%	+4%	-4%
ASSETS									
Non-current assets									
Trade receivables	1.2	-	-	-	-	-	-	-	-
Other assets	2.4	-	-	-	-	-	-	0.1	(0.1)
Current assets									
Trade receivables	175.1	3.3	(3.3)	-	-	3.3	(3.3)	2.6	(2.6)
Other assets	12.2	0.2	(0.2)	-	-	0.2	(0.2)	0.3	(0.3)
Cash and cash equivalents	134.3	2.2	(2.2)	-	-	2.2	(2.2)	2.5	(2.5)
EQUITY AND LIABILITIES									
Long-term liabilities									
Debt liabilities	438.5	(0.3)	0.3	(12.2)	12.2	(12.5)	12.5	(0.8)	0.8
Trade liabilities	0.3	-	-	-	-	-	-	-	-
Short-term liabilities									
Debt liabilities	113.3	-	-	(3.2)	3.2	(3.2)	3.2	(0.2)	0.2
Trade liabilities	73.5	(0.9)	0.9	-	-	(0.9)	0.9	(1.8)	1.8
Investment liabilities	12.2	-	-	-	-	-	-	(0.5)	0.5
Other liabilities	0.4	-	-	-	-	-	-	-	-
Total gross effect		**4.5**	**(4.5)**	**(15.4)**	**15.4**	**(10.9)**	**10.9**	**2.2**	**(2.2)**

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

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

31/12/2022	Value of the item in PLN	Foreign exchange risk							
		EUR/PLN						CZK/PLN	
		impact on the result		impact on other comprehensive income		impact on equity		impact on other comprehensive income and equity	
		+2%	-2%	+2%	-2%	+2%	-2%	+3%	-3%
ASSETS									
Non-current assets									
Trade receivables	7.3	-	-	-	-	-	-	0.2	(0.2)
Current assets									
Trade receivables	233.3	2.5	(2.5)	-	-	2.5	(2.5)	3.3	(3.3)
Cash and cash equivalents	108.7	0.9	(0.9)	-	-	0.9	(0.9)	1.9	(1.9)
EQUITY AND LIABILITIES									
Long-term liabilities									
Debt liabilities	589.7	(0.3)	0.3	(11.0)	11.0	(11.3)	11.3	(0.8)	0.8
Trade liabilities	4.7	-	-	-	-	-	-	(0.1)	0.1
Short-term liabilities									
Debt liabilities	141.5	(0.3)	0.3	(2.4)	2.4	(2.7)	2.7	(0.2)	0.2
Trade liabilities	102.7	(0.7)	0.7	-	-	(0.7)	0.7	(1.9)	1.9
Investment liabilities	7.5	-	-	-	-	-	-	(0.2)	0.2
Other financial liabilities – swap contract	0.3	-	-	-	-	-	-	-	-
Total gross effect		**2.1**	**(2.1)**	**(13.4)**	**13.4**	**(11.3)**	**11.3**	**2.2**	**(2.2)**

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

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

Interest rate risk management

As at 31 December 2023, 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. Under IFRS 16, changes in future lease payments due to price indexation do not result in a change in the discount rate used to measure 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 2023 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 2022-2023, the Group did not use derivative instruments to hedge the interest rate risk.

Financial instruments by interest rate type

Financial assets	31/12/2023			31/12/2022		
	Interest rate		Total	Interest rate		Total
	fixed interest rate	variable interest rate		fixed interest rate	variable interest rate	
Lease receivables	9.8	-	**9.8**	9.3	-	**9.3**
Receivables from the sale of shares	2.7	-	**2.7**	4.1	-	**4.1**
Cash and cash equivalents	263.7	-	**263.7**	181.5	-	**181.5**
Total	**276.2**	**-**	**276.2**	**194.9**	**-**	**194.9**

Financial liabilities	31/12/2023			31/12/2022		
	Interest rate		Total	Interest rate		Total
	fixed interest rate	variable interest rate		fixed interest rate	variable interest rate	
Debt liabilities	949.2	1,944.6	**2,893.8**	808.2	1,564.0	**2,372.2**
Investment liabilities	52.4	-	**52.4**	122.3	-	**122.3**
Cash pool	14.2	-	**14.2**	1.2	-	**1.2**
Total	**1,015.8**	**1,944.6**	**2,960.4**	**931.7**	**1,564.0**	**2,495.7**

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 2023 and 2022, 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).

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

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

31/12/2023	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result and equity		impact on the result and equity	
		+ 450 bps	- 450 bps	+ 250 bps	- 250 bps
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,273.7	(42.1)	42.1	(8.4)	8.4
Short-term liabilities					
Debt liabilities	659.9	(15.5)	15.5	(1.8)	1.8
Total gross effect		**(57.6)**	**57.6**	**(10.2)**	**10.2**

31/12/2022	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result and equity		impact on the result and equity	
		+ 450 bps	- 450 bps	+ 250 bps	- 250 bps
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,034.5	(32.4)	32.4	(12.8)	12.8
Short-term liabilities					
Debt liabilities	513.1	(20.7)	20.7	(2.5)	2.5
Total gross effect		**(53.1)**	**53.1**	**(15.3)**	**15.3**

Credit risk management

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

	31/12/2023	31/12/2022
Trade receivables	669.5	776.7
Lease receivables	9.8	9.3
Cash and cash equivalents	263.7	181.5
Receivables from the sale of shares	2.7	4.1
Total	**945.7**	**971.6**

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

	31/12/2023	31/12/2022
PKP Group related parties	0.9%	1.9%
State Treasury related parties	31.8%	34.5%
Other entities	67.3%	63.6%
Total	**100.0%**	**100.0%**

Additionally, in order to reduce the risk of problems with recovery of trade receivables, the Group accepts from its customers security in the form of, among others: receivables insurance, bank / insurance guarantees, assignment of contracts, and promissory notes. As at 31 December 2023, 9.0% of trade receivables were secured.

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

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

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	31/12/2023
Bank A	Moody's Investor Service Ltd	A2	44.7%
Bank B	Fitch Ratings	A+	31.4%
Bank C	Moody's Investor Service Ltd	A2	10.2%
Bank D	Standard & Poor's	BBB	5.8%
Bank E	Moody's Investor Service Ltd	A2	3.5%
Bank F	Moody's Investor Service Ltd	Aa3	2.4%
Other			2.0%
Total			**100.0%**

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and other parties related to the State Treasury

In the financial year ended 31 December 2023 and 31 December 2022, the State Treasury was for the PKP CARGO Group an upper level parent company. 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.

During the financial year ended 31 December 2023, the Group signed an agreement for the sale of a property in Gniewczyna Łańcucka with an entity subordinated to the Ministry of National Defence. Other than the above transaction, in 2023 and 2022, there were no transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope and amount. In the periods covered by these 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, PKN Orlen and ENEA. In the financial year ended 31 December 2023, the Group's most important suppliers related to the State Treasury were PGE 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:

	2023		31/12/2023	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	85.7	1.1	587.4
Subsidiaries/co-subsidiaries – unconsolidated	8.9	29.5	0.7	2.2
Associates	6.6	2.2	0.8	0.1
Other PKP Group related parties	36.6	513.0	3.0	168.4

	2022		31/12/2022	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	78.5	1.3	580.3
Subsidiaries/co-subsidiaries – unconsolidated	9.0	25.5	1.3	2.3
Associates	5.8	0.2	1.1	-
Other PKP Group related parties	35.0	566.5	11.7	203.9

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

7.1 Related party transactions (cont.)

Purchase transactions with the parent company (PKP S.A.) pertained in particular to lease and rental agreements treated as leasing contracts, the supply of utilities, costs of fees for membership in international railway organizations and occupational medicine services.

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

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

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

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	
	2023	2022	2023	2022
Short-term benefits	3.7	2.3	7.3	5.2
Post-employment benefits	-	0.7	0.1	0.6
Termination benefits	-	-	-	0.3
Total	**3.7**	**3.0**	**7.4**	**6.1**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	2023	2022	2023	2022
Short-term benefits	1.4	1.3	1.3	1.3
Total	**1.4**	**1.3**	**1.3**	**1.3**

Remunerations of other key management personnel	Parent Company		Subsidiaries	
	2023	2022	2023	2022
Short-term benefits	6.7	6.4	21.7	19.1
Post-employment benefits	-	0.3	-	-
Termination benefits	0.3	0.1	-	0.1
Total	**7.0**	**6.8**	**21.7**	**19.2**

In the financial year ended 31 December 2023 and 31 December 2022, 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

	31/12/2023	31/12/2022
Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment	337.4	650.1
Contractual liabilities on account of non-commenced lease contracts	7.8	1.5
Total	**345.2**	**651.6**

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

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

	31/12/2023	31/12/2022
Guarantees issued on the Group's order	142.7	132.3
Other contingent liabilities	109.0	152.4
Total	**251.7**	**284.7**

Guarantees issued on the Group's order

As at 31 December 2023, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, customs guarantees and excise tax guarantees.

Other contingent liabilities

This line item includes claims made against the Group in legal proceedings and other claims for which the probability of an outflow of cash is considered remote and for which the Group is unable to make a reliable estimate of the future cash outflow. 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.

The decrease in other contingent liabilities is due to the closing of a lawsuit brought by one of the contractors for payment of PLN 31.5 million in compensation for loss of profit, loss of credibility, loss of good name and reputation, as well as compensation for the plaintiff's costs for severance payments to employees and compensation for unused holidays. On 24 August 2023, in a closed session, the Supreme Court refused to examine the plaintiff's appeal in cassation appeal, thus ending the case.

7.4 Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2023 and 31 December 2022 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

	31/12/2023	31/12/2022
Rolling stock and other property, plant and equipment	262.0	193.4
Trade receivables	38.1	60.9
Cash	2.9	6.2
Total	**303.0**	**260.5**

7.5 Impact of the war in Ukraine on the Group's activities

The main risk factor that continues to affect the Group's current and future performance is the war in Ukraine. It is still impossible to estimate the direction and extent of the activities. The war increased the scale of economic problems, reoriented the direction of trade, which resulted in a significant remodeling of the existing relationships, but on the other hand also created new business relationships.

In the past years, Ukraine was the key supplier of many products to Europe (including steel products, elements important for manufacturers in the automotive industry, or oil products); after the outbreak of the war, supplies were significantly reduced and have largely not been restored to date. Further packages of European Union's sanctions against the Russian Federation have not hampered trade with Russia enough to realistically affect the country's ability to wage war (given Russia's accumulated stockpile of equipment and large raw materials base, as well as the significant number of countries in the "global south" that do not impose any significant trade restrictions). Of particular importance were the restrictions on trade in oil and petroleum products introduced in December 2022 and February 2023, which forced Russia to seek new selling markets and directions, including with the use using ships flying the flags of other countries.

It should be emphasized that the Group companies, which provided numerous services alongside the Eastern direction, were affected by the conflict (directions to Russia and Belarus), although the Group took adaptive measures to minimize its losses. On the other hand, there was an intensification of trade with Ukraine, despite many problems with throughput capacity of the borders. It is noticeable that prices of energy resources and food continue to become normal, but a possible escalation of operations, problems in supply chains or blocking trade routes may again effectively cause considerable increases in prices. Fuel and energy prices, which are higher than historical averages, have a significant impact on the costs and results of PKP CARGO Group companies.

Poland is dependent on imports by sea and the importance of deliveries from this direction continues to rise (as much as of Polish ports on the Baltic Sea). In 2024, the imports should clearly increase because of expected economic recovery, which should potentially contribute to higher freight turnover of rail carriers (including PKP CARGO Group companies). In that regard, overriding importance is attached to energy resources. It is expected that deliveries of fossil fuel to sea ports will continue to increase. Relatively attractive sea freight prices (resulting from growing supply of services of specialized high-sea vessels) and also lower attractiveness of the "New Silk Road" adversely affect nevertheless PKP CARGO Group's freight transport. Some goods reach countries in the south, east and west of Europe, without intermediation of Poland, through, among others, ports in Italy, Slovenia or Croatia. The decline in the number of containers shipped through the New Silk Road may be much more protracted in the extreme case, and the route may never reach the growth rate it did in its peak years (especially given the alternative routes proposed by China or the US).

Despite numerous areas of conflict (due to different economic interests of entities in both countries), intensified economic relations between Poland and Ukraine continue, not only in the wake of the continuing aggression, but also in many other areas (which may become a seed for growing relations for the next years, even after the war). This process can be observed, among others, in the activities of PKP CARGO CONNECT and other PKP CARGO Group companies. Group companies provide transportation and freight forwarding services for many cargo categories of key importance for Ukraine, including those important for the functioning of export and transit of fuel, import and transit of metals, transit of grain and the entire range of products in container transportation. So far, however, no real measures have been taken (on either side) in connection with the active development of rail infrastructure in the border area, which would allow for a significant increase in border throughput and, consequently, an increase in freight transport and a significant reduction in the time required to provide transportation services. Poland has seen significant increases of up to several tens of percent in trade in certain cargo categories, but infrastructure limitations may slow or even reverse this process.

The companies of the PKP CARGO Group are constantly monitoring and analyzing factual changes and legal changes related to the provision of transport services. So far, the most significant consequences of the war activities have affected the terminals on the northeastern border of Poland and the companies specializing in the provision of freight forwarding services in a given area. Russia's war with Ukraine and support provided by Belarus for the aggressor's hostilities make it impossible to exploit most of the potential for trading and building commercial relations in the east, therefore it becomes more and more important to diversify directions and acquire new competences and databases of customers in this highly uncertain region in terms of business activities. The continuing armed conflict in Ukraine and its consequences had the greatest impact on the activity of CARGOTOR Sp. z o.o. Accordingly, as at 31 December 2023, the Group carried out an impairment test for CARGOTOR Sp. z o.o.'s assets, which is described in **Note 5.1** to these Consolidated Financial Statements.

7.6 Impact of the macroeconomic environment on the Group's activities

The macroeconomic environment is the single factor with the greatest impact on the directions and pace of development of the transportation market. After the negative effect in 2023, it should now have a positive impact on the functioning of the rail freight market and the Group's activities. The year 2024 seems to be the time of the long-awaited recovery, which will result from growing consumption in Poland (as a result of a lower, but still high inflation rate and a decrease in the cost of capital, with a still high level of stimulation by the state). A key factor for the acceleration of growth will be a scale of GDP growth in the most important economic partners in western Europe, where the scale of the slowdown, which manifested itself in 2023 by exerting a highly adverse influence on, among other things, a significant reduction in industrial production, is the aftermath and effect of the energy crisis, which continues to leave its mark on business activity. The growth in Polish GDP, due to the stabilization and gradual increase in international trade, will allow for a gradual increase in the volume of rail freight and, at the same time, in the demand for freight forwarding or terminal services.

7.6 Impact of the macroeconomic environment on the Group's activities (cont.)

The trade balance, which was positive in 2023, may worsen in the coming months (because of the increasing imports caused by increasing consumption and, more importantly, domestic production and continuing positive export activity), which should not have a particularly negative effect on the Polish economy but promote higher GDP growth. Among macroeconomic factors, inflation is the most important factor holding back economic growth (and therefore also the activity of manufacturing and transportation companies). Simultaneously accelerated growth of key economic partners, but also the internal market, should drive demand for rail transportation in the rail freight market.

At present, the Group does not perceive any fundamental threats from the macroeconomic environment to the operations of its companies. It is important to note that the situation remains very volatile and requires the Group to continue to actively analyze it and take numerous adjustments.

7.7 Impact of climate change on the Group's activities

Current social and environmental trends have focused on climate change as one of the greatest challenges of our time. The Group is aware of the ongoing climate change and the potential of rail transport to mitigate it. Low carbon intensity of rail transport makes it an excellent solution for reducing emissions across the transportation sector. One of the key initiatives of the European Commission is a modal shift to rail transport so that it can gradually serve a growing flow of people and goods. As a leading rail freight operator in Poland and the European Union, the Group has the opportunity to be part of this solution. Especially if the Group's business strategy calls for an increase in its market share in rail and intermodal freight transport.

On the other hand, climate change is leading to changes in EU and national legislation, which are constantly increasing environmental protection requirements and forcing companies to incur additional environmental charges or to take adaptation measures to avoid or minimize these costs (for example, the Group is subject to special environmental requirements for the disposal of redundant rolling stock).

The actions taken by the Group, i.e. the purchase of new rolling stock or the modernization of its existing rolling stock are aimed, among other things, at reducing electricity consumption in the freight transport process, as well as reducing the noise level of freight wagons by replacing cast iron brake blocks with composite ones.

The Group is exposed to the risk of climate change primarily due to the potential impact of climatic factors on the geographic and economic environment in which the Group operates.

As at 31 December 2023, climate risk has not had a material direct impact on the various areas in which estimations are carried out, including the impairment testing of selected assets, or on the Group's going concern issues for the period of 12 months after the date of approval of these Consolidated Financial Statements.

7.8 Subsequent events

On 1 February 2024, the Supervisory Board of the Parent Company decided to suspend Mr. Dariusz Seliga, President of the PKP CARGO S.A. Management Board, and Mr. Marek Olkiewicz, PKP CARGO S.A. Management Board Member in charge of Operations, in the performance of their duties and appoint Mr. Maciej Jankiewicz, PKP CARGO S.A. Management Board Member in charge of Finance, as Acting President of the PKP CARGO S.A. Management Board.

On 22 April 2024, the Supervisory Board of the Parent Company dismissed Mr. Jacek Rutkowski, Member of the Management Board Member in charge of Commerce, from the Management Board of PKP CARGO S.A.

On 19 March 2024, an annex was executed to the cash pooling service agreement with a bank, extending the term of the agreement until 19 March 2025.

Other events occurring after the balance sheet date are described in **Note 4.1** to these Consolidated Financial Statements.

7.9 Approval of the financial statements

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 23 April 2024.

Parent Company's Management Board

Maciej Jankiewicz
Acting President of the Management Board

Zenon Kozendra
Management Board Member

Warsaw, 23 April 2024