Managemet Board's Report of the activities of PKP CARGO CAPITAL GROUP

in 2021

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP FOR THE FINANCIAL YEAR 2021

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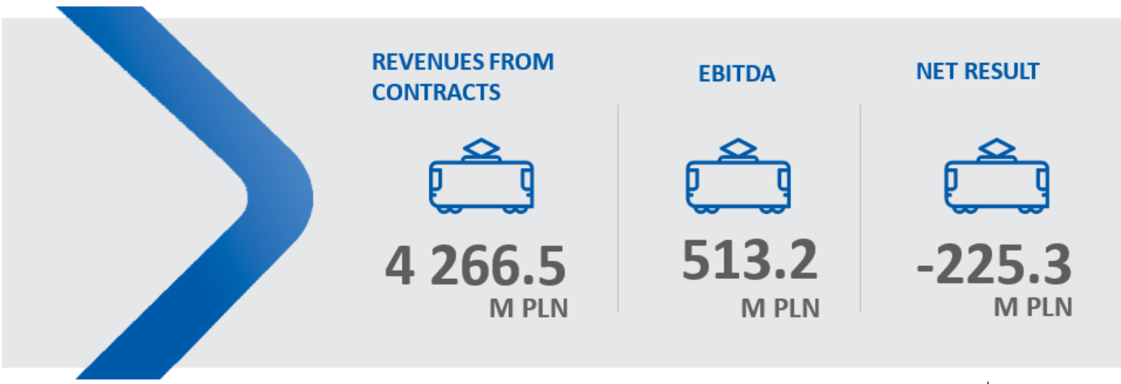
1. Introduction

Dear Stakeholders,

2021 was a rebound year for the rail market following the restrictions imposed in 2020 due to the outbreak of the COVID-19 epidemic. It brought us economic growth, a high rate of increase in industrial output which contributed to economic growth in the rail transport segment and a high, not only of an inflationary nature, increase of a significant portion of expenses incurred by PKP CARGO Group companies.
The increases in the PKP CARGO Group's freight volume and market share in 2021 provide a good launching ground for the intensification of endeavors aimed at improving the economic efficiency of PKP CARGO Group companies in the coming years. However, it should be taken into account that the European economy enters 2022 destabilized by the serious consequences of global economic sanctions imposed on the Russian Federation in connection with its armed aggression of Ukraine.
For the PKP CARGO Group, it will be another year in which we will face market challenges and the expectations of our domestic and international customers.

PKP CARGO S.A. Management Board:

Władysław Szczepkowski acting President of the Management Board	Marek Olkiewicz Management Board Member in charge of Operations	Zenon Kozendra Management Board Member – Employee Representative



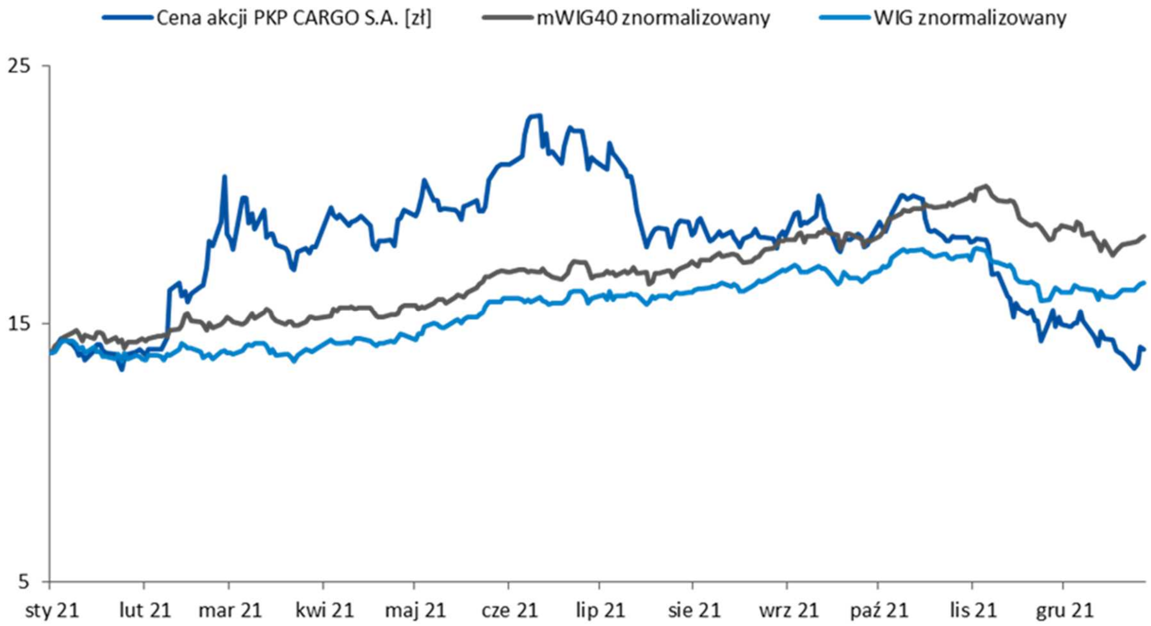
2. Investor Relations

PKP CARGO S.A., as a public company listed on the Warsaw Stock Exchange, makes active communication efforts in order to present a reliable picture of the Company's operations. A matter of priority in the Company's communication conducted within framework of its investor relations endeavors is to present to investors a reliable picture of the Company's operations, including its financial standing, to ensure equal access to information for all market participants.
In 2021, due to the ongoing COVID-19 pandemic, communication with the market was seriously constrained and was carried out in the following forms:

- results conference at the Company's head office
- online results conference
- e-Shareholder Meeting
- teleconferences or videoconferences.

Despite the harsh market conditions in 2021, PKP CARGO S.A. managed to communicate actively with investors and analysts. Within the framework of these efforts, meetings with capital market participants were held, including 3 conferences to recapitulate the Company's financial performance.
Moreover, the Company provides stakeholders with information through its corporate website, including a professional investor relations page, maintained and updated in two languages, Polish and English, in order to disseminate information among both Polish and foreign market participants.
For the purposes of conducting effective communication, the Company also prepares additional materials that are published in the section dedicated to investor relations. These include: fact sheet, investor presentations and basic financial and operational data on each quarter.
The following chart presents the stock exchange quotes for PKP CARGO S.A. in 2021 vis-à-vis the mWIG40 index.

Figure 1 Stock exchange quotes for PKP CARGO S.A. in 2021



Source: Proprietary material

Publication of 2020 results: 31 March;
Report for Q1 2021: 21 May;
Report for H1 2021: 20 August;
Report for the first three quarters of 2021: 24 November.

Table 1 Recommendations for PKP CARGO S.A. issued in 2021

Date of issue/update	Recommendation	Target price (PLN)	Price on the date of issue (PLN)	Institution
9 April	Sell	16.21	19.08	mBank Biuro maklerskie
13 April 2021	Hold (downgraded)	19.40	19.24	Santander Biuro Maklerskie
15 June 2021	Hold (downgraded)	22.90	12.50	Santander Biuro Maklerskie.
3 December	Hold	16.21	15.24	mBank Biuro maklerskie

In 2021, between 4 January 4 and 30 December 2021, the price of PKP CARGO S.A. shares increased from PLN 13.88 to PLN 14.02 (+1.01%). The lowest share price was recorded on 27 January 2021 (PLN 12.50) and the highest was reached on 14 June 2021 (PLN 23.10). In 2021, the WIG index and mWIG40 indices increased by 19.5% and 32%, respectively. Throughout the year, the price of PKP CARGO shares remained stable, with an upward trend in the first half of 2021 and a downward trend in the second half of 2021.
The Company's stock is included in the most important indices for companies listed on the regulated market operated by the Warsaw Stock Exchange, namely WIG, mWIG40, WIG-Poland and WIG-ESG. Also, the Company's stock is taken into account in the STOXX® Europe Total Market index.

3. Organization of the PKP CARGO Group

3.1. Highlights on the Company and the PKP CARGO Group

The PKP CARGO Group is the largest rail freight operator in Poland and the European Union ("EU") and a key partner on the New Silk Road. For many years, it has been connecting major points on the industrial map of Poland, offering comprehensive logistics services along the East-West and North-South corridors. The PKP CARGO Group provides its services to customers in diverse industries – from mining and metallurgy, to construction, chemicals, wood processing, food production and automotive. The PKP CARGO Group offers its customers intermodal services, freight forwarding (domestic and international), terminal, siding and traction services, repair and maintenance of rolling stock, and land reclamation services.

The PKP CARGO Group holds licenses for the provision of rail freight services in the following 9 EU countries: Lithuania, Slovakia, Hungary, Slovenia, Austria, the Czech Republic, Germany, the Netherlands and Poland.
The Group (including the Parent Company, PKP CARGO INTERNATIONAL a.s. and PKP CARGO SERVICE Sp. z o.o.) offers a broad range of services on the domestic market and the international market. It offers not only the transportation of cargo, but also renders comprehensive logistics services related to rail freight operations.
In addition, the following services are provided by the Group to support clients and supplement the offering:

3.2. Consolidated entities

The Consolidated Financial Statements for the financial year ended 31 December 2021 encompass PKP CARGO S.A. and 12 subsidiaries consolidated by the full method:

Table 2 Subsidiaries consolidated by the full method

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

Additionally, a list of companies accounted for under the equity method is presented in Note 5.4 of the Consolidated Financial Statements for the financial year ended 31 December 2021.

3.3. Organizational structure of PKP CARGO S.A.

PKP CARGO S.A.'s Management Board performs its tasks with the aid of reporting organizational units and their constituent organizational cells.
The following organizational units have been distinguished within the Company's organizational structure:

Company's Head Office

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

Units

The key tasks of the Units is to manage the resources in the area of their operations, organize and perform cargo deliveries in accordance with executed agreements using the rail freight procedure, transshipment, storage, transport with the use of other carriers, traction service of freights performed by the Company, lease of traction vehicles, repair of own rolling stock and provision of repair services, maintenance of technical equipment and workshop facilities and performance of the Company's objectives in the area of marketing and sales services.
In 2021, the following organizational units comprised the PKP CARGO S.A. enterprise structure:

- PKP CARGO S.A. Central Unit of the Company
- PKP CARGO S.A. Lower Silesian Unit of the Company
- PKP CARGO S.A. Southern Unit of the Company
- PKP CARGO S.A. Northern Unit of the Company
- PKP CARGO S.A. Silesian Unit of the Company
- PKP CARGO S.A. Eastern Unit of the Company
- PKP CARGO S.A. Western Unit of the Company

3.4. Changes to the Company's basic management principles

On 18 October 2021, the PKP CARGO S.A. Supervisory Board dismissed Czesław Warsewicz, Leszek Borowiec, Witold Bawor and Piotr Wasaty from their positions of President of the PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Finance, PKP CARGO S.A. Management Board Member in charge of Operations and PKP CARGO S.A. Management Board Member in charge of Commerce, respectively. At the same time, the PKP CARGO S.A. Supervisory Board seconded Władysław Szczepkowski, Supervisory Board Member, to discharge the duties of President of the PKP CARGO S.A. Management Board for a period not longer than 3 months.
Due to the reduced number of Management Board Members, on 19 October 2021, the Management Board adopted a Resolution under which it entrusted Władysław Szczepkowski (acting President of the PKP CARGO S.A. Management Board) with temporary supervision over the organizational units of the Company's Head Office falling within the powers of the PKP CARGO S.A. Management Board Member in charge of Finance, the PKP CARGO S.A. Management Board Member in charge of Operations and the PKP CARGO S.A. Management Board Member in charge of Commerce, with the reservation that supervision over the HR Management Department, the ICT Department and the Procurement Deployment will be temporarily exercised by Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative. Moreover, to ensure an efficient representation of the Company, the Management Board granted joint commercial proxy powers to three employees of the Company's Head Office.
After the balance sheet date, on 13 January 2022, the PKP CARGO S.A. Supervisory Board appointed Marek Olkiewicz as PKP CARGO S.A. Management Board Member in charge of Operations. At the same time, the Supervisory Board seconded Władysław Szczepkowski, Supervisory Board Member, to discharge the duties of President of the PKP CARGO S.A. Management Board for a period not longer than 3 months.
Due to the incomplete composition of the Company's Management Board, the Management Board adopted a Resolution on the temporary entrustment of supervision over the matters and organizational units of the Company's Head Office, under which it entrusted Władysław Szczepkowski (acting President of the PKP CARGO S.A. Management Board) with temporary supervision over the organizational units of the Company's Head Office falling within the powers of the PKP CARGO S.A. Management Board Member in charge of Operations until 2 February 2022 and the PKP CARGO S.A. Management Board Member in charge of Finance and Management Board Member in charge of Commerce, with the reservation that supervision

over the HR Management Department, the ICT Department and the Procurement Deployment will be temporarily exercised by Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative. The temporary supervision will cease once the pertinent Management Board Members have been appointed.

3.5. Description of changes in the Group's organization

In 2021, changes were made to the organization of the Parent Company, as described in section 3.4 of this report.

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

- sale by PKP CARGO CONNECT sp. z o.o. with its registered office in Warsaw of all shares held in RENTRANS CARGO Sp. z o.o. with its registered office in Szczecin.
- On 22 March 2021, PKP CARGO CONNECT sp. z o.o. (in which PKP CARGO holds a 100% stake) and RENTRANS CARGO Sp. z o.o. with its registered office in Szczecin entered into a conditional agreement on the purchase of shares for redemption, under which PKP CARGO CONNECT sp. z o.o. sold all 249 shares held by it in RENTRANS CARGO Sp. z o.o. (accounting for a 29.26% stake in the share capital of RENTRANS CARGO Sp. z o.o.).
- As a result of this transaction, on 22 March 2021 the title to 249 shares in RENTRANS CARGO Sp. z o.o. was transferred to this company itself, meaning that, as of 22 March 2021, PKP CARGO CONNECT sp. z o.o. ceased to be a shareholder of RENTRANS CARGO Sp. z o.o., and therefore RENTRANS CARGO Sp. z o.o. ceased to be a related party of PKP CARGO.
- change of business name from PRIMOL-RAIL d.o.o. to PKP CARGO INTERNATIONAL SI d.o.o. with its registered office in Grčarevec, Slovenia – in this company, PKP CARGO INTERNATIONAL a.s. holds an 80% stake in the share capital. With effect as of 9 September 2021, PRIMOL-RAIL d.o.o. with its registered office in Grčarevec, Slovenia, an 80% owned subsidiary of PKP CARGO INTERNATIONAL a.s., changed its name and currently does business as PKP CARGO INTERNATIONAL SI d.o.o. with its registered office in Grčarevec, Slovenia. Neither the amount of the share capital of PKP CARGO INTERNATIONAL SI d.o.o. nor the stake in its share capital held by PKP CARGO INTERNATIONAL a.s. have changed.
- acquisition by PKP CARGO S.A. of a 100% stake in PKP Linia Chełmska Szerokotorowa sp. z o.o. with its registered office in Chełm. On 27 October 2021, an agreement was signed under which PKP CARGO S.A. acquired from PKP Linia Hutnicza Szerokotorowa sp. z o.o. with its registered office in Zamość a 100% stake (100 shares with a par value of PLN 50 each, with a total par value of PLN 5,000) in PKP Linia Chełmska Szerokotorowa sp. z o.o. with its registered office in Chełm, for a total price of PLN 5,000.

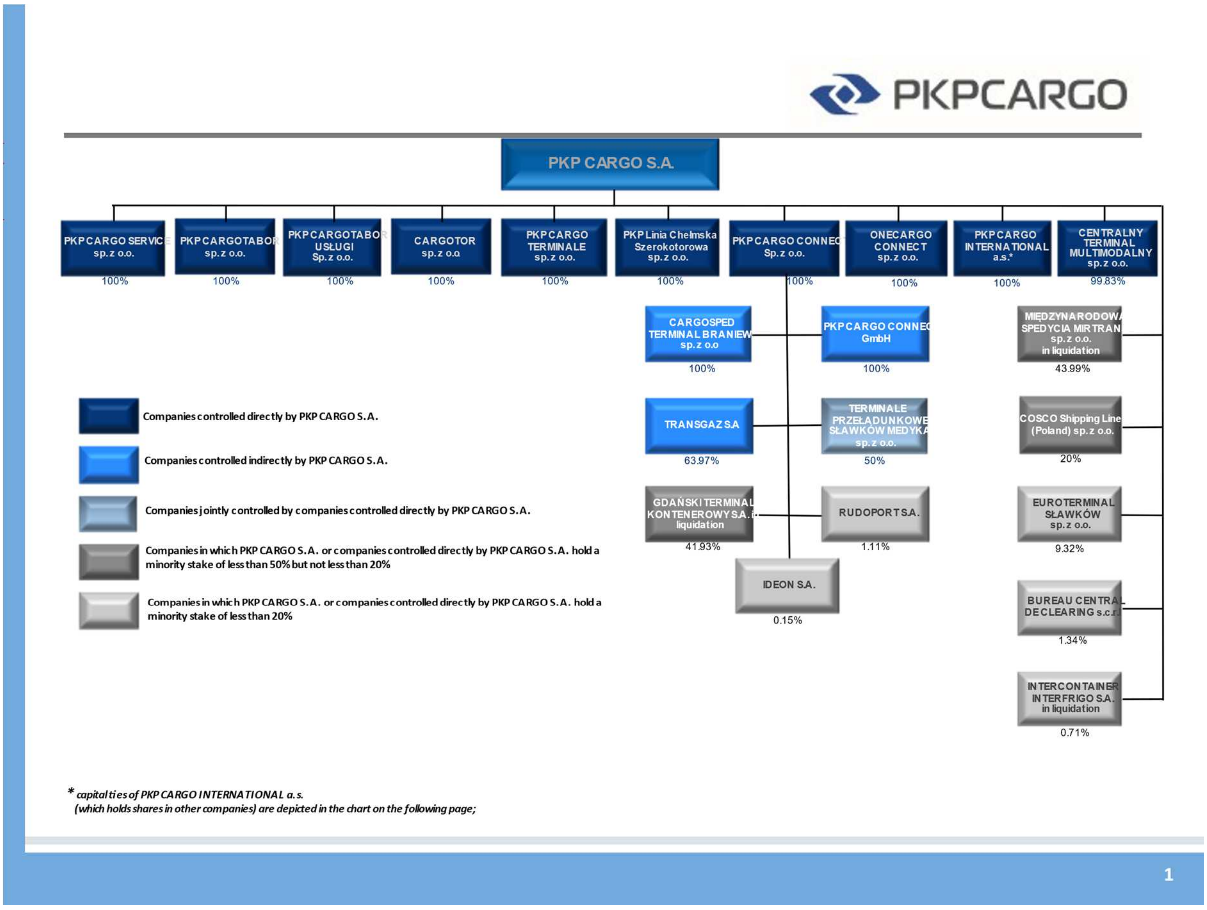
3.6. Information on capital ties of PKP CARGO

As at 31 December 2021, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A.:

- 20 subsidiaries of PKP CARGO, controlled directly or indirectly (by entities controlled by PKP CARGO), including:
- 10 subsidiaries controlled directly by PKP CARGO,
- 10 subsidiaries controlled directly by companies directly controlled by PKP CARGO (and indirectly controlled by PKP CARGO), including 3 companies directly controlled by PKP CARGO CONNECT sp. z o.o. and 7 companies directly controlled by PKP CARGO INTERNATIONAL a.s.;
- 1 jointly controlled subsidiary (in which a member of the PKP CARGO Group holds a 50% stake in the share capital), specifically:
    - 1 company under a joint control of PKP CARGO CONNECT sp. z o.o., holding a 50% stake in its share capital (under an indirect joint control of PKP CARGO): TERMINALE PRZEŁADUNKOWE SŁAWKÓW MEDYKA sp. z o.o.;
    - moreover, PKP CARGO or PKP CARGO's (direct or indirect) subsidiaries held shares in 9 companies that were not controlled or jointly controlled by PKP CARGO or PKP CARGO's subsidiaries, including:
    - 5 companies in which PKP CARGO directly holds a minority stake,
    - 3 companies in which PKP CARGO CONNECT sp. z o.o., a company directly controlled by PKP CARGO, holds a minority stake in the share capital in a manner that does not make it possible to exercise control or joint control,

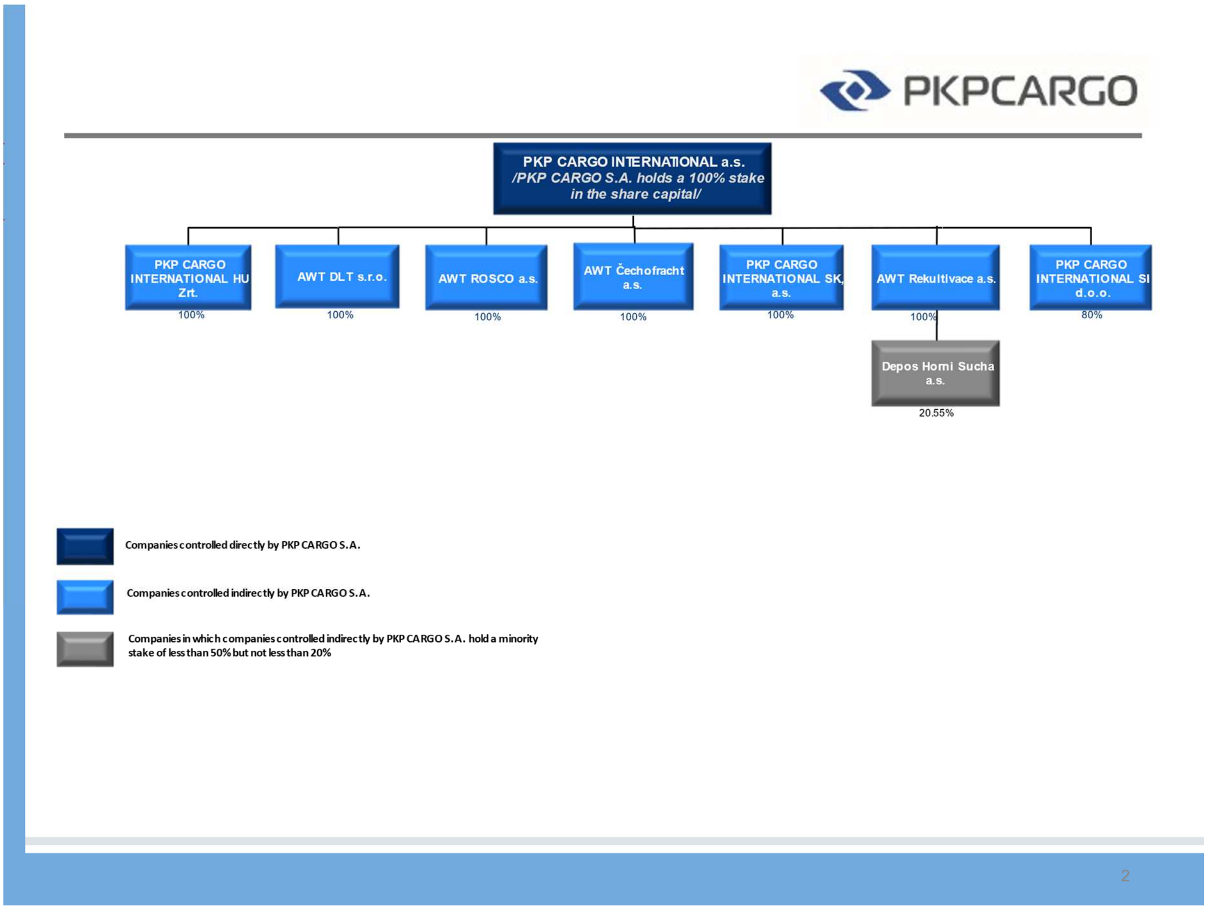
– 1 company related to the PKP CARGO INTERNATIONAL Group in which a company indirectly controlled by PKP CARGO holds a minority stake in the share capital in a manner that does not make it possible to exercise control or joint control.

Figure 2 Structure of capital links with the companies in which PKP CARGO S.A. or its subsidiaries hold shares – as at 31 December 2021



Source: Proprietary material

Figure 3 Structure of the PKP CARGO INTERNATIONAL Group as at 31 December 2021



Source: Proprietary material

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

4.1. Macroeconomic environment

Industry and the economy in Poland

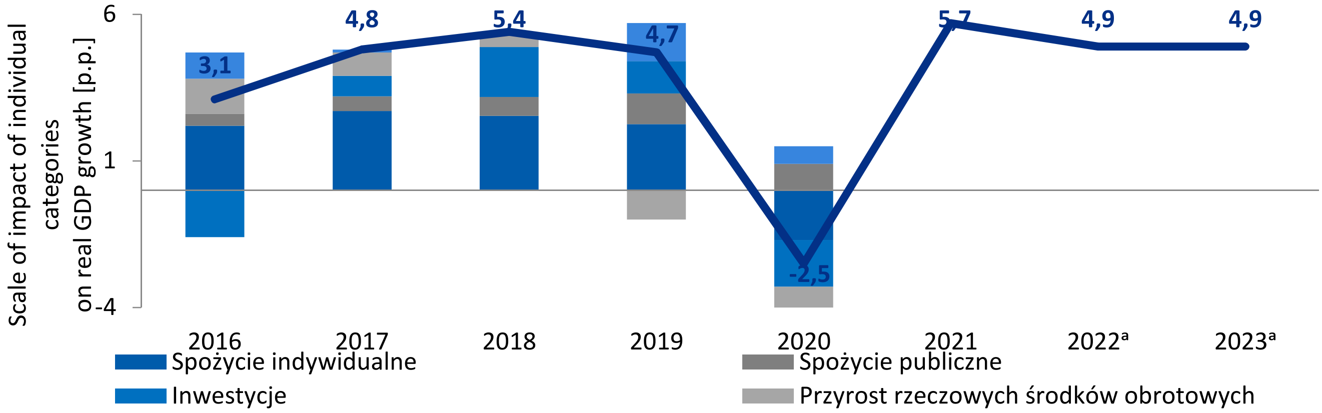
The volume of industrial output in Poland remains under the influence by economic trends. The main factors that affected the performance of the Polish economy in 2021 were the COVID-19 pandemic and its economic consequences. The impact of the pandemic on economic processes is reflected not only in changes in the absolute number of infections and hospitalizations or in the economic and social restrictions imposed to counteract it, but also, for instance, in the observed disturbances of international supply chains and the intensification of global inflation processes.

According to preliminary estimates published by Statistics Poland in 2021, the country's total industrial output sold was +14.4% greater yoy (compared to a decrease by -1.9% yoy in 2020). In all quarters of 2021, industrial output was significantly greater than in the corresponding period of the previous year. In enterprises employing more than 9 staff, sold industrial output increased by 14.9% in 2021 (compared to a decrease by -1.0% in 2020). The largest increase in output sold in 2021 was recorded in Q2 2021 (+30.2%), whereas in the remaining quarters of the year the growth rate ranged between 7.8% in Q1 2021 to 13.2% % in Q4 2021.[1] The very high rate of growth in industrial output in Q2 2021 resulted chiefly from the low statistical base effect in 2020 (the period when intensive anti-pandemic restrictions were imposed and had a major impact on the industrial sector), which, combined with the current good economic situation, resulted in a major hike in output growth.

In 2021, sold industrial output increased in year-over-year terms in all industrial branches, including most of all in the production and supply of electricity, gas, steam and hot water by +29.5% yoy, in industrial processing by +14.2% yoy (this sector accounts for approx. 90% of total industrial output) and in water supply, sewage and waste management, land reclamation by +10.7% yoy (in 2020, it was the only branch which recorded an increase in sales). In turn, only a slight increase by +2.8% yoy was recorded in mining and quarrying (after a -7.0% decline the year before).[2] In 2021, an increase in sold industrial output was recorded in 31 branches, with a decrease in output in 3 industrial branches. Sales in industrial branches where increases are recorded in the period accounted for approx. 98.3% of the total industrial production sold in Poland. As regards key industrial sectors from the perspective of the PKP CARGO Group's transportation business, a year-over-year increase in industrial output in 2021 was recorded, among others, in: metals (+22.6%), metal products (+19.3%), rubber and plastic products (+17.8%), chemicals and chemical products (+17.3%), wood (+17.0%), machinery and equipment (+16.4%), furniture (+16.0%), coal and lignite mining (+14.7%), paper and paper products (+14.7%), products made of other non-metallic commodities (+14.1%), and motor vehicles and automotive parts (+14.0%).[3]
In Q2 2021, the Polish economy returned to the path of economic growth.

[1] Statistics Poland
[2] Statistics Poland
[3] Statistics Poland

Figure 4 Real GDP growth rate in Poland in 2016-2021, its decomposition and forecasts for 2022-2023 – seasonally unadjusted data.



a – macroeconomic forecasts of the National Bank of Poland for 2022-2023 published in November 2021 and a preliminary estimate of Statistics Poland on GDP growth for 2021 – data without decomposition.
Source: Proprietary material based on data published by Statistics Poland and the National Bank of Poland

According to information from Statistics Poland, the inflation rate in 2021 stood at +5.1% yoy (compared to +3.4% yoy in 2020). In quarterly terms, 2021 also witnessed an upward trend in the inflation rate compared to the corresponding periods of the previous year; in Q1 2021 the increase was +2.7% yoy, then in Q2 2021 it stood at +4.5% yoy, in Q3 2021 it moved +5.4% yoy, only to reach of +7.7% yoy in Q4.[4]
The latest values of the Purchasing Managers' Index (PMI) for industrial processing also indicate a major improvement in the economic situation in the industrial sector in Poland in 2021 compared to the corresponding period of the previous year.

In 2020, the PMI decreased to an average level of 47.1 points (values below 50.0 points signify an anticipated economic downturn and recession, while values above this mark are indicators of an anticipated recovery in the industrial processing sector). In 2021, it stood at an average of 55.1 points.[5] In Q4 2021, the PMI was 54.8 points (the best result of 56.8 points was achieved in Q2 2021, followed by 55.7 points in Q3 2021).[6]
The current PMI values indicate the continuing good economic standing of the Polish manufacturing sector. The increase in the PMI at the end of 2021 was driven primarily by components related to current output and new orders. Enterprises reported strong demand from domestic buyers, which directly translated into a high level of output. Another favorable phenomenon was an increase in new export orders. At the same time, problems of a supply-side nature, including shortages of commodities and components and disturbances in the supply chains, were experienced. Other growing problems included labor shortages (additionally exacerbated by quarantine requirements caused by the next wave of the COVID-19 pandemic) and growing inflationary pressures affecting both the acceleration of procurement decisions in companies (establishment of buffer stocks) and, adversely, the volume of orders placed by customers.

In 2021, the business tendency indicator for industrial processing published by Statistics Poland stood at -5.4 points on average, compared to -13.6 points in 2020 (a value below the 0.0 point threshold means that more companies expect a downturn than improvement in the sector).[7] In Q4 2021, the business tendency indicator published by Statistics Poland for the industrial processing sector in Poland stood at an average of -9.7 points. This means that negative sentiments continue to dominate the current economic climate in industrial processing, yet they are much less pessimistic than in Q4 2020 (when it stood at -15.0 points).[8]
In 2021, signs of economic revival in Polish industry continued, and the industrial sector demonstrated a relatively high degree of resistance to the economic impact of the COVID-19 pandemic. Although the expected abrupt changes to growth rates of

[4] Statistics Poland
[5] Markit IHS
[6] Markit IHS
[7] Statistics Poland
[8] Statistics Poland

industrial output in 2021 were obviously due to the statistical effect of the low reference base for 2020, then all the same the economic situation in the domestic industry at the end of 2021 should deserve credit, especially in the context of the still ongoing economic crisis in the uncertain reality for the operation of businesses caused by the pandemic. The performance figures indicate increases in output, which should be interpreted as a positive result in the context of maintaining a positive rate of growth in industrial output in an environment marred by the already significantly lower degree of global optimism in the industrial sector or the supply-side problems experienced in the global economy. The primary driver of year-over-year growth in industrial output is currently the industrial processing segment, where robust performance is recorded, for instance, in sectors related to construction (manufacture of metals and metal products, manufacture of products from other non-metallic commodities) and sectors that are not as strongly integrated with global supply chains and less susceptible to price fluctuations or the availability of commodities (production of food, clothing and footwear).

In 2021, the situation of the domestic industry was dynamic and full of twists and turns, having remained affected by the consequences of the COVID-19 pandemic (especially in Q1 2021) and the related economic and social restrictions imposed in order to curb the further spread of the epidemic, although the adverse impact of restrictions on the rate of industrial growth was already much weaker than in 2020. Throughout the year, the industrial sector was clearly making up for losses, ending the year with a substantial increase in industrial output (especially the last months of the year brought surprisingly high volumes of industrial output, exports and retail trade).

However, the evolution of the COVID-19 pandemic in Poland and the global economy has ceased to be the key determinant of the rate of industrial growth in Poland in view of the launch of the Russian invasion of Ukraine. The industrial output level and its rate of growth will depend on how the war progresses beyond Poland's eastern border. In view of the announced and planned sanctions, which include restrictions on trade with entities from the Russian Federation and Belarus, one should expect significant financial consequences and possible retaliations, especially in terms of price increases for energy commodities, fuel and steel. The related uncertain political situation affects geopolitics and the global economy, translating into a high inflation rate. Both the national economy and the global economy entered 2022 with a high degree of uncertainty, and economic forecasts predict a decrease in the growth rate of the global and domestic economies in 2022.

In addition to the supply-side problems highlighted above, in 2021, the following factors significantly affected the economic standing in the respective industries:

Mining industry

The reasons for the stronger demand for energy generation from hard coal in 2021 compared to 2020 included: lower (especially periodically) volumes of "green" energy generated than assumed originally, greater demand for electricity in the Polish economy (due to the acceleration of economic growth), a significant increase in natural gas prices on the global market and reduced energy imports into the country. In 2021, a year-over-year increase was recorded in hard coal output to 55.0 million tons, up by 0.6 million tons (+1.1% yoy). After the first quarter of the year, the negative rate of growth prevailed (with a decrease in coal output by 1.0 million tons, or -6.3% yoy). The best month in terms of coal output in 2021 was March, when mines extracted 5.2 million tons of this commodity. In the other months, output oscillated between 4.3 and 4.8 million tons.[9]
At the same time, hard coal sales improved significantly by 5.4 million tons yoy (+10.1% yoy) to 58.3 million tons. Total hard coal sales in 2021 turned out to be higher than output by 3.3 million tons, which translated into a reduction in inventories. To recapitulate, in 2021, sales of hard coal continued an upward trend compared to the corresponding months of 2020.[10]

At yearend 2020, there was still 6.2 million tons of hard coal in storage yards. At yearend 2021, the stocks stood at 2.2 million tons of coal, down by 4.0 million tons compared to 2020, a decrease by -64.7% yoy (compared to 5.3 million tons in storage yards after H1 2021).[11] The decreasing volume of coal kept in storage yards in 2021 affected sales of coal relative to the volume of output.

[9] Industrial Development Agency (ARP)
[10] Industrial Development Agency (ARP)
[11] Industrial Development Agency (ARP)

Hard coal imports declined to 11.5 million tons (-1.3% yoy). During this period, the commodity was imported predominantly from Russia (down -10.4% yoy to 7.5 million tons, accounting for 65.7% of total imports to Poland) and Australia (up by 122.5% yoy to 1.9 million tons, accounting for 16.4% of total coal imports to Poland);[12]

In recent years, there has been an upward trend in coal imports to the country (compared to 2000, when imports to Poland totaled approx. 1.5 million tons, imports shot up by as much as 1,200%). This trend results from cuts in domestic output (partly as a result of the absence of desired types of coal available domestically) and the relatively strong demand for coal.

The directions of coal imports also changed: twenty years ago, over 90% of imports were from Russia and the Czech Republic (51% and 42%, respectively), with a parallel significant volume of coal exports. In recent years, imports from Russia accounted for up to three quarters of total imports to Poland. In the last 20 years, Poland and Germany were responsible for the 90% increase in coal imports into the European Union, of which Poland imported as much as 15 million tons of coal more than before, up by over 1,000% (at the same time, Germany imported approximately 13 million tons of coal more than before, up by 45%), with a simultaneous decrease in imports by over 19% by the Community as a whole.[13]

Among the consequences of the economic sanctions imposed due to the outbreak of the armed conflict in Ukraine will be the suspension of coal imports from the Russian Federation. However, according to information released by the Ministry of State Assets, the utility companies in its portfolio do not consume imported coal for the most part (99.7% of their hard and lignite input comes from domestic mines).

The volumes of coal extraction and sales also depend on the coal price in the domestic and foreign markets and on the economic calculation:

- in 2021, an upward trend in coal prices was recorded across the world due to greater demand for coal, a strong upward trend and a major global recovery across the global hard coal market (after a year and a half of stagnation caused by the COVID-19 pandemic). The uncertainty on the international coal market and the disequilibrium between supply and demand have translated into the prevalence of prices at higher levels than in previous years. The significantly limited supply of commodities both in Europe and Asia has failed to keep up with the rapidly growing demand (due to economic growth and post-pandemic rebound coupled with the typical seasonal factors). Among the major factors driving the growth in demand for coal in the European market are also the uncompetitive high gas prices (which resulted in a lower profitability of energy generation from gas compared to coal) and the low level of stocks at the ARA transshipment center (due to increased coal consumption).
- The ARA market is currently among the world's highest priced marine coal markets[14]. In 2021, the average coal price in the European ARA ports (Amsterdam, Rotterdam, Antwerp) was USD 114.82 per ton (compared to USD 54.70 per ton in 2020), and was thus by 109.9% higher year-over-year.
- coal prices in the Polish market are lower than those in international markets, because they are in most cases based on direct agreements between producers and customers. In 2021, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 248.57 per ton (-6.4% yoy and -4.9% compared to 2019). PSCMI2 for the heating industry in 2021 reached PLN 299.76 per ton (-5.3% yoy and -3.2% compared to 2019). In Q4 2021, the average PSCMI1 value was PLN 245.37 per ton (-5.0% yoy and -0.5% qoq), the average PSCMI2 value was PLN 339.76 per ton (+13.6% yoy and +13% qoq). The volume of domestic coal sales in 2021 was a derivative of various factors, including: demand for energy and electricity generation:
- increase in electricity consumption in Poland in 2021 by +5.4% yoy to 174.4 TWh. Following the -2.3% yoy decrease in demand for electricity in Poland in 2020 (arising from the restrictions imposed on economic activity in response to the COVID-19 pandemic and the lower demand for electricity generated by industrial enterprises), January 2021 and the following months of the year saw increases in electricity consumption year-over-year, except for October 2021, which saw a slight decrease of -0.8% yoy.[15]
- major increase in total electricity generation in Poland in 2021 by +14.0% yoy to 173.6 TWh as a consequence of stronger domestic demand and greater exports. The increase in energy generation by hard coal-fired and lignite-fired commercial power plants reached +30.0% and +19.5% yoy, respectively, with a concurrent decrease in electricity generated in gas-fired power plants by -4.0% yoy (due to the spikes in gas prices). At the same time, a major increase

[12] Eurostat
[13] wnp.pl
[14] Industrial Development Agency (ARP)
[15] Polskie Sieci Elektroenergetyczne

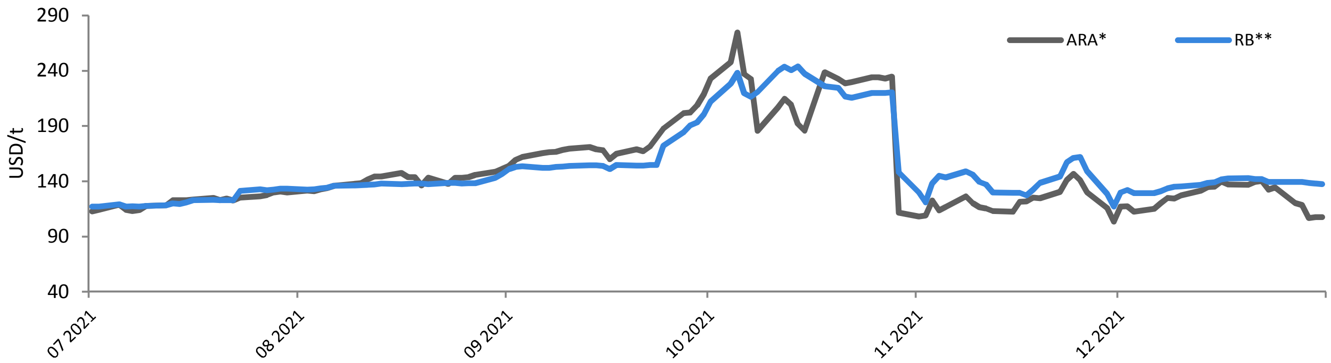
in generation, +116.09% yoy, was reported by other renewable power plants, coupled with smaller rates of increase by hydropower plants and wind farms: by +4.9% and +0.4% yoy, respectively.[16]

- changes in the national energy mix favorable for hard coal – a further increase in the share of hard coal in total energy output in 2021 to 53.6% (+6.5 p.p. yoy, from a level when the share of hard coal in total energy output was 47.1%).[17]
- slight dominance of imports over exports in cross-border electricity trade – following the rapid increase in electricity imports, compensating for lower domestic generation in 2020 (+24.5% yoy, with net electricity imports to Poland the highest ever and accounting for as much as 8.0% of the country's total energy consumption), in 2021 a significant decline in electricity imports was recorded (negative foreign trade balance of 0.82 TWh, or -93.8% yoy, compared to approx. 13.2 TWh the year before). Since August 2021, Poland has exported approx. 2.5 TWh of electricity more than it has imported (in September 2021, the volume of exports was greater by almost 0.9 TWh). December 2021 was the fifth consecutive month in which Poland was a net exporter of electricity (partly owing to high gas prices).[18]
- changes in electricity prices, which are a consequence of the increasing costs of energy generation and the roll-out of the European Union's climate policy. In 2021, the Polish power sector is being hit the hardest predominantly by the rapidly rising record-high prices of CO_2 emission allowances. The main factors translating into the increase in electricity prices in 2021 were: the purchase of CO_2 emission allowances (which now account for more than 50% of energy generation costs) and the markedly increased demand for energy due to the economic recovery caused by the loosening of restrictions related to the ongoing COVID-19 pandemic. Along with the most recent tightening of the EU climate goals (including a reduction of CO_2 emissions from 40% to 55% in 2030 and an increase in the EU RES target for 2030 to 40% – included in the "Fit for 55" initiative of the European Commission), further increases in allowance prices and an acceleration of the energy decarbonization process should be expected.

In 2021, the world experienced a +6% yoy increase in demand for electricity (following a slight decrease in 2020), driven by economic growth, harsh winter and hot summer (almost half of the increase in demand was generated by the Chinese economy). For 2022-2024, the International Energy Agency predicts a further increase in global demand for electricity (by +2.7%) annually.[19]

According to projections published by the Global Carbon Project, in 2021, global CO_2 emissions reached 36.4 Gt, up 4.9% from 2020 when it dipped significantly due to the slowdown of economic activity during the COVID-19 pandemic. Thus, it returned to the level recorded in 2019 (when it stood at 36.7 Gt). CO_2 emissions in China (accounting for almost a third of global CO_2 emissions from the combustion of fossil fuels) of 11.1 Gt were 5.5% greater than before the pandemic (due to the evident attempts at making up for economic losses caused by the pandemic setback).[20]
In 2021, coal-fired units with a total capacity of over 1,800 MW (at PGE and Tauron) were shut down in Poland. In 2022, another two coal-fired units may be shut down (in the PGE Group's Rybnik Power Plant, with a total capacity of 450 MW). According to Tauron, in H1 2021, the largest three electricity generators in Poland had a combined 67% share in the Polish gross electricity production market (specifically: PGE accounted for 42%, Enea for 16% and Tauron for 9%).

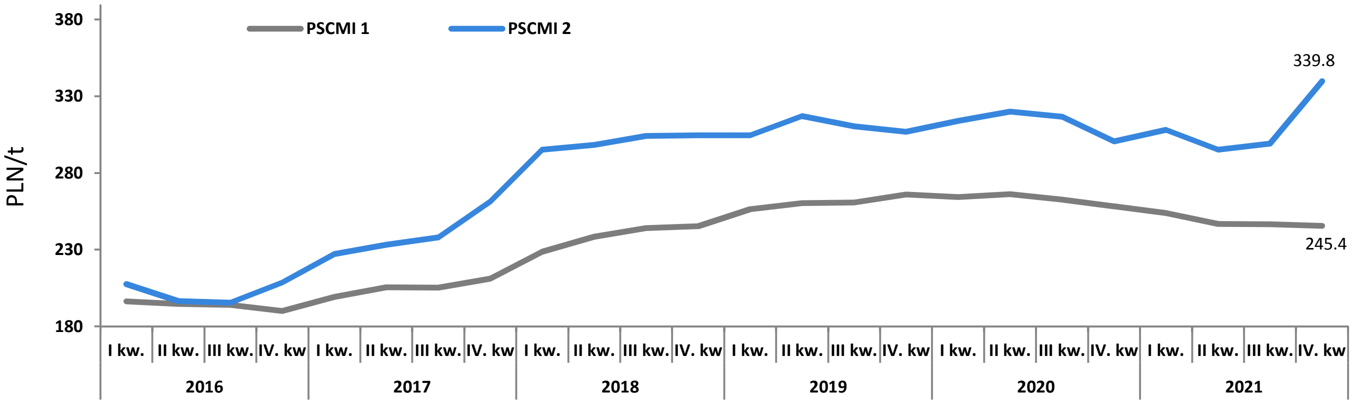
Figure 5 Current and historical values of coal price indices on the European ARA* vs. RB** markets



[16] Polskie Sieci Elektroenergetyczne
[17] Polskie Sieci Elektroenergetyczne
[18] Polskie Sieci Elektroenergetyczne
[19] Polskie Sieci Elektroenergetyczne
[20] Polskie Sieci Elektroenergetyczne

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

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



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

Construction industry

An increase by +2.5% yoy according to preliminary estimates by Statistics Poland in domestic construction and assembly output (following a decrease by -1.3% in 2020).[21] An increase in output was observed in the second half of the year (in January-June 2021, output declined compared to the corresponding period of 2020). In enterprises employing more than 9 staff, construction and assembly output in 2021 increased by +3.2% (following a decrease by -2.2% in the previous year).[22]

Construction and assembly output increased by +9.3% yoy in enterprises performing specialized construction works and erecting civil engineering structures (+2.8%). A concurrent decrease in output was reported by enterprises involved in the construction of buildings (by -1.2% yoy).[23] In terms of works related to the construction of civil engineering structures, an increase in construction and assembly output was recorded in relation to the performance recorded in 2020 by entities specializing chiefly in the construction of pipelines and telecommunications and power lines (by +7.9% yoy) and in enterprises specializing in the construction of roads and railways (by +1.6% yoy). A dip was recorded by entities involved in the construction of other civil engineering structures (decline in sales by -1.9% yoy).[24]

Cement production in Poland in 2021 totaled 19.3 million tons, up +3.2% yoy. In parallel, the production of cement clinker decreased by -2.5% yoy (to 14.0 million tons).[25] The cement industry's performance was affected by the upturn in construction projects – the upsurge in the construction of apartments, the rapid growth in the number of individual construction projects, road construction projects, rail investments and the construction of warehouse centers. The same factors are expected to continue to affect the cement market in 2022. Forecasts published by the Association of Cement Producers for 2022 predict an increase in demand for cement to 19.6-19.8 million tons.

Long-term forecasts for the cement segment are also favorable – the Association of Cement Producers predicts stable and robust demand for cement, in excess of even 20 million tons per year by 2025, owing to the spending of funds from the new EU budget and the Reconstruction Fund, coupled with activities related to the European Green Deal (including the introduction by the European Commission of the Fit for 55 package and a border tax on CO_2 emissions (CBAM), aimed at protecting the EU industry).[26] However, the industry is grappling with the high prices of CO_2 emission allowances (which fluctuate within the

[21] Statistics Poland (preliminary estimate for the whole population)
[22] Statistics Poland, enterprises employing more than 9 persons
[23] Statistics Poland, enterprises employing more than 9 persons
[24] Statistics Poland, enterprises employing more than 9 persons
[25] Statistics Poland
[26] Cement Producers Association

range of EUR 85-90 per ton) – despite the 30% reduction in volume, CO_2 emissions in Poland related to cement production currently account for 2% of total CO_2 emissions in Poland.

In 2021, the cement industry emitted approximately 12 million tons of CO_2, of which 8.6 million tons were covered by free allowances, which necessitated purchases of some 3.4 million tons of emission allowances on the market, which in turn translated directly into a major increase in production costs.

The upward trend in electricity prices, which account for approx. 30-35% of cement production costs, poses another problem. Moreover, the industry is not covered by protective measures aimed at mitigating the effects of electricity price increases (contrary to other energy-intensive industries). In addition to cost-intensive elements, this market is also unfavorably affected by the constantly growing imports from outside the European Union, specifically imports from countries that chose not to bear the energy transition costs (during the last 5 years, imports from Belarus increased from 119 thousand tons to approx. 600 thousand tons; After the first 10 months of 2021, the increase amounted to 475 thousand tons, or 26% yoy). Currently, cement is imported into the European Union not only from Belarus and Ukraine, but also from Turkey and Northern Africa.[27]

As part of the ongoing intense development of the national road network, the General Directorate for National Roads and Motorways (GDDKiA) announced the execution of 109 projects with a total length of over 1,373 km, of which over 425 km of new roads were put to use (including 56 km of the A1 motorway from Tuszyn near Łódź to Częstochowa, and sections of the S19 expressway). There are currently 22 projects at the stage of tender procedure with a total length of 305.9 km under the National Road Construction Program (NRCP) and one 6 km ring road under the governmental Program for the Construction of 100 Ring Roads for 2020-2030 (PB100). In 2021, tenders were announced for 27 sections with a total length of 334 km and a value of more than PLN 15 billion (25 projects under the National Road Construction Program with a total length of 325.3 km and 2 ring roads under the Program for the Construction of 100 Ring Roads for 2020-2030 with a total length of 9 km). 46 contracts were also signed for the construction of roads with a total length of 555 km worth PLN 16.8 billion (including 35 pertaining to projects under the National Road Construction Program with a total length of 465 km and a value of PLN 15.3 billion, and 11 ring roads under the Program for the Construction of 100 Ring Roads, with a total length of 90.1 km and a value of nearly PLN 1.5 million).[28] In 2021, GDDKiA became the beneficiary of a total of 72 projects covered by EU funding under the Operational Program Infrastructure and Environment 2014-2020 (investment value of over PLN 79.5 billion, including the EU contribution of approx. PLN 37.6 billion).

Currently, the Governmental Program for the Construction of 100 Ring Roads for 2020-2030 is being executed (under the program, a total of 100 tasks will be completed in Poland with a total length of approx. 820 km; for this purpose, the government will earmark PLN 28 billion from the National Road Fund). In December 2021, a plan was announced to build 51 new ring roads along voivodship-class roads (the construction of which, due to road management obligations, will have to be co-funded by voivodship self-governments, while the state budget will cover 52% of the costs). The investment projects included in the governmental Program for the Construction of 100 Ring Roads are scheduled for completion by 2030. Within the framework of the ring road program, 14 projects are already underway (with a total length of 109.7 km and a value of PLN 1.9 billion), while all other projects are at the tender stage or in preparation.

At yearend 2021, GDDKiA was conducting intense preparatory work for 81 ring road projects (with a total length of nearly 713 km), with 14 ring roads covered by the Program already at the construction stage and with 1 ring road at the stage of a tender for design and construction work. The first ring road is expected to be put into use in 2022, while most projects (as many as 26) are scheduled to be completed in 2028.[29]

The governmental National Road Construction Program until 2030 (with an outlook until 2033) assumes total spending of PLN 258 billion (or approx. PLN 292 billion if this period is extended). The total expenditures on the completion of investments under in the new program include approx. PLN 292 billion (of which the financial cap of PLN 187 billion for new tasks and approx. PLN 105 billion for continued tasks). It is the largest road construction program in the history of Poland, providing for the construction of 2.5 thousand km of expressways, the completion of construction projects covering 4 thousand km of roads currently in progress and, as a consequence, the establishment of a complete network of expressways and highways.[30]

[27] WNP
[28] General Directorate for National Roads and Motorways
[29] Republic of Poland Website; konkret24.tvn24.pl
[30] Republic of Poland Website; oigd.com.pl

In 2021, the pace of announcement of new tenders for rail investment projects clearly slowed down, partly due to the wrap-up of the current budgetary outlook of the European Union and the uncertainty surrounding the availability of EU funds (Poland experiencing problems with obtaining funds for the execution of the National Reconstruction Plan). In parallel, in 2021, delays in the execution of some rail investment projects already in progress mitigated to a certain extent the consequences of the slowdown in tendering efforts by PKP PLK. It was already in January of this year that PKP PLK announced tenders for new projects worth over PLN 6 billion – which may herald an improvement in the situation on the rail construction market.

In 2022, the General Directorate for National Roads and Motorways expects to announce tenders for new road construction projects with a length of approx. 475 km and a total value of PLN 22.5 billion, including on the S7, S17 and S12 expressways. In parallel, independent tenders for the modernization and reconstruction of the road network under the Safe Road Infrastructure Program for 2021-2024 will also be announced. Moreover, within the framework of the Program for the Construction of 100 Ring Roads (scheduled for 2020-2030), tenders to be announced in 2022 will cover 18.7 km of roads (construction of the Kołbaskowo, Gąski, Dzwola, Gorajec ring roads). Another major undertaking will also be the tender for an extension of the A2 motorway with an additional lane from the Łódź North junction to the Konotopa junction (approx. 88 km).[31] The plan for 2022 calls for 345 km of new roads being put to use.

Under the first edition of the Polish Deal Governmental Fund: Strategic Investments Program (aimed at co-financing investment projects carried out by municipalities, counties, towns and cities in order to help rebuild the economy affected by the economic consequences of the pandemic and at stimulating investments), 97% of Polish local governments will receive a total of PLN 23.8 billion. A significant portion of investments intended for execution under this program involve local roads. The second call for proposals provides for the allocation of PLN 22 billion (applications may be submitted by mid-February 2022).[32]

The EU budget for 2021-2027 (including the Reconstruction Fund) provides for PLN 770 billion as the total amount of money earmarked for Poland. Out of this amount, Poland will receive approx. EUR 58 billion under the Reconstruction Fund (of which EUR 24 billion in the form of subsidies from the EU's own funds and EUR 34 billion as a loan repayable directly by the state – this translates into approx. PLN 260 billion) and approx. EUR 108 billion as part of the new EU budget for 2021-2027 (approx. PLN 500 billion). Approx. PLN 300 billion should be allocated to infrastructural investments (in road and rail projects). It will provide an opportunity for the development of the construction market across the country and an increase in the volume of freight available for transport for the construction segment.[33]

The construction sector in Poland and around the world has demonstrated significant resilience to the COVID-19 pandemic. The current climate in the construction sector is favorable, although along with the economic recovery from the pandemic decline, the rapidly growing prices of building supplies and materials used in construction especially steel and steel products, coupled with the related increasing labor costs, have brought a considerable degree of uncertainty and increased the level of risk in the construction market. Profitability keeps declining, especially in the road construction sector. The market continues to experience supply shortages with a simultaneous increase in demand. In particular, contractors working on large and long-term infrastructural investments have been facing major challenges preparing their bids or estimating construction costs for their projects. Moreover, in the coming years, due to the significant accumulation of gigantic construction projects planned for the new EU financial perspective (road, rail and infrastructural projects, intended investments by the power sector and local governments), the industry expects major problems with the availability of labor and necessary equipment. According to the Polish Association of Construction Industry Employers (PZPB), the piling up of these works will also trigger a further uncontrolled increase in the prices of materials and services.[34]

These factors along with the robust increases in industrial output generated by sectors related to construction as well as the expected increase in spending on infrastructure by the public sector and State Treasury-owned companies indicate the sector's strong growth potential in the coming months. Demand for aggregates and other construction materials in Poland is driven by large infrastructural investment projects executed within the framework of the "National Road Construction Program" and the "National Railway Program". It may be expected that these production sectors will exert a favorable impact on the performance of the whole construction sector in the coming months (due to their benefitting from the expected increase in public spending). Despite the still optimistic prospects for the housing construction sector (a high rate of growth in building construction projects, manifesting itself in the number of newly issued building permits and projects in progress) and the expected increase in

[31] WNP
[32] gazetaprawna.pl
[33] Wirtualny Nowy Przemysł [Virtual New Industry]
[34] Wirtualny Nowy Przemysł [Virtual New Industry]

infrastructural expenditures by the public sector and State Treasury-owned companies, the effects of an increasingly higher reference base, the persisting very high prices of commodities and materials and the postponing projects to be executed under the National Reconstruction Plan (the favorable effect may be postponed to H2 2022) will probably exert a negative impact on the rate of growth in the construction sector in the coming months. Despite the current market turmoil, the beginning of 2022 will probably see the rate of growth in construction and assembly output at 10.0% yoy, assuming the absence of adverse weather conditions similar to those which prevailed in Q1 2021. According to the Polish Construction Workers Association, Poland will remain the largest construction site in Europe in 2022.

Steel industry

After the significantly reduced demand for steel and metallurgical products in Poland and in its macroeconomic environment, intensified by the consequences of the global pandemic, which in 2020 translated into a decline in the overall production volume, favorable market trends persisted throughout 2021, and were observable already in Q4 2020, when the end of the year saw a recovery in the steel industry and sector. In 2021, the economic recovery across the world ramped up the demand for steel; market demand for steel products was strong, coupled with a significant increase in the prices of steel products (with a slowdown and stabilization at the end of the year), which continue to be high also because of the relatively low inventory levels throughout the supply chain and due to mounting cost pressures (for the most part, energy prices). In 2021, companies in this industry were responding to the previous year's crisis situation (when steel mills halted their operations, logistics problems abounded and the volume of orders was significantly reduced) by tapping into the significant increases in demand and the noticeable supply gap.

Global production of crude steel in 2021 totaled 1,950.5 million tons (+3.7% yoy). Steel production in the European Union increased to 152.5 million tons (+15.4% yoy), while steel production in Asia totaled 1,382.0 million tons (+0.6% yoy). The market clearly shows the advantage of China in steel output, which in the period under analysis independently produced 1,032.8 million tons of this commodity (-3.0% yoy and an approx. 53% share in the global market), with India as the country ranking second among steel producers with 118.1 million tons of output (+17.8% yoy). In Poland, which ranks 22nd among global steel producers, output totaled 8.4 million tons (+6.5% yoy).

In 2021, the increase in crude steel output in Poland grew by +2.4% yoy to 8.1 million tons (following the decline that continued even after Q1 2021 by -5.0% yoy) coupled with production increases, among others, in the volume of manufactured hot-rolled products by +5.5% yoy to 9.0 million tons, rods and flat bars by +6.7% yoy to 3.6 million tons, thin sheets by +8.3% yoy to 1.2 million tons, hot-rolled bars and rods by +11.9% yoy to 1.4 million tons and steel pipes by +22.5% yoy to 0.9 million tons. At the same time, output of cold-rolled sheets decreased by -5.6% yoy to 1.9 million tons.

Moreover, an increase in coke output was recorded in Poland in 2021 by +25.4% yoy to 9.6 million tons.

The Polish economy currently consumes more steel than it did before the pandemic, while the volume of demand for steel is significantly greater than current production. The recovery of the country's economy after the pandemic manifests itself in the growing demand for steel in the construction sector and those industrial branches where steel is used in large quantities (such as the production of motor vehicles and household appliances). According to data published by the Metallurgical Chamber of Industry and Commerce, during the first three quarters of 2021, the Polish economy consumed a record-high 11.8 million tons of steel (+24% yoy). In the same period, domestic steel production failed to keep up with demand (Poland produced 6.5 million tons, meaning that output increased only by +10% yoy), which triggered a major hike in steel imports to Poland. The gap in the internal market alone between output and demand was 5.3 million tons (net of exports). According to data, Polish steel mills, when operating at peak production capacity, are unable to satisfy domestic demand. Currently, only 20% of the steel used in Poland comes from its own production, the remaining 80% being filled in by imports – including from outside the European Union, which increased in H1 2021 by +42% yoy (in this respect, some countries have already exceeded their last year's totals). During the first three quarters of 2021, imports of long products (mainly from the former CIS countries) increased by 43%. In line with predictions by construction companies that demand for steel will start to grow in the spring of 2022, it may remain at a very high level also in 2022. A further significant increase in prices may result from sanctions imposed on Russia as a consequence of the invasion of Ukraine and reduced imports from Ukraine. This may result in the need to look for new sources of steel supplies, semi-finished products and finished steel products (Polish producers obtain ferroalloys from Russia and Ukraine, among other products).

The increase in demand for steel, supply shortages and limitations coupled with, above all, the increasing difference between the demand and supply resulted in a dramatic, abrupt increase in the prices of steel products. These high prices of steel and their rapid growth are been driven chiefly by the growing demand for steel in large economies, especially China (which currently accounts for 75% of global demand for iron ore). In the domestic market, the price increases were mainly caused by the supply shortages and the significant increases in the production costs of steel and steel products incurred by producers (due to the rising costs of CO_2 emission allowances, costs of electricity, gas and the prices of coking coal and scrap metals). In the long term, steel prices will be affected primarily by the climate policy pursued by the European Union (including the intended rollout of the Carbon Border Adjustment Mechanism (CBAM) and the steel industry's transition to the production of 'green steel,' that is the use of hydrogen instead of coke in the production process in order to eliminate CO_2 emissions).

Currently, the steel industry enjoys a good economic situation, which is strengthened by the demand for coking coal (a necessary component for steel production, and included in the EU's list of strategic/critical commodities), supplied, among others, by Jastrzębska Spółka Węglowa (the largest supplier of this commodity in Europe). Currently, the production of coking coal in the European Union satisfies approx. 25% of the EU's demand, with the remaining portion obtained through imports. In the coming years, the global demand for critical commodities will continue to grow. According to JSW's announcements, it intends to become a producer of almost exclusively coking coal within a decade.

In turn, the World Steel Association's latest forecast for 2021 and 2022 assumes that demand for steel in 2021 will total 1,855.4 million tons (up by +4.5% yoy), following an increase by +0.1% yoy in 2020. In 2022, demand for steel will continue its upward trend to reach 1,896.4 million tons (up by +2.2% yoy).

Steel consumption in Europe in 2022 (according to Eurofer's forecast) will increase by +4.7% yoy (after the expected increase by +8.5% in 2021). Eurofer experts predict a particularly significant rebound in demand from the automotive industry (+12.1%) after the disappointing 2021 and an increase in demand generated by the construction sector (+4.2%), which is the largest buyer of steel. Under the optimistic scenario, sold industrial output in 2022 will increase by 8-15% yoy.

A recovery is forecasted in Poland, especially in civil engineering, with an anticipated persisting high level of output in the building construction segment. The risk factors for the industry in 2022 will include: increasing commodity prices, energy and emission allowance costs, and uncertainty as to the rate of economic recovery, including possible restrictions related to COVID-19 and disruptions in supply chains.

According to the forecasts published by the World Steel Association, during the next 30 years, demand for steel will increase by 50%, which, unfortunately, due to changes in the legal environment within the European Union and the loss of profitability by producers, may result in the inability to take advantage of this unprecedented growth within the Community, the beneficiaries of which will likely be Asian countries for the most part.

In accordance with the arrangements made with the European Commission, the annual output capacity of the steel industry in Poland until November 2020 was 12.6 million tons; after the commodity portion of the Kraków steelworks is shut down out, it will be reduced to 10.6 million tons. A total of over 2,200 entities are involved in the production of metals in Poland. Steel production is dominated by ArcellorMittal (the largest global producer of crude steel), which accounts for approx. 70% of the country's crude steel output potential. Another major factor that continues to affect the output of the steel sector in Poland and the European Union is an insufficient degree of protection measures taken against imports from third countries (including the Commonwealth of Independent States) that are not subject to EU climate requirements. These restrictions significantly diminish the competitiveness of European steel producers, which translates directly into shortages and perpetuates the continued pressure on price increases, exerting an adverse impact on manufacturing enterprises. Moreover, the regulations implemented to date by the European Commission aimed at boosting growth and protecting European manufacturers have failed to succeed in the realities of the pandemic crisis due to the interruptions of a number of crucial supply chains and increased costs of maritime transport – which brought about capacity cuts of European steel makers, forcing many EU countries to import this commodity for a hefty price. Of key significance for the future of the steel industry in the European Union will be the adoption of a carbon levy, which will mark a turning point for the whole European steel industry.

The performance of the steel industry in 2021 was strong. The noticeable recovery and enormous growth rate bring hope for a recovery in the steel market and an improvement in the industry in the coming months. In Europe, certain steel-producing furnaces have been closed (e.g. the one in Kraków). For this reason, as demand starts to rebound, the market is likely to experience shortages in output. The steel sector's anticipated good performance in the following quarters of 2022 will certainly be driven partly by state aid programs aimed at rebuilding the economy after the pandemic, which will stimulate growth in demand for steel. This will cause an increase in the quantum of products transported for the metallurgical sector and commodities consumed in the steel production process (iron ores, coke). A further post-pandemic growth is also expected as a result of demand reported mainly by the construction industry (among others, in the area of infrastructural investments) and a relatively strong demand.

Chemical industry

Chemical industry is one of the key sectors of the Polish economy and most of its products are semi-finished products serving as inputs to production processes in other sectors of the industry. The above factor makes the sector very vulnerable to economic fluctuations and at the same time, the growth rate of the sector over years is regularly slightly below the real GDP growth rate in Poland. Demand for liquid fuels is strongly connected with the GDP growth rate – a faster growth rate of the economy translates into an increase in demand for transport fuels.

As a result, it may be assumed that changes to the economic position in Poland are the major factor which determine both the condition of the chemical sector and demand for liquid fuels. Other key factors affecting the level of rail transport include oil prices on the global markets, oil import level, rate of growth in the use of liquid fuels in Poland, development of the transmission network (pipelines), scale of demand for chemicals, production level in the sector of fertilizers as well as prices of electricity and raw materials (the chemical industry is highly energy-consuming).

In 2021, in Poland, there was an increase in the production of potassium fertilizers by +2.4% yoy to 0.4 million tons and nitrogen fertilizers by +0.3% yoy to 2.1 million tons, with a concurrent decline in the production of phosphorous fertilizers by -0.5% yoy to 0.45 million tons.

What also increased was the production of sulfuric acid (+3.1% yoy to 1.6 million tons), nitric acid (+2.0% yoy to 2.5 million tons) and diesel fuels (+1.3% yoy to 13.6 million tons). On the other hand, there was a decrease in the production of plastics (-0.1% yoy to 3.4 million tons), motor gasoline (-1.7% yoy to 4.2 million tons) and ammonia (-1.9% yoy to 2.6 million tons). During the first 11 months of 2021, in turn, oil import level was 21.4 million tons (-9.9% yoy).

According to the information provided by the Polish Organization for the Industry and Trade, the domestic use of liquid fuels in Poland in the first three quarters of 2021 rose considerably against 2020. In the case of three key liquid fuels (motor gasoline, diesel fuel, LPG), the increase was +7% yoy and consumption was 24.66 million cubic meters, which means a recovery of demand (after the difficult year 2020) to the 2019 level.

For the group of six main liquid fuels, the increase was also +7% yoy (the total consumption was 25.87 million cubic meters).

Because of Poland's high dependence on oil imports from Russia (approx. 2/3 of the oil imported to Poland comes from the east) and the probable sanctions imposed on Russia in connection with the military conflict in Ukraine, it will be necessary to acquire other stable sources for importing attractively priced oil, which will be difficult in short term. An embargo or durable restrictions on deliveries from Russia may significantly affect the operation of the Polish economy. The situation in the segment of gas imports looks certainly better even though imports of this raw material from Russia satisfy 55% of the domestic demand now, but considering the construction of the Baltic Pipe planned to be completed this year, Poland will be practically independent of gas deliveries from the east in 2023.[35]

The difficult situation on the market of fertilizers due to high prices of gas and other raw materials needed for their production (further aggravated by high costs of CO_2 emission allowances and high prices of freight) has an adverse influence on the manufacturers, e.g. the Azoty Group (the second largest manufacturer of fertilizers in Europe) and Anwil, belonging to the PKN Orlen Group.

At present, gas prices account for an even 90% share in the cost of production of nitrogen fertilizers (which was caused by prices shooting up by approx. 600% per annum). The prices of fertilizers jumped during the year (e.g. the price of ammonium

[35] wnp.pl

nitrate, from approx. PLN 1000 per ton in January 2020, was already over PLN 4000 per ton at the end of the year. Many companies stopped or limited the production.

What should be also considered here is the uncertain situation on the frontier with Belarus (which is an important exporter of fertilizers to the market of the European Union) and the political situation in Ukraine.

Industry and the economy in the Czech Republic

In 2021, the volume of industrial output in the Czech Republic increased by +6.7% yoy, following a dip by -7.2% yoy in the corresponding period of 2020. After the Czech industrial sector recorded an increase in production in the first three quarters of 2021 by +9.5% yoy (which resulted chiefly from the very low statistical reference base from 2020), in Q4 2021 output decreased again in year-over-year terms with a growth rate of -0.9% yoy (compared to -1.3% yoy in Q3 2021 and an increase of +30.0% yoy in Q2 2021).

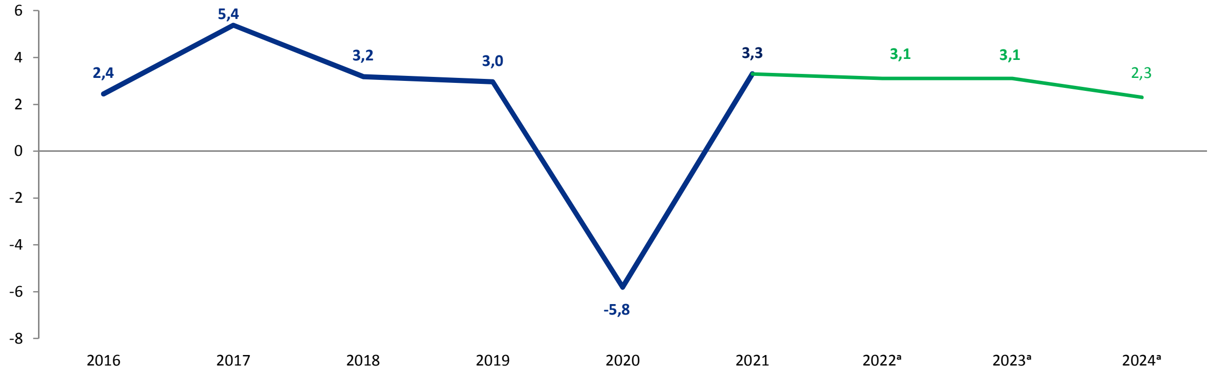
The development of the Czech industry was impacted by such adverse events as the continuing pandemic and new virus variants (with a destructive influence on the economy and industry) as well as the intensification of supply-side problems, including the disturbances in international supply chains and the growing shortages of commodities and components (such as those experienced by the automotive manufacturing segment, which is the heart of the Czech industry). After the downturn in the industrial sector, one may expect, now on the basis of forecasts of renowned institutions and the most recent development of new industrial orders, a gradual recovery of the country's industry. In parallel with the increase in overall industrial output, the volumes of new orders went up rapidly during 2021. In this period, new orders rose in aggregate by 15.1% yoy (including domestic orders by 12.4% yoy and export orders by 16.3% yoy).

Contrary to current output, the growth rate of new orders (both domestic and foreign) remained positive also in Q4 2021, which suggests the continued strong demand for industrial products and clearly attests to the supply-side nature of the stagnation in output witnessed in Q4 2021. The increase in industrial output in 2021 was driven primarily by the industrial processing segment (+7.0% yoy). In the same period, positive year-over-year growth was also experienced by other industrial sectors: coal mining and extraction of raw materials (+3.9% yoy) as well as energy generation and water and gas supply (+4.0% yoy). In parallel, in Q4 2021 alone, the industrial processing segment recorded a negative rate of growth (-1.9% yoy), caused primarily by supply-side disruptions, most evident in the marked decline in output generated by the automotive sector (-17.6% yoy).

In 2021, in most key branches of industry (that are important in terms of their potential for the transport business of PKP CARGO Group companies), a year-over-year increase in output was recorded. In this period, production increased in year-over-year terms in such sectors as metals (+10.8% yoy), machinery and equipment (+9.7% yoy), metal products (+9.6% yoy), chemicals and chemical products (+8.3% yoy) and motor vehicles (+3.8% yoy). At the same time, hard coal and lignite output was lower (-3.8% yoy) than in the corresponding period of 2020, largely as a result of the continued gradual phasing out of mining operations in OKD's mines.

The Czech economy, after the deepest economic downturn in its history in 2020, when the GDP hit a record fall by -5.8 yoy, is clearly recovering in 2021, returning on the growth path in spite of numerous problems, especially on the supply side (although the expected recovery comes slowly and only in certain sectors of the economy). According to a preliminary estimate of the Czech Statistical Office (CZSO), the Czech GDP increased in 2021 by +3.3% yoy. In Q4 2021, the GDP growth was +3.6%, while the growth rate declined from +1.5% qoq in Q3 2021 down to +0.9% qoq in Q4 2021, which was caused by, among other things, the emergence of a new variant of COVID-19 and the reintroduction of tighter restrictions related to the pandemic. In 2021, the GDP was supported mainly by consumer expenditures of households with a strong growth in investment activity, while external demand had an adverse effect (largely as a result of the observed deterioration in exports caused by the supply problems experienced by economic operators, especially in the automotive sector, where the vast majority of output is intended for sales to foreign customers). It is generally expected that the Czech Republic will achieve the pre-crisis levels by the end of 2022 at the earliest.

Figure 7 Real GDP growth rate in the Czech Republic in 2016-2021 and forecasts for 2022-2024 – data adjusted for seasonality



a – Macroeconomic forecasts of the Ministry of Finance of the Czech Republic – January 2021
Source: Proprietary material based on data from the Czech Statistical Office and the Czech Ministry of Finance

According to macroeconomic forecasts published by the Czech Ministry of Finance in January 2022, economists from the Ministry of Finance predict continuation of the good growth rate of GDP in the coming years, i.e. a growth by +3.1% yoy in 2022, +3.1% in 2023 and +2.3% yoy in 2024. In view of the strong connection of the Czech economy with the global markets, the adverse impact on economic results is exerted primarily by the pandemic and disturbances in supply chains, accompanied by the problem of rising prices (among others, raw materials, therefore supply-side factors). In 2021, inflation reached 3.8% yoy (compared to 3.2% yoy in 2020). According to forecasts by the Czech Ministry of Finance, inflation is to go up in 2022, reaching the growth rate of +8.6% yoy, and then in the coming years, it is to return around the target set by the Czech National Bank (CNB), i.e. +2.0% yoy, to a level of +2.6% yoy in 2023 and +2.2% yoy in 2024. In the beginning of February 2022, the base rate reached a level of +4.5% yoy, and the peak of inflation is expected in Q1 2022, when it is forecasted to be +9.6% yoy. Sources of inflation in the Czech Republic are connected with both external factors (disturbances in supply chains which cause prices to increase and rising prices of raw materials) and internal ones (soaring prices of apartments).

In 2021, the PMI for the Czech Republic averaged 58.9 points compared to 58.7 points in H2 2021 and 59.2 points in H1 2021, clearly above its long-term average and the 50.0 point threshold delineating the technical boundary between recovery and recession in the industrial sector. At the same time, following the PMI's historical maximum of 62.7 points in June 2021, the following months brought its gradual decline to 55.1 points in October 2021 and further increases to 59.1 points in December 2021. In Q4 2021 alone, the PMI index for the Czech Republic was 57.1.

The major cause of the increase in the index in 2021 was a stronger growth of production, new orders (including export orders) as well as growing headcount (the highest increase in headcount has been recorded for over four years). Despite growing inventories whose increase resulted from the shortage of materials and components consumed in the production process (which translated into a negative impact on the production capacity, especially in the automotive segment) and also growing prices (especially of raw materials whose high peak of growths was when September passed into October), the manufacturers overcame these periodical problems, at the same time looking into the future with optimism.

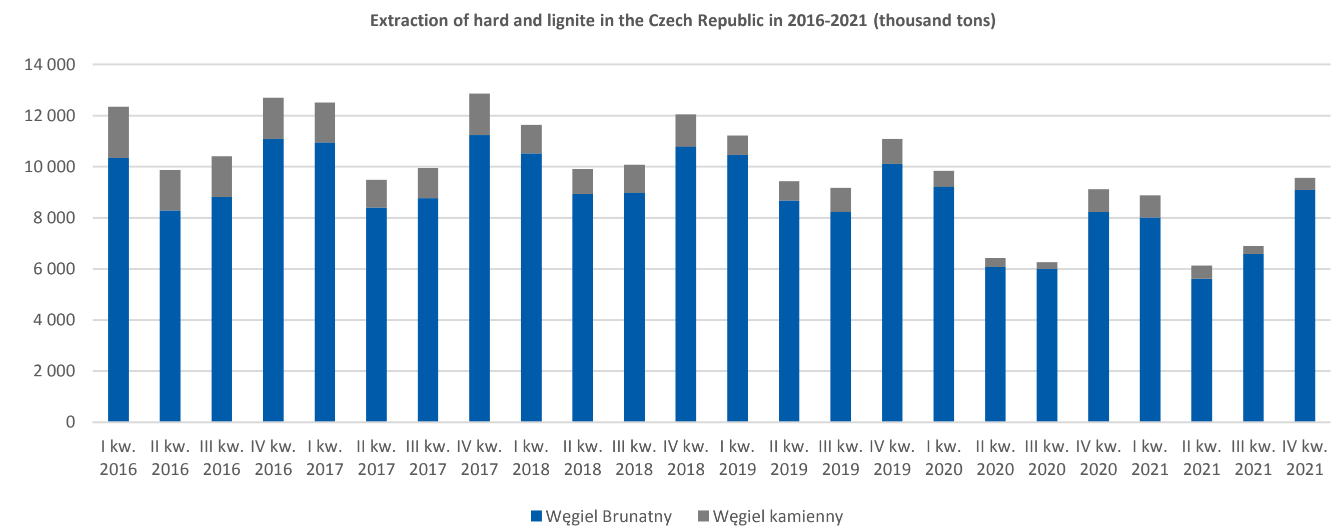
Transport services rendered by members of the PKP CARGO Group on the Czech market involve predominantly the carriage of solid fuels (hard coal and coke), crude oil and its derivatives, chemicals and chemical products, metals and metal products, and intermodal cargo (with a large share of automotive sector products). As a consequence, the overall situation in the country's economy and in related industries (mining of raw materials, power generation, metallurgy and manufacture of motor vehicles and machinery) exerts a direct impact on the volume of freight volume ordered in the market, and thus on the operating and financial performance of members of the PKP CARGO Group rendering services in the Czech Republic.

In addition to the supply-side problems highlighted above, in 2021, the following factors significantly affected the economic standing in the respective industries:

Mining industry

Increase in hard coal (chiefly coking coal) output. According to data released by the Czech Ministry of Industry and Trade, in 2021, the total volume of hard coal mined in the Czech Republic was 2.2 million tons (+1.7% yoy), including 1.5 million tons of coking coal (+43.8 % yoy) and 0.7 million tons of thermal coal (-36.9% yoy). In parallel, from the beginning of 2021, a gradual decline in mining output

Figure 8 Extraction of hard and lignite in 2015-2021 (thousand tons)



was recorded quarter-over-quarter, largely due to the cessation of mining operations by OKD's ÇSA and Darkov mines at the end of February 2021, leaving ČSM as the only active hard coal mine in the Czech Republic. However, in connection with gas becoming increasingly expensive and a high demand for coal, the trend reversed in Q4 2021, which translated into a lower result (although similar to the level of 0.5 million tons in Q2 2021). According to OKD's press release, in the whole of 2021, hard coal output in the Czech Republic reached 2.0 million tons, which means that the output plan was exceeded by 0.37 million tons (i.e. nearly 20%). The plan for 2022 assumes output of 1.3 million tons of hard coal. At the same time, the volume of hard coal imports in 2021 reached 24.2 million tons (+27.5% yoy), while exports of this commodity stood at 1.3 million tons (+65.0% yoy).

Steel industry

Increase in coke production in response to stronger demand generated by the metallurgical industry. According to data published by the Czech Ministry of Industry and Trade, in 2021, the volume of coke produced in the Czech Republic was 2.6 million tons (+15.8% yoy); Modernization of the hot strip mill within a project increasing the production capacity to over 1 million tons per year. In 2021-2023, Liberty Ostrava (the only manufacturer of hot-rolled steel strip in the Czech Republic) has performed multi-directional works aiming to improve product quality and increase production capacities. Replacements cover both physical elements and software and all the works should be completed in 2023, when new technological elements are to be installed; that will involve, among others things, 2-week downtimes, but at the same time it will cause the entire process to be reliable and limit downtimes in the future.

Automotive industry

A slight drop in the automotive sector compared to 2020. In 2021, Czech manufacturers made a total of 1.1 million motor vehicles of various types (passenger, trucks, buses and motorcycles), which means a decrease of -3.7% yoy compared to the year 2020, strongly affected by the pandemic. At the same time, production in the automotive sector recorded drops year-over-year in last two quarters of 2021. In Q3 2021, production was merely 0.1 million items (-43.2% yoy) and Q4 2021 ended with the result of 0.2 million items (-20.1% yoy). The main cause of the strong year-over-year decline in output was the limited availability of components used in production processes (mainly microchips) and the resulting forced downtimes. According to AutoSAP's estimates, in 2021, due to the observed supply chain disruptions, automotive manufacturers failed to produce even 300 thousand passenger cars. At the same time, the increase in demand for the sector's products generated by the macroeconomic environment suggests the likelihood of a rapid increase in output once the currently observed supply-side disruptions disappear, although in 2022, the situation connected with the supply of components is still tense.

Chemical industry

Chemical industry ranks third in terms of GDP in the Czech Republic. In the scale of the overall economy, what is also important is the level of investment projects performed by the companies as well as funds earmarked for research and development. It is worth emphasizing that for last 30 years, companies from the chemical sector invested in objectives connected with environmental protection hundreds of billions Czech crowns to minimize emissions and adverse effects on the environment. Now, these companies present even ready-made solutions for using waste hazardous to the environment to manufacture products important for the economy. It is worth emphasizing that in the case of chemical industry in the European Union, the scale of emission reductions to a level of over 50% compared to 1990 has already been achieved (which corresponds to the objective of the emission reductions by 55% by 2030 as assumed in the European Green Deal).

4.2. Freight transportation activity

4.2.1. Rail transport market in Poland

According to data presented by the Office of Rail Transport (UTK), there are currently 112 rail operators on the Polish rail freight market that hold an active license issued by the UTK President for the performance of their services (as at 21 December 2021).[36] Three members of the PKP CARGO Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO[37] International a.s., currently render rail freight transport services on the Polish market.

In 2021, rail freight operators transported a total of 243.6 million tons of cargo (+9.1% yoy) and achieved a freight turnover of almost 56 billion tkm (+7.2% yoy).[38] Therefore the industry achieved compared to the results of 2020, an increase in the volume of transported cargo by 20.4 million tons and an increase in freight turnover by 3.8 billion tkm. The only weaker months in 2021 were January and February (when the freight volumes were merely 17.5 and 17.8 million tons respectively) but already as soon as March, the transports became stable at a higher level. The more rapid improvement in freight volume compared to freight turnover was caused by a decrease in the average haul, which in 2021 stood at 230 km, compared to -4 km less in the previous year.[39]

In 2021, there were 7.2 million tons more of freight volume transported by rail, which means an increase by +3.1% against 2019. In terms of freight turnover, a slight increase was recorded in comparison with the 2019 result (a growth by 78 million tkm, i.e. by +0.1.%, mainly because of reduction of the average haul by -6.7 km).[40] These are very significant symptoms of the recovery in the rail freight market, heralding the market's increasingly improved standing and potential. In the last decade, more freight volume was transported by rail only in 2018.

In 2021, the economic situation in the rail freight market and in the domestic industry should be assessed as relatively good, especially in the face of the uncertainty caused by the ongoing pandemic. The situation was, however, much more stable than

[36] Office of Rail Transport (as at 21 December 2021), the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating on the market under an international license.
[37] Office of Rail Transport
[38] Office of Rail Transport
[39] Office of Rail Transport
[40] Office of Rail Transport

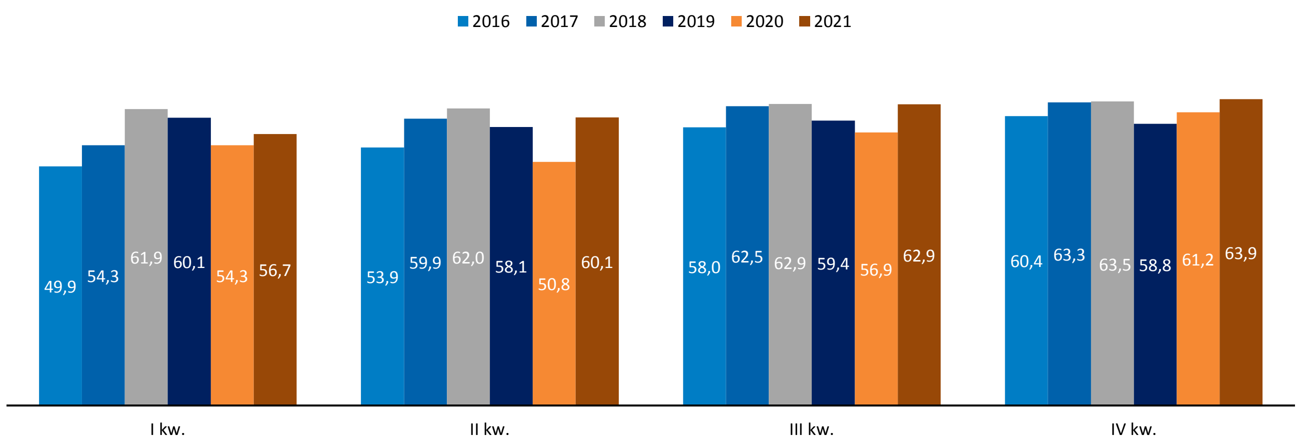
in 2020. The transport market was less uncertain and rail operators clearly adapted to the new reality. Clear symptoms of a rebound in the Polish industrial activity, which recouped the previous year's losses, were observed in 2021. The sector remained relatively resistant to the economic impact of the successive waves of the COVID-19 pandemic and played a stabilizing role in the Polish economy. Ultimately, despite a high level of market uncertainty and the continued risk of weakened demand generated by companies and consumers, preliminary results of industrial output in 2021 was +14.4% higher yoy (compared to a decline by -1.9% yoy in 2020),[41] which translated noticeably into an improvement in the situation of the rail transport sector and an optimistic outlook for the following months.[42]

During the first 12 months of 2021, the following changes in rail transport year-over-year performance were recorded in the cargo categories defined by Statistics Poland:

- hard coal (freight volume up by 11.7% yoy to 89.6 million tons),
- aggregates, stone, sand and gravel (freight volume up by 1.3% yoy to 46.1 million tons),
- refined petroleum products (up 10.2% yoy to 17.8 million tons),
- coke (up 17.3% yoy to 11.3 million tons),
- chemicals (up 4.5% yoy to 10.9 million tons),
- metals and metal products (up 15.2% yoy to 10.4 million tons),
- iron ore (up 7.4% yoy to 6.9 million tons).

In aggregate, during 12 months of 2021, these cargo categories accounted for 81% of the market's total rail freight volume. The highest increase in freight volume transported by rail compared to the corresponding period of 2020 was recorded then in hard coal transports (+9.4 million tons yoy). Considerable increases also occurred in the completed transports of coke (+1.7 million tons yoy), refined petroleum products (+1.6 million tons yoy) as well as metals and metal products (+1.4 million tons yoy).

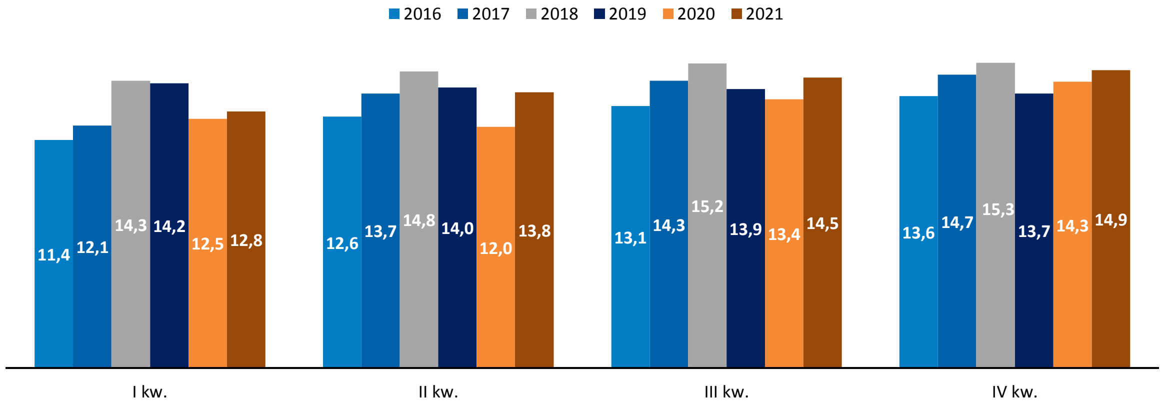
Figure 9 Rail freight volumes in Poland broken down by quarter in 2016-2021 (million tons)



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

[41] Statistics Poland,
[42] Office of Rail Transport

Figure 10 Rail freight turnover in Poland (billion tkm) broken down by quarter in 2016-2021

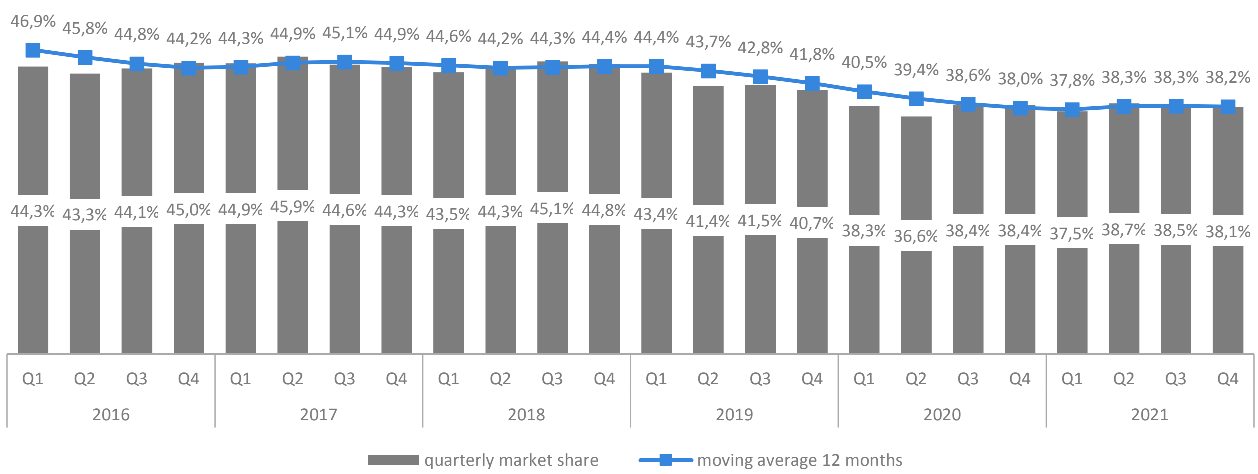


Source: Proprietary material based on the Office of Rail Transport's data

4.2.2. Position of the PKP CARGO Group and the parent company in the rail transport market in Poland

In 2021, the rail freight market improved year-over-year in terms of freight volume, with a simultaneous increase in freight turnover by rail operators compared to the same period of the previous year. The PKP CARGO Group's market share in 2021 was 38.2% (+0.2 p.p. yoy) in terms of freight volume and 41.2% in terms of freight turnover (+0.2 p.p. yoy).[43] The PKP CARGO Group[44] upheld its position of the undisputed leader in Poland's rail freight market, having even improved its market share year-over-year. The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 36.7% (+0.04 p.p. yoy) and 40.7% (+0.1 p.p. yoy) in 2021.[45]

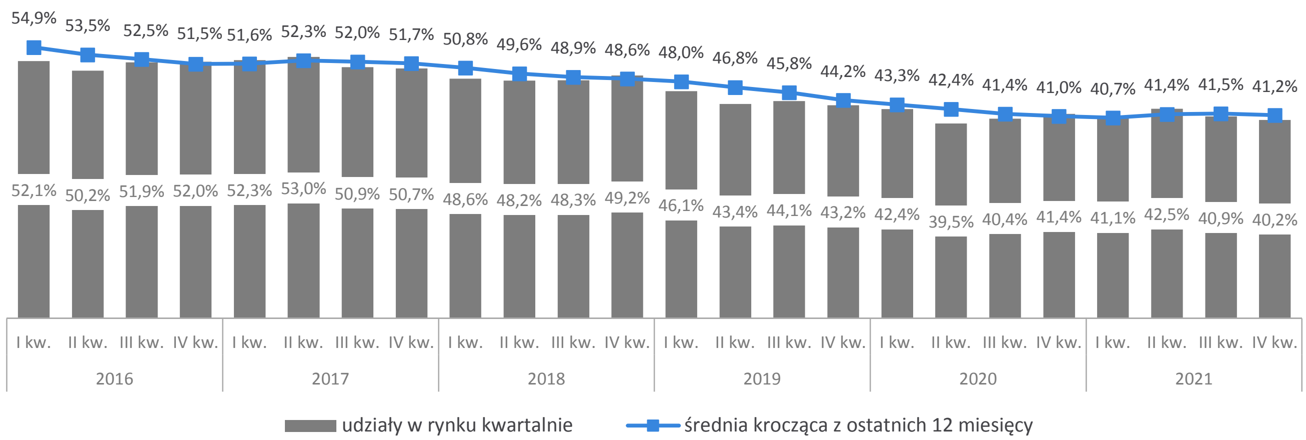
Figure 11 Share of the PKP CARGO Group in total freight volume in Poland in 2016-2021



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

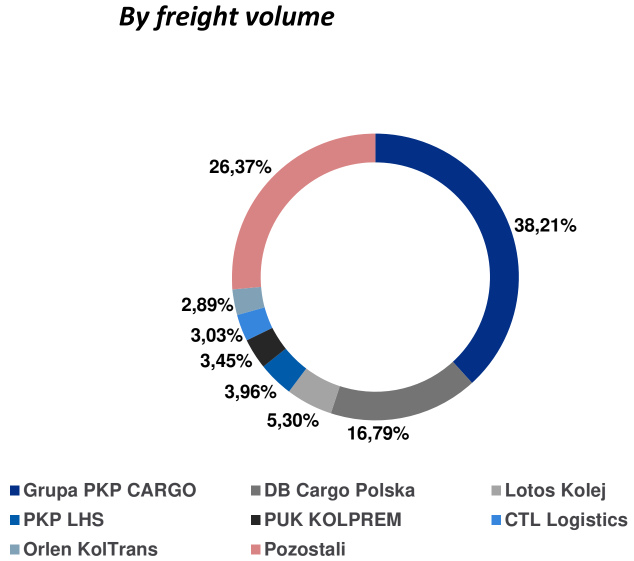
[43] PKP CARGO Group and Office of Rail Transport data
[44] The freight volume of the PKP CARGO Group also takes into account the cargo transported by PKP CARGO International a.s. in Poland.
[45] Office of Rail Transport

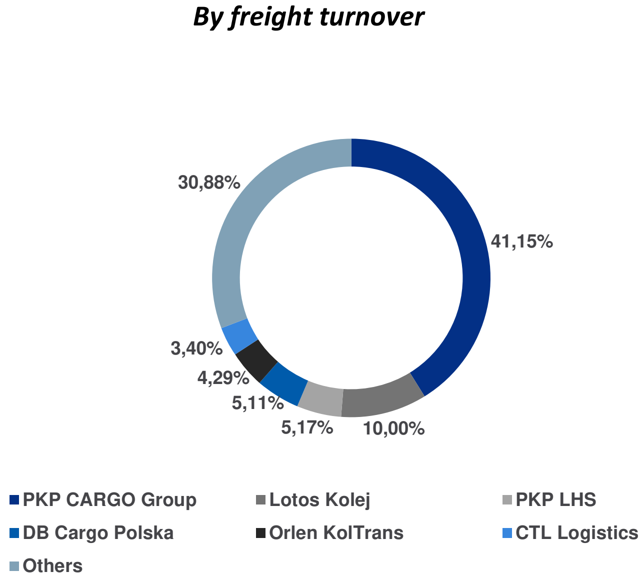
Figure 12 Share of the PKP CARGO Group in total freight turnover in Poland in 2016-2021



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

Figure 13 Market shares of the largest rail operators in Poland in 2021





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

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

In 2021, the PKP CARGO Group's competitors transported a total of 150.5 million tons of freight (+8.7% yoy). In this period, the largest freight volume was transported by DB Cargo Polska companies (40.9 million tons, up 8.5% yoy), Lotos Kolej (12.9 million tons, increase 2.9% yoy) and PKP LHS (9.7 million tons, up 17.7% yoy).[46]

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

At the same time, in 2021, freight turnover generated by operators competing with the PKP CARGO Group increased by 6.9% yoy, to 32.9 billion tkm. In this period, the largest completed freight turnover was achieved by the following competitors: Lotos Kolej (5.6 billion tkm, up 3.6% yoy), PKP LHS (2.9 billion tkm, up 12.1% yoy) and DB Cargo Polska (2.9 billion tkm, up 7.6% yoy).[47]

4.2.3. Rail freight transport market in the Czech Republic

During the first 9 months of 2021, a total of 448.7 million tons of cargo was transported by land in the Czech Republic (+10.4% yoy) and freight turnover stood at 63.4 billion tkm (+21.0% yoy).[48] In the period, a year-over-year increase was recorded in freight volumes transported by road, by rail and by the other branches of land transport. The situation was similar in terms of the market's realized freight turnover (with a clearly higher growth rate in transport by road). The average haul increased by 9.5% yoy and reached 141.4 km, as part of which the road transport segment recorded an extension of the average haul by 12.9% yoy (to 135.2 km), whereas in rail transport the average haul declined then by -1.7% yoy (to 165.4 km).[49] Despite its strong yoy growth, the average haul in the case of road transport services remains below that for other modes of land transport, including rail.[50]

Table 3 Freight transport market in the Czech Republic (9 months) 2021

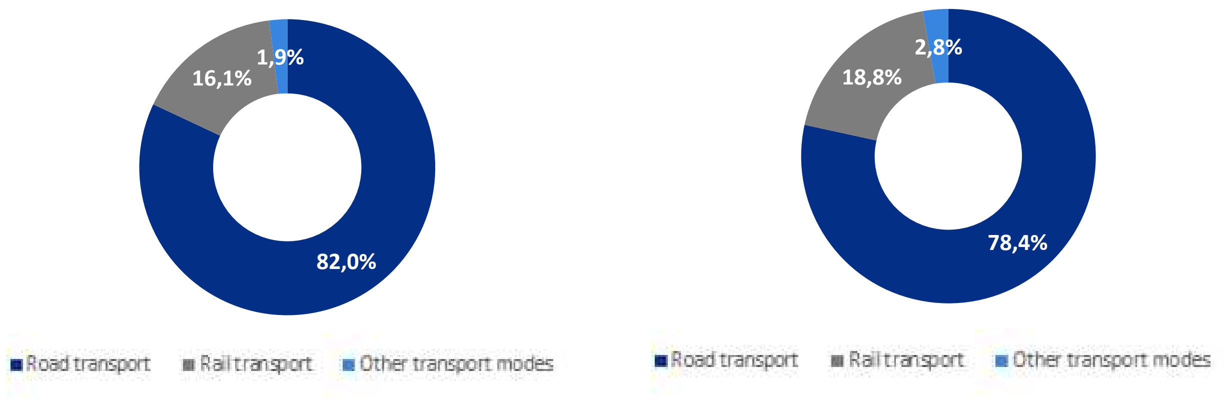
	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (million tons)	Change yoy	% Change yoy	Volume (million tons)	Change yoy	% Change yoy	Volume (million tons)	Change yoy	% Change yoy
Total market	448.7	42.4	10.4%	63.4	11	21.0%	141.4	12.3	9.5%
Road transport	367.9	35.7	10.7%	49.8	10	25.0%	135.2	15.4	12.9%
Rail transport	72.1	6.1	9.3%	11.9	0.8	7.5%	165.4	-2.8	-1.7%
Other land transport segments	8.7	0.6	8.0%	1.8	0.22	14.1%	202	10.7	5.6%

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

In three quarters of 2021, rail transport in the Czech Republic recorded a yoy increase in transported freight volume to 72.1 million tons (9.3% yoy) with a concurrent increase in realized freight turnover to 11.9 billion tkm (7.5% yoy)[51] compared to increases of freight volumes transported by road in the period (by 10.7% in freight volume and by 25.0% in freight turnover). The results, though positive, did not translate into an increase in the share of rail operators in the overall transport market. In terms of freight volume, rail operators lost -0.2 p.p. of the market share yoy, with a concurrent decrease in the market share in terms of freight turnover by -2.4 p.p. yoy. [52]

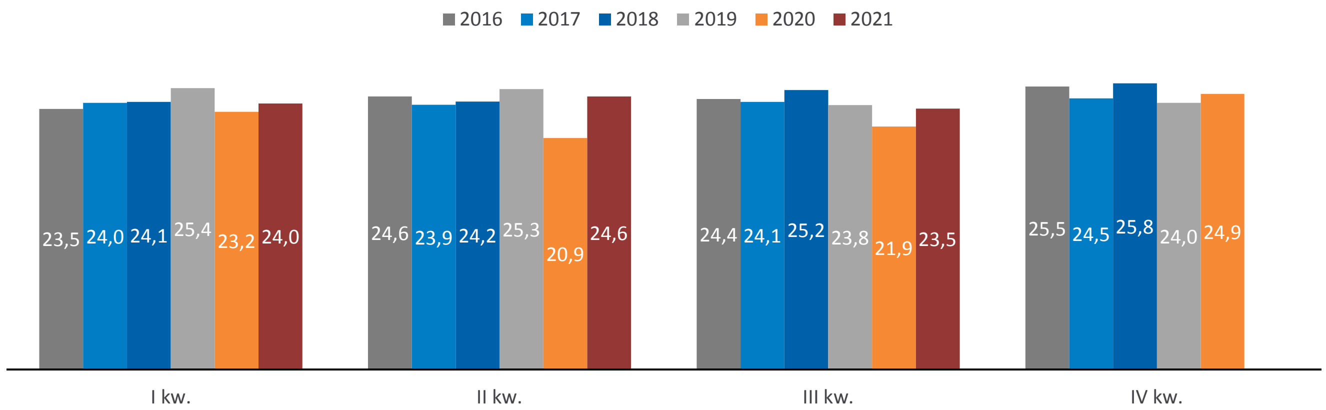
[47] proprietary material based on Office of Rail Transport data
[48] Ministry of Transport of the Czech Republic, data for Q2 2021 will be available at the end of Q3 and the beginning of Q4 2021.
[49] Ministry of Transport of the Czech Republic
[50] Ministry of Transport of the Czech Republic
[51] Ministry of Transport of the Czech Republic
[52] Ministry of Transport of the Czech Republic

Figure 14 Shares of various modes of transport in the transport market in the Czech Republic in 9M 2021: freight volume (L) and freight turnover (R)



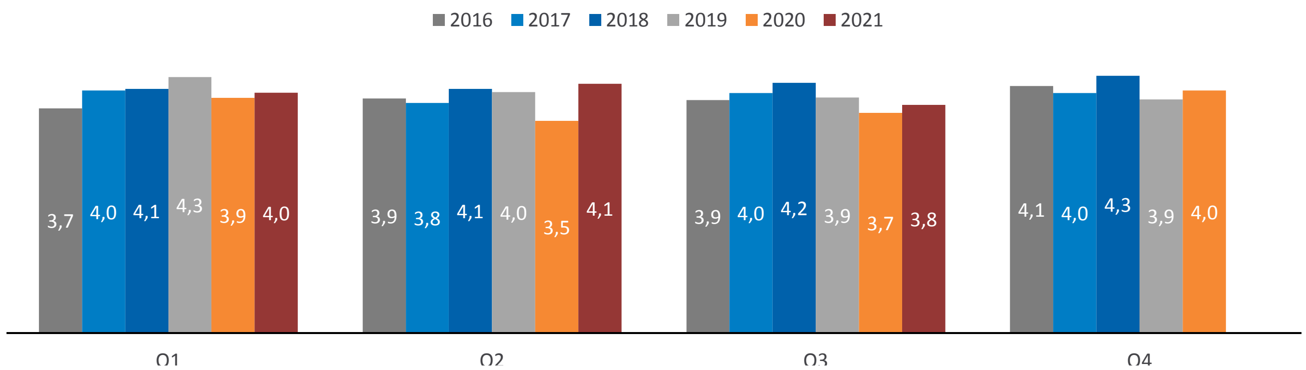
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 15 Quarterly rail freight transport in the Czech Republic by freight volume in 2016-2021 (million tons)



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

Figure 16 Rail freight transport in the Czech Republic by freight turnover broken down by quarter in 2016-2021 (billion tkm)



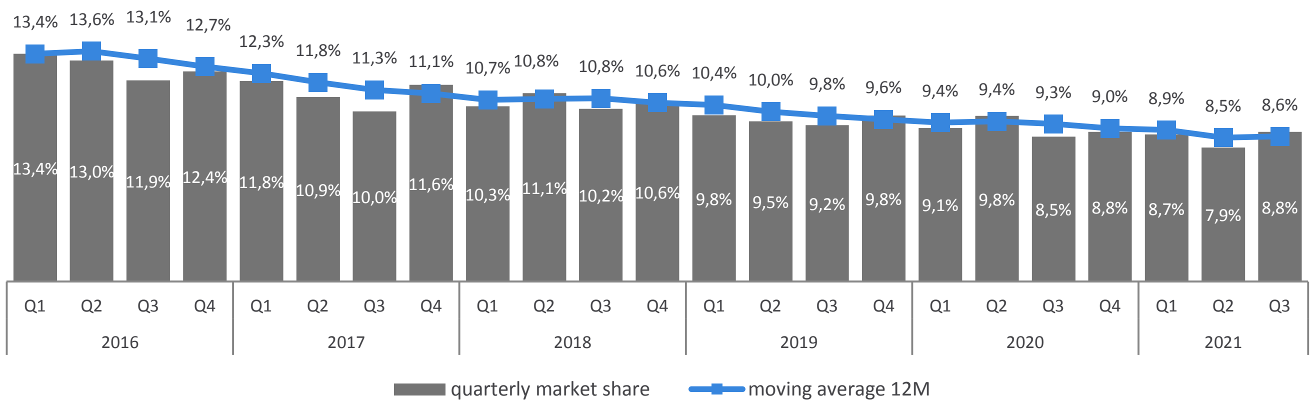
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

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

According to data published by the Czech rail infrastructure manager (SŽDC), 126 operators were licensed in 2021 to provide rail freight services in this country, including 2 members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s.[53]

In 2021, PKP CARGO International a.s. transported 8.2 million tons of freight (+0.5% yoy) and achieved a freight turnover of 1.1 billion tkm (-0.6% yoy).[54] In the same period, the average haul of PKP CARGO International decreased to 128.5 km (-1.0% yoy), chiefly as a result of a rearranged mix of transported freight.[55] In parallel, an increase was recorded in the freight volume of hard coal (+0.5% yoy to 3.0 million tons), metals and ores (+143.4% yoy to 0.3 million tons), chemicals (+4.4% yoy to 0.5 million tons) and liquid fuels (+7.1% yoy to 1.0 million tons). What is very positive is the recorded increase in completed intermodal transport services in 12M 2021 (by +6.3% yoy to 1.6 million tons), following the declines recorded by this segment of the transportation market at a level of -6.3% yoy after Q1 2021 (in Q2 alone, the rate of growth in intermodal transport services provided by PKP CARGO International reached +20.3% yoy).[56] The quantum of transport services decreased in the following categories: aggregates and construction materials, wood and agricultural products, and other cargo. Besides the economic factors reflecting further effects of the pandemic, the reduction in freight performance for certain cargo categories was also caused by initiatives taken by the company to change the qualitative mix of its transport services (and, as a result, to increase their profitability and efficiency).
According to SŽDC data on the shares in the rail transport market in terms of gross freight turnover in 2021, PKP CARGO International's competitive position on the Czech market deteriorated slightly: its share decreased by -0.8 p.p. yoy to 6.5%.[57] However, the company continues to hold a stable position as the third largest rail operator on the Czech market. [58]

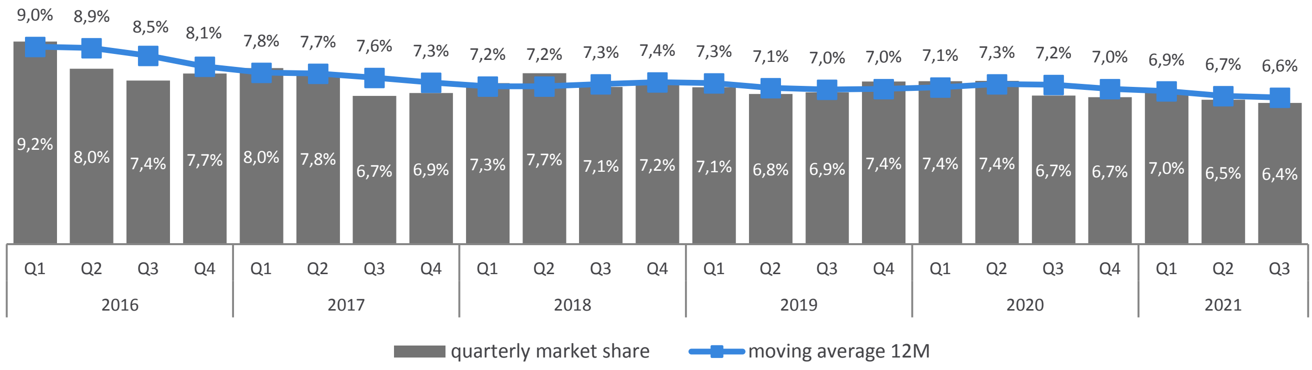
Figure 17 PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2016-2021*



** data for Q4 2020 will be available at the end of Q1 and the beginning of Q2 2021.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

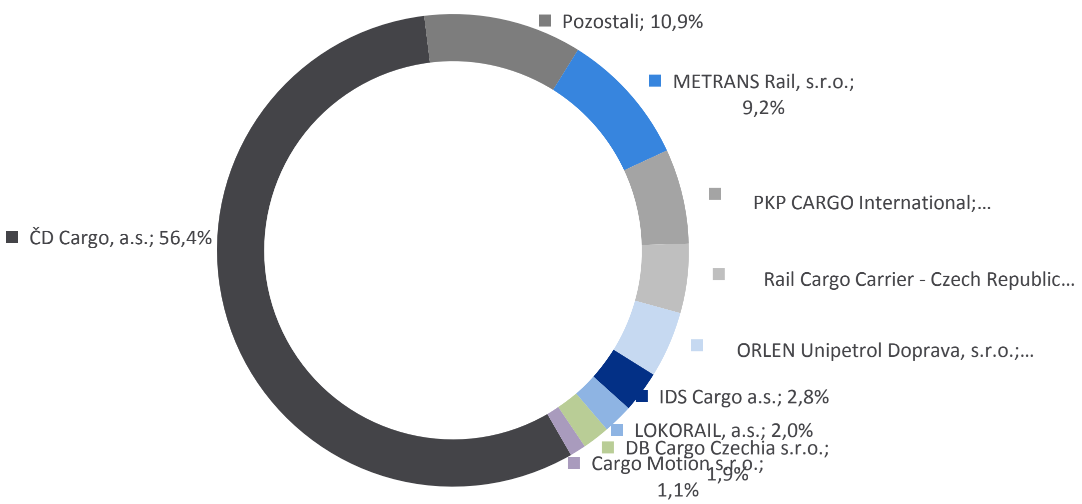
[53] SŽDC (as at 20 December 2021)
[54] PKP CARGO International's own statistics
[55] PKP CARGO International's own statistics
[56] PKP CARGO International's own statistics
[57] SŽDC
[58] SŽDC

Figure 18 PKP CARGO International's quarterly market shares in terms of freight turnover completed in the Czech Republic in 2016-2021*



** data for Q4 2021 will be available at the end of Q1 and the beginning of Q2 2022.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

Figure 19 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 2021 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

In 2021, ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market in terms of gross operational turnover, although in the same period its market share was in a downward yoy trend, having fallen to 56.4% (-2.2 p.p. yoy).[59] Also smaller than in 2020 were the market shares of IDS Cargo (-0.8 p.p. yoy, to 2.8%) and PKP CARGO International (-0.8 p.p. yoy, to 6.5%). In 2021, the largest increases in year-over-year market shares were recorded by ORLEN Unipetrol Doprava (+0.4 p.p. yoy, to 4.5%; the operator focuses on the fuel transport segment), Rail Cargo Carrier – Czech Republic (+0.5 p.p. yoy, to 4.8%) and Metrans Rail (+0.3 p.p. yoy, to 9.2%) – the business model of these companies is based on the provision of comprehensive logistics services for container transport in the countries of the Three Seas Initiative.[60] Accordingly, Metrans Rail solidified its position as the second largest rail freight carrier in the Czech Republic. The list currently includes rail operators that were not included in 2020, namely LOKORAIL a.s. (with a share of 2.0%) and DB Cargo Czechia s.r.o. (1.9%). A major

[59] SŽDC
[60] SŽDC

increase in the market share was also achieved by small rail operators. Due to their individual shares falling below the market threshold, they are not specified by name in the statistics (+2.0 p.p. yoy to 10.9%).[61]
The list of the largest rail operators on the Czech market in 2021 published by SŽDC does not include PKP CARGO S.A. Yet at the same time, the following transports realized by PKP CARGO S.A. increased year-over-year: transports of ores from the east via Poland to the Czech Republic, exports of slag from the Czech Republic to Poland and intermodal transport in transit via the Czech Republic on the routes Poland-Italy and Romania-Poland. There was also a growth in transports of other chemicals (transit of butadiene from Austria to Poland, octanol from Poland to Turkey and sulfuric acid to Slovakia); imports of methanol via the Szczecin port to the Czech Republic also increased. Increased hard coal transports were also recorded (in exports from Silesian mines to Ostrava and in imports from the Czech Republic to Wałbrzych and Zdzieszowice) and imports of calcium flux from Poland. At the same time, in 2021, compared to the previous year, a drop was recorded in coke transports because of lack of transports to Bosnia and Herzegovina, lower transports from the Czech Republic to the Gdańsk port and lack of transports from the Czech Republic to the east.[62]

4.3.1. The Company's and PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in 2020 and 2021 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and companies from the PKP CARGO International Group. Transport services are rendered by 6 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., PKP CARGO International a.s., PKP CARGO International HU Zrt., PKP CARGO International SK a.s. and PKP CARGO INTERNATIONAL SI d.o.o. (formerly PRIMOL-Rail d.o.o.).
The PKP CARGO Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge, Azoty, JSW, Węglokoks, Enea, PGE, Tauron, Polska Grupa Górnicza and MM KWIDZYN (owned by Mayr-Melnhof Karton AG).

Table 4 PKP CARGO Group's freight turnover in 12 months of 2021, Q4 2021 and 2020

Description	2021	2020	Change 2021/2020		2021	2020	Q4 2021	Q4 2020	Change Q4 2021/ Q4 2020	
	(million tkm)			%	percentage of total (%)		(million tkm)			%
Solid fuels[1]	9,583	8,621	962	11.2%	37%	36%	2,567	2,415	153	6.3%
of which hard coal	7,848	7,112	736	10.3%	31%	30%	2,141	1,998	143	7.2%
Aggregates and construction materials[2]	5,131	4,509	622	13.8%	20%	19%	1,374	1,192	182	15.2%
Metals and ores[3]	2,145	1,980	165	8.3%	8%	8%	466	579	-113	-19.5%
Chemicals[4]	2,246	1,937	309	15.9%	9%	8%	546	584	-38	-6.5%
Liquid fuels[5]	649	681	-32	-4.7%	3%	3%	183	124	59	47.5%
Timber and agricultural produce[6]	785	984	-199	-20.2%	3%	4%	216	256	-41	-15.9%
Intermodal transport	4,544	4,290	254	5.9%	18%	18%	1,129	1,204	-76	-6.3%
Other[7]	508	646	-139	-21.4%	2%	3%	122	173	-51	-29.3%
Total	**25,590**	**23,649**	**1,941**	**8.2%**	**100%**	**100%**	**6,603**	**6,528**	**75**	**1.2%**

Source: Proprietary material

[61] SŽDC
[62] PKP CARGO S.A.'s own statistics

Table 5 PKP CARGO Group's freight volume in 12 months of 2021, Q4 2021 and 2020

Description	2021	2020	Change 2021/2020		2021	2020	Q4 2021	Q4 2020	Change Q4 2021/ Q4 2020	
	(million tons)			*%*	*percentage of total (%)*		*(million tons)*			*%*
Solid fuels[1]	52.1	47.3	4.8	10.1%	51%	51%	13.9	13.4	0.5	4.0%
of which hard coal	46.2	42.5	3.7	8.7%	46%	45%	12.5	12.1	0.4	3.3%
Aggregates and construction materials[2]	19.8	17.9	1.9	10.8%	20%	19%	5.3	4.6	0.6	14.0%
Metals and ores[3]	7.1	6.2	0.9	14.8%	7%	7%	1.5	1.7	-0.1	-8.3%
Chemicals[4]	6.5	5.8	0.7	12.4%	6%	6%	1.6	1.7	-0.1	-5.1%
Liquid fuels[5]	1.9	2.0	-0.1	-6.0%	2%	2%	0.5	0.4	0.2	47.0%
Timber and agricultural produce[6]	2.4	2.8	-0.4	-13.5%	2%	3%	0.7	0.8	-0.1	-11.4%
Intermodal transport	10.0	9.7	0.3	2.7%	10%	10%	2.6	2.8	-0.2	-7.1%
Other[7]	1.8	2.0	-0.1	-5.9%	2%	2%	0.5	0.5	0.0	-6.1%
Total	**101.6**	**93.6**	**8.0**	**8.6%**	**100%**	**100%**	**26.6**	**25.8**	**0.8**	**3.1%**

Source: Proprietary material

In 12 months of 2021, the average haul of freight by rail transported by the PKP CARGO Group was 252 km (a slight decline in the haul yoy [by 1 km]).

Table 6 PKP CARGO Group's average haul of freight in 12 months of 2021, Q4 2021 and 2020

Description	2021	2020	Change 2021/2020		Q4 2021	Q4 2020	Change Q4 2021/ Q4 2020	
	(km)			*%*	*(km)*			*%*
Solid fuels[1]	*184*	182	2	0.9%	*184*	180	4	2.3%
of which hard coal	170	167	2	1.5%	171	165	6	3.7%
Aggregates and construction materials[2]	259	252	7	2.7%	261	258	3	1.1%
Metals and ores[3]	300	318	-18	-5.6%	302	344	-42	-12.3%
Chemicals[4]	347	336	11	3.1%	342	347	-5	-1.4%
Liquid fuels[5]	348	343	5	1.4%	353	352	1	0.4%
Timber and agricultural produce[6]	329	357	-28	-7.8%	315	332	-17	-5.0%
Intermodal transport	455	442	14	3.1%	436	433	4	0.8%
Other[7]	276	331	-55	-16.5%	263	349	-86	-24.7%
Total	**252**	**253**	**-1**	**-0.3%**	**248**	**253**	**-5**	**-1.9%**

Source: Proprietary material

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

Key factors affecting the volume of transport in various cargo categories in 12 months of 2021:

solid fuels

- greater yoy production and sales of hard coal;
- increased transport volumes of hard coal connected with growing demand for coal in Poland, resulting from, among others: increase in electricity generation due to stronger demand, changes in the energy mix, specifically an increase in the significance of electricity generation in hard coal-fired commercial power plants and a decrease in the significance of wind and gas-fired energy;
- declining share of electricity imports;
- greater hard coal imports via Poland's eastern border and passing through seaports;

- increase in the volume of transported coke, domestically and internationally;
- decrease in the average speed, chiefly due to the continuing high number of track closures on the PKP PLK network, which exerted an adverse impact on fulfilling demand for the transport of solid fuels;
- increase in OKD's coal output (increase in the volume of coal transported in the Czech Republic by PKP CARGO INTERNATIONAL and in imports to Poland in cooperation with PKP CARGO);
- decrease in the average haul of coal transported by PKP CARGO INTERNATIONAL;
- lower volume of coke transport services in the Czech Republic.

aggregates and construction materials

- increased customer demand for construction stone due to the increase in the quantum of transport for the construction of A1, S7, S5, S19 and other road investments;
- stronger customer demand for the renovation and modernization of the E59, E75 railway routes and railway stations (including Warszawa Zachodnia [Warsaw West]);
- increase in the haul of aggregates, including for the construction of S7 and the Rail Baltica rail line;
- increase volume of transport services for clinker and limestone to the Czech Republic;

metals and ores

- increase in transport services of ores and metals resulting from stronger demand for steel products after the slowdown in construction and assembly output in 2020;
- increase in steel imports from within and without the EU (the current production of metals in Poland fails to satisfy the demand);
- decrease in the volume of PKP CARGO INTERNATIONAL's transport services in cooperation with PKP CARGO due to the reduced output of Czech steelworks and the takeover of a portion of the transport market by another rail operator in the Czech Republic;
- decrease in the average haul caused by a shorter haul of transported metals;

chemicals

- increase in transport services of nitrogen fertilizers, domestically and in exports through seaports, associated with the increased demand for fertilizers on the agricultural market and the takeover of contracts from other rail carriers;
- increase in transport services of soda glaze in exports through seaports (recovery of the chemical market following the restrictions related to the COVID-19 pandemic);
- increase in transport services of hydrocarbons across the eastern border (upsurge in demand for natural gas by customers);

intermodal

- increase in the volume of transport of semi-trailers as part of operator connections to Duisburg and from Lithuania to the Netherlands;
- launch of an intermodal connection to Turkey in cooperation with PKP CARGO CONNECT;
- decrease in the volume of transported woodchips;
- decrease in transport services on the New Silk Road due to the reduced capacity of rail routes in Poland and Germany;
- decrease in the number of trains from and to ports due to modernization works currently in progress in the Tri-City area, restraining the capacity of rail routes and extending travel time; decrease in car transport services from the Czech Republic to Russia and Slovenia provided by PKP CARGO INTERNATIONAL (reduced output of cars due to problems with vehicle part supplies);

liquid fuels

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

timber and agricultural produce

- decrease in timber shipments to main recipients (paper manufacturers) because of restrictions imposed on imports of timber from Belarus;
- decrease in grain exports via ports, replaced by grain exports to the Czech Republic;
- cessation of timber transport services from the Czech Republic to seaports;
- decrease in the average haul for the largest recipients (paper manufacturers) caused by the deliveries of wood to paper mills on domestic routes;

others

- decrease in car part transport services in the Czech Republic provided by PKP CARGO INTERNATIONAL (reduced output of cars due to problems with vehicle part supplies)
- decreased average haul in transport of other cargo in Poland due to a change in the structure of freight routes;
- increased shipments of arsenic sulfide from Belarus;
- increase in clay imports (greater demand generated by ceramic manufacturers);
- increase in paper shipments in exports;

4.4. Other services

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

4.5. Information on selling markets and sources of supply

Key clients

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the financial year ended 31 December 2020 and 31 December 2021 did not exceed 15% of total revenues from contracts with customers. There is no single geographic area (outside of Poland) which generated more than 8% of revenues from contracts with customers.

In the financial year ended 31 December 2021, no sales to any group represented more than 10% of total revenues from contracts with customers. In the financial year ended 31 December 2021, sales of services at the Company to the Arcelor Mittal Group represented 7.8%.

The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity. In the financial year ended

31 December 2021 and 31 December 2021, the Group's revenue from any single Group client did not exceed 10% of the total revenues from contracts with customers. The Group's revenues generated by external clients by geographic area are presented in Note 2.1 to the Consolidated Financial Statements and the Company's revenues – in Note 2.1 to the Standalone Financial Statements.

Key suppliers

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

Moreover, the Group's main supplier for traction fuel and traction energy is PKP Energetyka S.A. This supplier specializes in selling and supplying electricity, selling liquid fuels and providing electrical energy-related services.

4.6. Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 2017-2021 is provided below.

Table 7 Headcount in 2017-2021 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Description	Headcount as at:					Change 2021-2020	% change
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017		
PKP CARGO Group	**20,562**	**21,766**	**23,571**	**23,643**	**23,253**	**-1,204**	***-5.53%***
including: PKP CARGO S.A.	*14,728*	*15,771*	*17,140*	*17,308*	*17,043*	*-1,043*	*-6.61%*

Source: Proprietary material

Table 8 Average headcount in FTEs in 2017-2021 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Description	Average headcount in FTEs					Change 2021-2020
	12 months 2021	12 months 2020	12 months 2019	12 months 2018	12 months 2017	
PKP CARGO Group	**21,210**	**22,279**	**23,657**	**23,385**	**23,278**	**-1,069**
including: PKP CARGO S.A.	*15,351*	*16,185*	*17,293*	*17,135*	*17,177*	*-834*

Source: Proprietary material

Table 9 Average headcount in FTEs in 2017-2021 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Description	Average headcount in persons					Change 2021-2020
	12 months 2021	12 months 2020	12 months 2019	12 months 2018	12 months 2017	

PKP CARGO Group	**21,254**	**22,818**	**23,710**	**23,431**	**23,305**	**-1,564**
including: PKP CARGO S.A.	*15,360*	*16,616*	*17,309*	*17,146*	*17,182*	*-1,256*

Source: Proprietary material

Table 10 Headcount structure in 2017-2021 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Description	Headcount as at:					Change 2021-2020	Change %
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017		
White-collar positions – the Group	**4,808**	**5,079**	**5,079**	**5,439**	**5,379**	**-271**	**-5.34%**
including: PKP CARGO S.A.	*3,389*	*3,644*	*3,644*	*3,936*	*3,886*	*-255*	*-7.00%*
Blue-collar positions – the Group	**15,754**	**16,687**	**16,687**	**18,132**	**18,264**	**-933**	**-5.59%**
including: PKP CARGO S.A.	*11,339*	*12,127*	*12,127*	*13,204*	*13,422*	*-788*	*-6.50%*
Total	**20,562**	**21,766**	**21,766**	**23,571**	**23,643**	**-1,204**	**-5.53%**
including: PKP CARGO S.A.	*14,728*	*15,771*	*15,771*	*17,140*	*17,308*	*-1,043*	*-6.61%*

Source: Proprietary material

A comparison of 2021 with 2020 reveals a significant decline in the headcount in the PKP CARGO Group by 1,204 people (by 1,043 people in PKP CARGO S.A. alone). The headcount structure in the Group was adjusted to the changing market environment.

4.7. The Company’s and the PKP CARGO Group's investments

4.7.1. Capital expenditures

PKP CARGO S.A.

In 2021, the Company incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections[63]) of PLN 766.9 million, and recognized right-of-use assets of PLN 29.5 million.

In 2021, the Company’s total capital expenditures were PLN 796.4 million, i.e. more by 30.8% compared to the performance in 2020, including capital expenditures abroad, namely those for purchasing flat wagons for transporting containers amounted to PLN 122.1 million.

Most of capital expenditures in the Company in 2021 were allocated for the execution of investment tasks associated with the rolling stock, mainly for repairs and periodic inspections of the rolling stock (the number of periodic repairs and periodic inspections performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantity of rolling stock maintained as fit for operation as required for the provision of transportation services), modernization of 17 locomotives, the purchase of 428 flat wagons for transporting containers for a total of PLN 724.0 million (or 90.9% of total capital expenditures).

Moreover, the Company incurred capital expenditures in the IT area, in particular to purchase hardware and ICT equipment along with intangible assets (software) for the total amount of PLN 11.0 million, for investment construction in the amount of PLN 27.7 million, namely the construction and modernization of buildings and the acquisition of machinery and equipment and workshop and office fit-out in the amount of PLN 4.3 million. In addition, the Company incurred capital expenditures for right-of-use assets in the amount of PLN 29.5 million, including mostly real property lease agreements.

[63] P3 – maintenance operations performed on specialist control posts, when the vehicle is withdrawn from service, with partial dismantling of sub-assemblies
P4 – maintenance operations performed in plants fitted with technical facilities and measurements stations, encompassing planned replacement or repairs of sub-assemblies
P5 – renovation of the vehicle, encompassing dismantling of sub-assemblies and their replacement with new or regenerated ones

Table 11 Capital expenditures in PKP CARGO S.A. in 2017 – 2021 (PLN million)

Description	2021	2020	2019	2018	2017	2016	Change 2021-2020	Change 2021/2020 in %
Investment construction activity	27.7	9.9	7.0	13.1	5.5	4.5	17.8	179.6%
Purchases of locomotives	0.4	33.0	65.3	43.4	53.0	199.4	-32.6	-98.8%
Modernization of locomotives	91.2	123.4	252.0	146.3	64.2	35.4	-32.2	-26.1%
Purchases of wagons	184.7	162.8	69.9	11.1	12.5	0.0	21.9	13.4%
Workshop machinery and equipment	4.2	1.5	8.5	6.8	4.3	2.8	2.7	184.2%
ICT development	11.0	7.4	11.4	12.2	14.5	16.5	3.6	48.2%
Other	0.0	0.2	1.2	0.7	0.5	2.2	-0.2	-88.1%
Components in overhaul, including:	447.7	249.7	617.1	594.8	356.7	185.0	198.0	79.3%
Repairs and periodic inspections of locomotives	*111.5*	*61.5*	*162.2*	*160.2*	*76.5*	*45.0*	*50.0*	*81.2%*
Repairs and periodic inspections of wagons	*336.2*	*188.2*	*454.9*	*434.6*	*280.2*	*140.0*	*148.0*	*78.7%*
Right-of-use assets*	29.5	20.8	185.4	-	-		8.7	41.9%
Total	**796.4**	**608.7**	**1,217.8**	**828.4**	**511.2**	**445.8**	**187.7**	30.8%

* Expenditures for right-of-use assets for 2021 do not include increases of PLN 84.8 million resulting from leaseback of rolling stock.

Source: Proprietary material

In 2021, the Company received co-financing from the EU in the amount of PLN 57.6 million for purchasing 284 flat wagons for transporting containers and refinanced expenditures of PLN 24.7 million incurred in 2020 for purchasing 148 flat wagons for transporting containers. In turn, capital expenditures incurred in 2021 for the purchase of 144 flat wagons for transporting containers, financed with own funds of PLN 69.5 million, will be 50% refinanced in 2022 with an EU grant.

PKP CARGO Group

In 2021, the Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections) of PLN 842.8 million, and recognized right-of-use assets of PLN 65.5 million. Total expenditures of the PKP CARGO Group in 2021 reached PLN 908.3 million, i.e. more by 20.4% against the performance in 2020.

The majority of the capital expenditures in the Group in 2021 were allocated for the execution of investment tasks associated with rolling stock, mainly for periodic repairs and periodic check-ups of rolling stock (the number of periodic repairs and periodic check-ups performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services) and the acquisition and modernization of locomotives and wagons – for a total amount of PLN 725.8 million (i.e. 79.9% of total capital expenditures). Moreover, the Group incurred expenditures on computerization, i.e. purchases of computer hardware in the form of computers and ICT equipment as well as intangible assets (software) in the amount of PLN 12.8 million, for investment construction activity in the amount of PLN 70.5 million, chiefly to modernize container terminals, modernize and construct storage yards, repair rail infrastructure and modernize buildings and structures, including workshop buildings, and purchase and modernize machinery, plant and tools in container terminals and workshop buildings in the amount of PLN 32.2 million, to purchase office equipment and vehicles for PLN 1.5 million and right-of-use assets for PLN 65.5 million, including real estate for PLN 45.1 million, rolling stock for PLN 5.7 million and in other areas for PLN 14.7 million, mostly for leasing vehicles and purchasing tools in container terminals and workshop buildings, ICT equipment, containers financed by leasing.

Table 12 Capital expenditures in the PKP CARGO Group in 2017 – 2021 (PLN million)

Description	2021	2020	2019	2018	2017	Change 2021-2020	Change 2021/2020 in %
Investment construction activity	70.5	50.8	39.5	48.1	32.1	19.7	38.8%

Purchases of locomotives	0.4	33.0	65.3	43.8	53.0	-32.6	-98.8%
Modernization of locomotives	99.4	132.0	258.5	147.9	67.0	-32.6	-24.7%
Purchases of wagons	184.7	162.9	69.9	11.1	13.3	21.8	13.4%
Wagon upgrades	0.0	5.6	2.0	0.0	1.7	-5.6	-100.0%
Workshop machinery and equipment	32.2	12.0	26.6	26.3	17.6	20.2	168.5%
ICT development	12.8	10.8	14.1	16.6	16.3	2.0	18.9%
Other	1.5	2.5	4.8	1.9	2.4	-1.0	-38.2%
Components in overhaul, including:	441.3	276.5	632.0	598.4	358.6	164.8	59.6%
Repairs and periodic inspections of locomotives	*115.9*	*73.7*	*167.1*	*171.7*	*77.3*	*42.2*	*57.3%*
Repairs and periodic inspections of wagons	*325.4*	*202.8*	*464.9*	*426.7*	*281.3*	*122.5*	*60.4%*
Right-of-use assets*	65.5	68.4	237.6	-	-	-2.9	-4.3%
Total	**908.3**	**754.5**	**1,350.3**	**894.1**	**562.0**	**153.8**	20.4%

** Expenditures for right-of-use assets do not include increases resulting from leaseback of rolling stock in the amount of PLN 101.0 million for 2021 and PLN 8.2 million for 2020.*
Source: Proprietary material

4.7.2. Assessment of the capacity to execute investment plans

The Group will finance capital expenditures using partly external financing sources (such as investment loans, leases, assistance funds or other sources) and using its own funds. Additionally, a cash pooling system is in place in the PKP CARGO Group which comprises, as at 31 December 2020, 8 Group companies.
PKP CARGO S.A. has been efficiently managing the cash management cycle by matching the maturity of receivables and liabilities. To hedge the possible risk of a short-term cash shortage, PKP CARGO S.A. has in place three agreements for overdraft facilities with the total limit of PLN 300 million (as at 31 December 2021). Information on credit facilities undrawn as at 31 December 2021 is presented in Note 4.1 to the Consolidated Financial Statements for 2021. Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2021, 8 Group companies.

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

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

Table 13 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million[64]						EUR million					
	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016
Exchange rates (PLN/EUR)							4.5775	4.4742	4.3018	4.2669	4.2447	4.3757
Operating revenue	3,127.0	3,062.0	3,601.4	3,939.2	3,588.0	3,250.5	683.1	684.4	837.2	923.2	845.3	742.8
Operating profit / loss	-235.7	-214.6	40.2	318.2	149.7	-31.1	-51.5	-48.0	9.3	74.6	35.3	-7.1
Profit / loss before tax	-268.4	-221.5	19.2	320.7	125.5	-70.7	-58.6	-49.5	4.5	75.2	29.6	-16.2
Net profit / loss from continuing operations	-223.3	-173.9	-8.3	254.0	94.0	-68.6	-48.8	-38.9	-1.9	59.5	22.1	-15.7
Comprehensive income	-146.1	-251.6	-37.4	228.2	87.3	-53.9	-31.9	-56.2	-8.7	53.5	20.6	-12.3
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	-4.99	-3.88	-0.19	5.67	2.10	-1.53	-1.09	-0.87	-0.04	1.33	0.49	-0.35
Diluted earnings / loss per share (PLN/EUR)	-4.99	-3.88	-0.19	5.67	2.10	-1.53	-1.09	-0.87	-0.04	1.33	0.49	-0.35
Net cash flow from operating activities	500.5	417.1	649.4	709.7	478.4	237.5	109.4	93.3	151.0	166.3	112.7	54.3
Net cash flow from investing activities	-558.9	-559.1	-693.4	-536.3	-780.2	-440.6	-122.1	-125.0	-161.2	-125.7	-183.8	-100.7
Net cash flow from financing activities	18.9	-57.5	201.6	-246.9	-14.3	731.0	4.1	-12.9	46.9	-57.9	-3.4	167.1
Movement in cash and cash equivalents	-39.5	-199.5	157.6	-73.5	-316.1	527.9	-8.6	-44.6	36.6	-17.2	-74.5	120.6
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
Exchange rates (PLN/EUR)							4.5994	4.6148	4.2585	4.3000	4.1709	4.4240
Non-current assets	6,031.2	5,948.9	6,030.5	4,902.5	4,562.6	4,445.2	1,311.3	1,289.1	1,416.1	1,140.1	1,093.9	1,004.8
Current assets	681.3	705.4	989.8	1,079.8	1,178.5	1,106.4	148.1	152.9	232.4	251.1	282.6	250.1
Non-current assets classified as held for sale	14.9	12.7	-	-	-	6.0	3.2	2.7	-	-	-	1.4
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	486.9	485.2	525.8	520.8	536.9	506.2
Equity	2,812.7	2,958.8	3,210.4	3,314.6	3,088.9	3,001.6	611.5	641.2	753.9	770.8	740.6	678.5
Non-current liabilities	2,442.9	2,646.7	2,659.0	1,652.6	1,748.7	1,713.9	531.1	573.5	624.4	384.3	419.3	387.4
Current liabilities	1,471.8	1,061.5	1,150.9	1,015.1	903.5	842.1	320.0	230.0	270.2	236.1	216.6	190.3

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2021 prepared according to EU IFRS.

Table 13 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million						EUR million					
	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016
Exchange rates (PLN/EUR)							4.5775	4.4742	4.3018	4.2669	4.2447	4.3757
Operating revenue	4,326.5	4,235.9	4,865.5	5,237.5	4,733.0	4,411.3	945.2	946.7	1,131.0	1,227.5	1,115.0	1,008.1

[64] In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2021, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, the data are presented with greater accuracy.

Operating profit / loss	-208.8	-186.4	143.4	277.6	153.4	-132.1	-45.6	-41.7	33.3	65.1	36.1	-30.2
Profit / loss before tax	-264.4	-266.9	73.5	243.8	116.5	-150.9	-57.8	-59.7	17.1	57.1	27.4	-34.5
Net profit / loss	-225.3	-224.3	36.0	183.9	81.7	-133.8	-49.2	-50.1	8.4	43.1	19.2	-30.6
Total comprehensive income attributable to the owners of the parent company	-103.2	-279.5	4.2	170.7	73.8	-91.1	-22.5	-62.5	1.0	40.0	17.4	-20.8
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	-5.03	-5.01	0.80	4.11	1.82	-2.99	-1.10	-1.12	0.19	0.96	0.43	-0.68
Diluted earnings / loss per share (PLN/EUR)	-5.03	-5.01	0.80	4.11	1.82	-2.99	-1.10	-1.12	0.19	0.96	0.43	-0.68
Net cash flow from operating activities	699.8	553.1	806.5	863.0	600.7	380.0	152.9	123.6	187.5	202.2	141.5	86.9
Net cash flow from investing activities	-645.6	-655.1	-814.8	-612.0	-740.0	-568.6	-141.0	-146.4	-189.4	-143.4	-174.3	-129.9
Net cash flow from financing activities	-106.4	-145.9	111.4	-322.9	-99.4	663.9	-23.3	-32.6	25.9	-75.7	-23.4	151.7
Movement in cash and cash equivalents	-52.2	-247.9	103.1	-71.9	-238.7	475.3	-11.4	-55.4	24.0	-16.9	-56.2	108.6
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
Exchange rates (PLN/EUR)							**4.5994**	**4.6148**	**4.2585**	**4.3000**	**4.1709**	**4.4240**
Non-current assets	6,458.7	6,397.4	6,503.8	5,187.2	4,951.5	4,964.2	1,404.3	1,386.3	1,527.3	1,206.3	1,187.2	1,122.1
Current assets	1,139.0	1,149.3	1,487.5	1,619.1	1,694.2	1,547.9	247.6	249.1	349.3	376.5	406.2	349.9
Non-current assets classified as held for sale	15.7	12.7	-	-	-	-	3.4	2.7	-	-	-	-
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	486.9	485.2	525.8	520.8	536.9	506.2
Equity attributable to the owners of the parent company	3,040.6	3,143.8	3,423.3	3,483.5	3,317.2	3,243.4	661.1	681.2	803.9	810.1	795.3	733.1
Equity attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Non-current liabilities	2,833.8	3,029.5	3,115.9	1,969.1	2,110.9	2,092.6	616.1	656.5	731.7	457.9	506.2	473.0
Current liabilities	1,739.0	1,386.1	1,452.1	1,353.7	1,217.6	1,176.1	378.1	300.4	341.0	314.8	291.9	265.8

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021 prepared in accordance with EU IFRS.

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021:

- exchange rate in force on the last day of the reporting period: 31 December 2021: EUR 1 = PLN 4.5994; 31 December 2020: EUR 1 = PLN 4.6148,
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in the respective period: 1 January – 31 December 2021: EUR 1 = PLN 4.5775, 1 January – 31 December 2020: EUR 1 = PLN 4.4742.

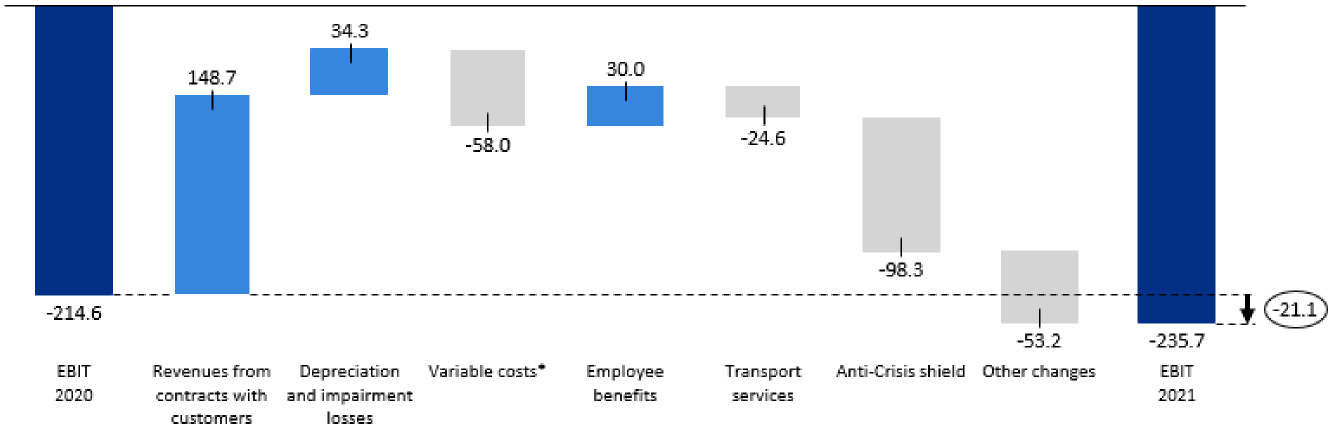
5.2. PKP CARGO S.A.'s economic and financial highlights

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

In the period of 12 months of 2021, EBIT reached PLN -235.7 million, having gone down by PLN 21.1 million compared to the corresponding period of the previous year.

Figure 20 EBIT in the 12 months of 2021 as compared to the corresponding period in 2020 (PLN million)

Source: Proprietary material



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

The most significant drivers of changes affecting EBIT in the 12 months of 2021, as compared to the 12 months of 2020, are described below:

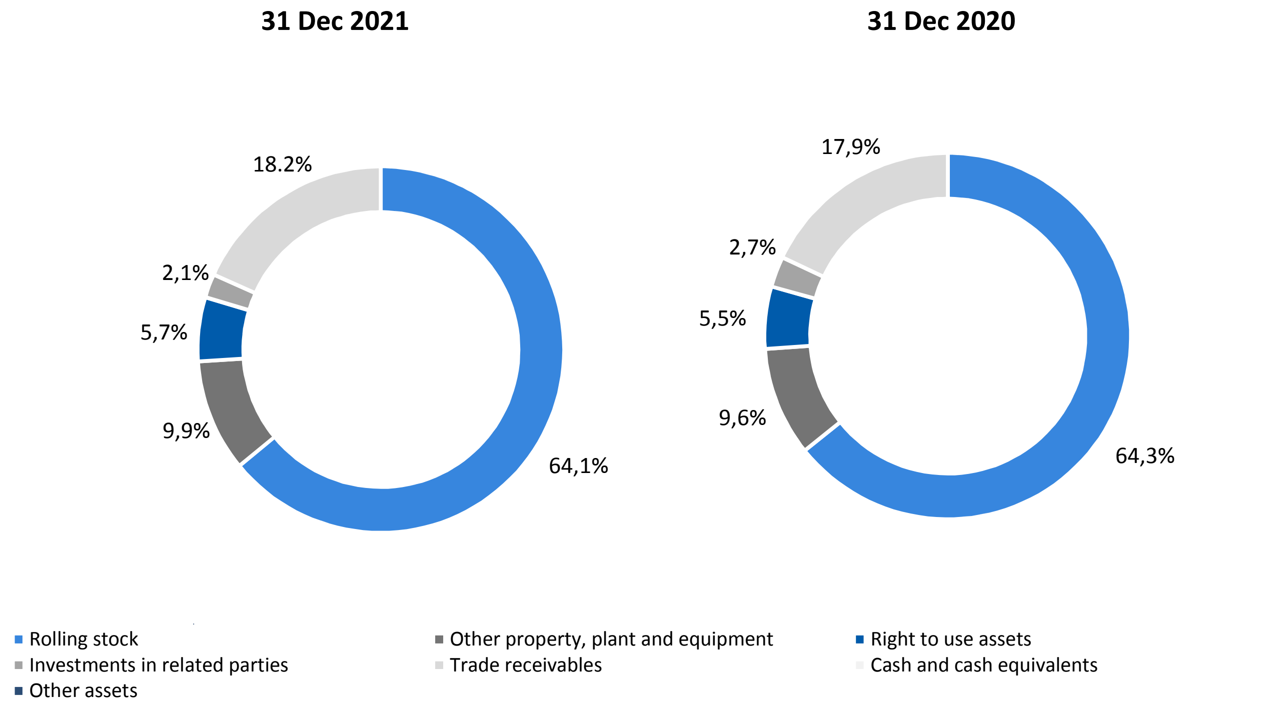
- increase in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services and also revenues from siding and traction services and sales of materials) reflected the increase in the scale of operations (increase in freight volume by 9.2% and freight turnover by 7.4%), with the concurrent decrease in unit freight rates (intensified competition on the transport market in the context of the COVID-19 pandemic);
- decrease in depreciation costs and impairment allowances mainly in connection with capital expenditures lower in 2020 and 2021 than in previous years, and an update of the residual value of rolling stock as at 31 December 2020 (lower base for depreciation charges of property, plant and equipment);
- increase in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 6.0% as a result of increase in the quantum of transport services (increase in freight turnover by 7.4%) with a concurrent growth of unit costs of traction fuel and traction energy due to and increase in prices of energy carriers;
- decrease of employee benefits in connection with, among other factors, a decrease in the average headcount level by 1,256 people yoy. Detailed information on the changes in headcount is presented in section 4.5 Headcount.
- increase in costs of transport services (including, in particular, freight forwarding) correlated with an increased volume of transport;
- negative impact on the result of historical non-recurring events, such as the inflow of funding obtained in 2020 under the anti-crisis shield in the total amount of PLN 98.3 million (decrease in other operating revenues on a yoy basis);
- increase in costs in the line item of other changes, due to, among other factors, an increase in the value of materials sold following the increase in revenue from their sale, an increase in expenses on account of rents and fees for the use of real estate and rolling stock, as well as an increase in the costs of repair services and materials used for rolling stock (related to an increase in the quantum of transport services performed), with a simultaneous increase in profit on the sale of non-financial non-current assets (mainly the sale of rolling stock unnecessary for the efficient conduct of operating activities).

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

ASSETS

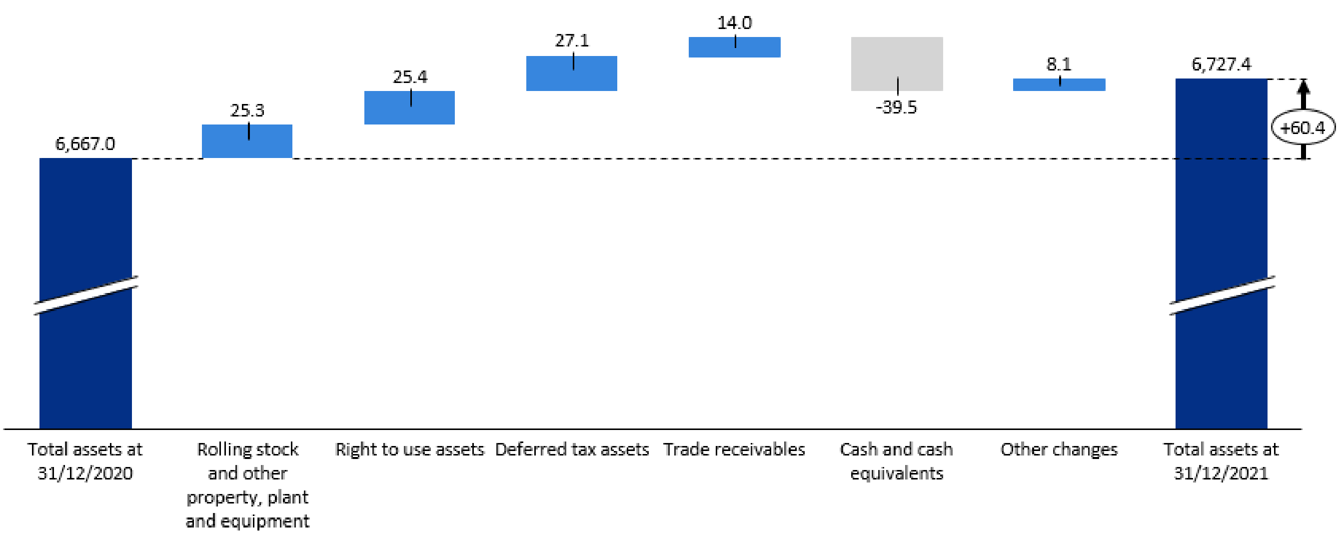
As at 31 December 2021, rolling stock and other property, plant and equipment represented the largest share in the structure of assets, accounting for 64.1% of total assets, compared to 64.3% as at 31 December 2020. The largest share in the structure of current assets as at 31 December 2021 was attributable to trade receivables, which represented 5.7% of the Company's total assets.

Figure 21 Structure of the Company's assets – as at 31 December 2021 and 31 December 2020



Source: Proprietary material

Figure 22 Movement in the Company's assets in the 12 months of 2021 (PLN million)



Source: Proprietary material

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

- the increase in the value of rolling stock and other property, plant and equipment reflected primarily the effect of capital expenditures higher than depreciation costs in 2021 (mainly investments in rolling stock and in real estate – purchase of a wagon plant in Gniewczyna Łańcucka), with a simultaneous disposal of part of fixed assets unnecessary for the efficient conduct of operating activities (including reclassification of a part of non-current assets to assets held for sale and to residual value during the disposal period – recognized in the balance sheet as inventories);

- increase in right-of-use assets due to the capital expenditures under IFRS 16 being higher than the depreciation (mostly as a result of leaseback);
- increase in deferred tax assets resulting primarily from the current tax loss and the reported temporary difference on fixed assets;
- increase in the value of trade receivables related to the higher revenues from transport operations (increase in the scale of operations), along with a simultaneous decrease in the value of impairment allowances for receivables;
- decrease in cash and cash equivalents was a consequence of cost of acquisition of non-financial non-current and intangible assets in the amount of PLN 676.1 million, and the repayment of loans, borrowings and leasing liabilities, including interests, in the amount of PLN 379.9 million, as well as acquisition of interests in one of the subsidiaries for PLN 33.0 million, with the concurrent proceeds from operating activities in the amount of PLN 500.5 million, a new bank loan of PLN 275.2 million, proceeds from the sale of non-financial non-current assets in the amount of PLN 137.3 million, subsidies received in the amount of PLN 83.3 million, and cash pool proceeds in the amount of PLN 44.3 million;
- increase in other assets resulting from, among other factors, an increase in non-financial assets due to prepaid expenses (including primarily purchases of energy and IT services) as well as an increase in receivables due to assignment of receivables.

Table 14 Days in inventory in 2016-2021

Description	2021	2020	2019	2018	2017	2016	Change 2021-2020	Rate of change 2021/2020
Days in inventory*	131.3	184.7	94.6	96.8	128.9	107.8	-53.4	-28.9%

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

As at the end of December 2021, the days in inventory ratio was 131.3, down by 53 compared to 2020 (i.e. -28.9% yoy). Such significant reduction resulted mainly from the following:

- decreased inventories compared to 2020, by PLN 7.7 million;
- increase in expenditures by PLN 54.0 million relative to 2020, including higher consumption of materials by PLN 38.8 million and higher value of materials sold by PLN 16.0 million;

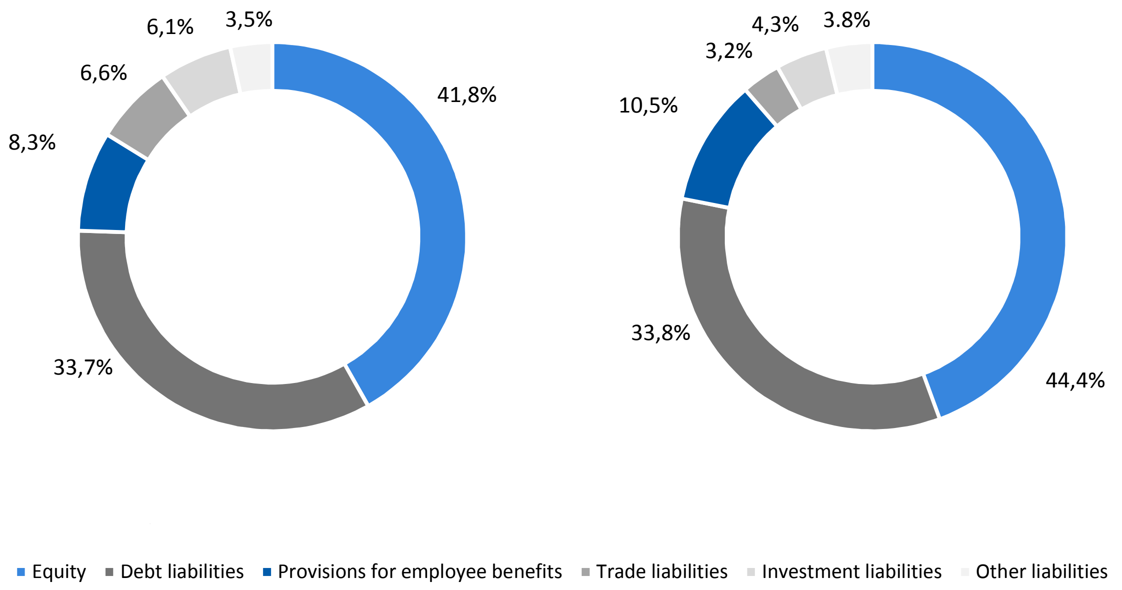
The level of inventories is adapted mainly to the level of the rolling stock maintenance and repair. Detailed information regarding the level of inventories is presented in Note 5.4 to the SFS.

EQUITY AND LIABILITIES

The largest share of the Company's equity and liabilities was equity, which as at 31 December 2021 represented 41.8% of total equity and liabilities, compared to 44.4% as at 31 December 2020. The debt liabilities as at 31 December 2021 accounted for 33.7% of total equity and liabilities, compared to 33.8% as at 31 December 2020.

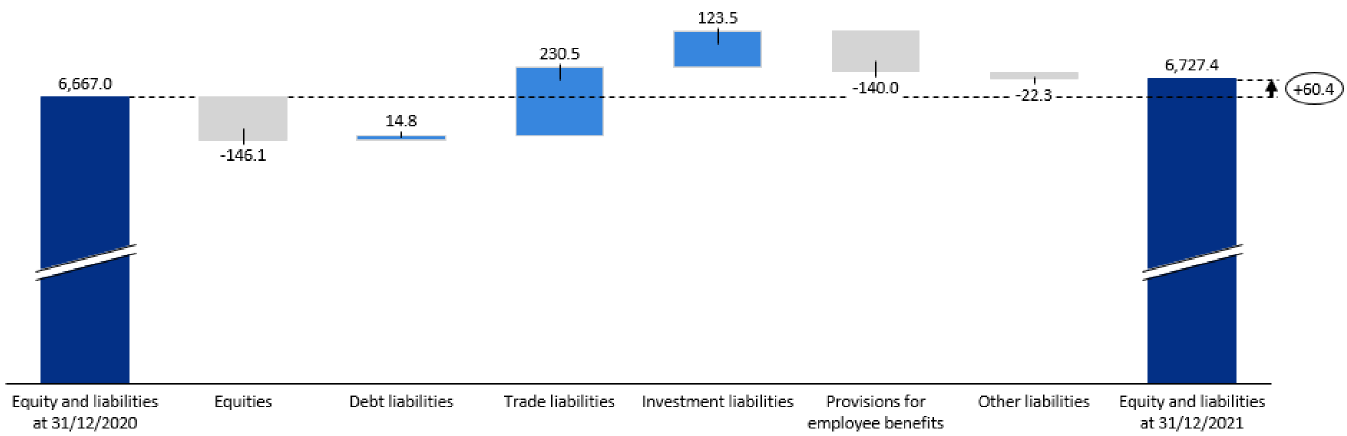
Figure 23 Structure of the Company's equity and liabilities as at 31 December 2021 and 31 December 2020.

31 Dec 2021 31 Dec 2020



Source: Proprietary material

Figure 24 Movement in the Company's equity and liabilities in the 12 months of 2021 (PLN million)



Source: Proprietary material

The following is the explanation of the most significant changes affecting the value of equity and liabilities as at 31 December 2021 as compared to 31 December 2020:

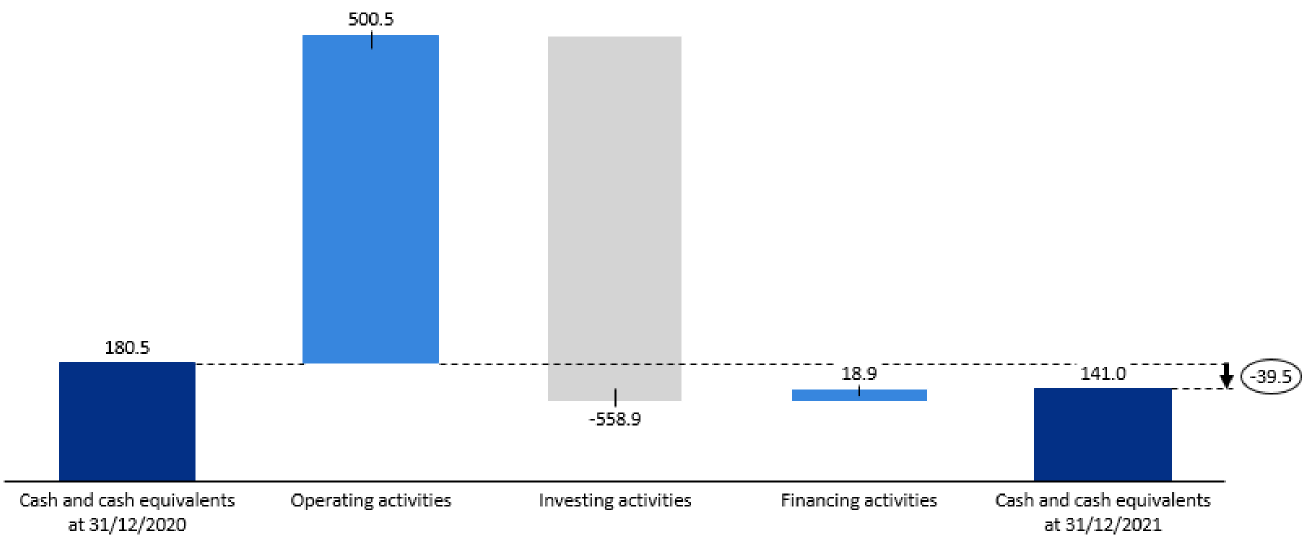
- decrease in the value of equity, chiefly as a result of lower retained earnings (net loss reported by the Company in 2021) with a simultaneous increase in the value of other items of equity (valuation of actuarial provisions for employee benefits and measurement of hedging instruments under hedge accounting);
- increase in debt liabilities, resulting mainly from an increase in lease liabilities following a corresponding increase in the right-of-use assets (leaseback of rolling stock). At the same time, liabilities on account of bank loans and borrowings

decreased due to the negative balance between new bank loans (PLN 275.2 million) and loans and borrowings repaid (PLN 280.6 million);
- increase in trade payables related to the active management of working capital;
- higher investment commitments, largely due to an increase in rolling stock-related liabilities of PLN 118.0 million, including a higher level of rolling stock investments at the end of 2021 than in the corresponding period of 2020;
- decrease in the value of non-current provisions for employee benefits reflecting a steep increase in the discount rate and a decrease in headcount, including decreases in provisions for the Company Social Benefits Fund for old-age and disability pensioners by PLN 50.0 million, provisions for jubilee awards by PLN 48.0 million, and retirement and disability severance pays by PLN 30.1 million;
- decline in the sub-item of other changes resulting mainly from a decrease in other liabilities by PLN 22.3 million, including chiefly liabilities under acquisition of interests in related entities, on account of security interests (security deposits, bid deposits, guaranties) as well as public law liabilities with a simultaneous increase in cash pool liabilities.

5.2.3 Cash flow statement of PKP CARGO S.A.

The value of cash and cash equivalents as at 31 December 2021 decreased by PLN 39.5 million compared to 31 December 2020.

Figure 25 Cash flows in the Company in 2021 (PLN million)



Source: Proprietary material

- cash flows from operating activities were a consequence of the loss before tax of PLN 268.4 million and depreciation and impairment allowances of PLN 580.8 million. Moreover, positive cash flows were generated as a result of movements in working capital of PLN 94.0 million and other adjustments of PLN 89.0 million (mostly change in valuation of employee benefits disclosed in other comprehensive income);
- cash flows from investing activities resulted predominantly from expenses incurred on the purchase of non-financial non-current assets in the amount of PLN 676.1 million and expenses related to an increase of equity in one of the subsidiaries by taking up shares for PLN 33.0 million, with simultaneous proceeds from the sale of non-financial non-current assets of PLN 137.3 million (as a result of a decision to sell assets unnecessary for the efficient conduct of operating activities) and dividends paid by the subsidiaries in the amount of PLN 9.2 million;
- cash flow from financing activities resulted chiefly from the repayment of loans and leases with interest in the amount of PLN 379.9 million, offset by PLN 275.2 million under new loans, PLN 83.3 million under subsidies and PLN 44.3 million under cash pool.

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

The table below presents PKP CARGO S.A.'s key financial and operating ratios in the period of 2016-2021.

Table 15 Selected financial and operating ratios of PKP CARGO S.A. in 2016-2021

Description	2021	2020	2019	2018	2017	2016	Change	Rate of change
							2021 – 2020	2021 – 2020
EBITDA margin[1]	11.0%	13.1%	17.3%	19.6%	16.5%	13.7%	-2.1 p.p.	-15.6%
Net profit margin[2]	-7.1%	-5.7%	-0.2%	6.4%	2.6%	-2.1%	-1.4 p.p.	-
ROA[3]	-3.3%	-2.6%	-0.1%	4.2%	1.6%	-1.2%	-0.7 p.p.	-
ROE[4]	-7.9%	-5.9%	-0.3%	7.7%	3.0%	-2.3%	-2.0 p.p.	-
Average distance covered per locomotive (km per day)[5]	223.0	230.2	234.3	262.9	256.8	249.5	-7.2	-3.1%
Average gross train tonnage per operating locomotive (tons)[6]	1,501.0	1,462.0	1,469.0	1,489.0	1,485.0	1502.0	39.0	2.7%
Average running time of train locomotives (hours per day)[7]	15.1	14.7	15.0	16.1	15.6	15.1	0.4	2.7%
Freight turnover per employee (thousands tkm/employee)[8]	1,481.9	1,308.9	1,459.2	1,728.8	1,702.5	1,516.3	173.0	13.2%

Source: Proprietary material

1. *Calculated as the ratio of the operating result plus depreciation and amortization (EBITDA) to total operating revenue.*
2. *Calculated as the ratio of net result to total operating revenue.*
3. *Calculated as the ratio of net result for the last 12 months to total assets.*
4. *Calculated as the ratio of net result for the last 12 months to equity.*
5. *Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO S.A.'s vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period).*
6. *Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).*
7. *Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO S.A.'s vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).*
8. *Calculated as the quotient of the Company's freight turnover to the average headcount (in FTEs) in PKP CARGO S.A. in the given period.*

To assess the performance of the PKP CARGO Group, the following basic financial indicators may be applied: EBITDA margin, net profit margin, ROA, ROE, and the following basic operational indicators: average daily mileage, average daily running time of locomotives and average train weight per locomotive (resulting indirectly from the freight volume and the degree of utilization of traction vehicles), as well as the average freight turnover per employee.

The drivers of the key changes to the above ratios for 2021 as compared to 2020 are as follows:

- a year-over-year reduction in EBITDA margin in 2021, primarily due to non-recurring events reported in 2020 (funding received under the anti-crisis shield along with the simultaneous implementation by the Company of a temporary reduction in FTEs and salaries resulting in lower payroll costs). The period also saw a deterioration in the net result, as well as ROE and ROA ratios compared to 2020, driven mainly by the higher net loss achieved. Detailed information on the reasons for movement in EBITDA and the net result is presented in section 5.3. PKP CARGO S.A.'s economic and financial highlights
- lower average daily haul of locomotives resulted primarily from a high level of track closures and operational difficulties on the PKP PLK network as well as a decrease in commercial speed, along with a concurrent growth of the number of active locomotives;

- increases in the average gross train tonnage per operating locomotive and the average daily running time of train locomotives reflected the increased demand for transport services provided by the Company and, at the same time, attest to the optimal management of the rolling stock;
- significant increase in freight turnover per employee resulted from of a larger quantum of transport services (increase in the volume of freight turnover), along with a simultaneous decrease in the average annual headcount expressed in FTEs.

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

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

Table 16 Time series of the statement of profit or loss and other comprehensive income of PKP CARGO S.A. in 2016 – 2021

	PLN million					
	2021	2020	2019	2018	2017	2016
Revenues from contracts with customers	3,085.3	2,936.6	3,572.0	3,910.8	3,563.6	3,219.0
Consumption of electricity and traction fuel	-500.1	-446.9	-527.8	-549.7	-484.6	-456.8
Infrastructure access services	-521.0	-516.2	-576.9	-733.6	-714.5	-658.1
Other services	-357.9	-289.5	-322.0	-430.0	-450.7	-420.4
Employee benefits	-1,209.6	-1,239.6	-1,339.0	-1,265.2	-1,150.7	-1,089.1
Other expenses	-171.3	-147.7	-182.9	-170.2	-164.0	-153.9
Other income and operating expenses	19.7	103.8	0.6	9.1	-8.8	3.1
Operating profit before depreciation and amortization (EBITDA)	**345.1**	**400.5**	**624.0**	**771.2**	**590.3**	**443.7**
Depreciation, amortization and impairment allowances	-580.8	-615.1	-583.8	-453.0	-440.6	-474.8
Profit/(loss) on operating activities (EBIT)	**-235.7**	**-214.6**	**40.2**	**318.2**	**149.7**	**-31.1**
Financial income and expenses	-32.7	-6.9	-21.0	2.5	-24.2	-39.6
Profit/(loss) before tax	**-268.4**	**-221.5**	**19.2**	**320.7**	**125.5**	**-70.7**
Income tax	45.1	47.6	-27.5	-66.7	-31.5	2.1
NET PROFIT/(LOSS)	**-223.3**	**-173.9**	**-8.3**	**254.0**	**94.0**	**-68.6**
OTHER COMPREHENSIVE INCOME						
Measurement of hedging instruments	9.0	-49.8	9.4	-22.5	25.4	-4.7
Income tax	-1.7	9.6	-1.8	4.3	-4.8	0.9
Other comprehensive income subject to reclassification to profit or loss, total	**7.3**	**-40.2**	**7.6**	**-18.2**	**20.6**	**-3.8**
Actuarial gains / (losses) on employee benefits	86.3	-45.4	-46.2	-9.4	-33.6	22.8
Income tax	-16.4	8.6	8.8	1.8	6.3	-4.3
Measurement of equity instruments at fair value	0.0	-0.7	0.7	-	-	-
Other comprehensive income not subject to reclassification to profit or loss, total	**69.9**	**-37.5**	**-36.7**	**-7.6**	**-27.3**	**18.5**
Total other comprehensive income	**77.2**	**-77.7**	**-29.1**	**-25.8**	**-6.7**	**14.7**
TOTAL COMPREHENSIVE INCOME	**-146.1**	**-251.6**	**-37.4**	**228.2**	**87.3**	**-53.9**
Earnings/(loss) per share (PLN per share)						
Weighted average number of common shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Basic earnings/(loss) per share	-4.99	-3.88	-0.19	5.67	2.10	-1.53
Diluted earnings/(loss) per share	-4.99	-3.88	-0.19	5.67	2.10	-1.53

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2021 prepared according to EU IFRS.

Table 17 Time series of the statement of balance sheet situation of PKP CARGO S.A. in 2016 – 2021

	PLN million					
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
ASSETS						
Rolling stock	3,827.5	3,809.2	3,892.3	3,425.7	3,056.0	2,982.4

Other property, plant and equipment	481.7	474.7	492.9	543.1	555.2	579.6
Right-of-use assets	666.9	641.5	704.0	-	-	-
Investments in related parties	840.0	840.0	807.0	805.5	804.7	738.0
Lease receivables	23.4	24.4	19.7	-	-	-
Financial assets	4.9	4.9	7.4	5.7	8.6	6.3
Other assets	28.1	22.6	39.9	35.3	44.1	58.8
Deferred tax assets	158.7	131.6	67.3	87.2	94.0	80.1
Total non-current assets	**6,031.2**	**5,948.9**	**6,030.5**	**4,902.5**	**4,562.6**	**4,445.2**
Inventories	87.3	95.0	79.2	84.2	86.4	59.7
Trade receivables	380.5	366.5	391.4	479.4	461.0	407.9
Lease receivables	1.5	2.8	1.2	-	-	-
Income tax receivables	1.7	1.8	50.8	2.9	-	1.3
Financial assets	-	2.3	4.8	203.4	281.6	-
Other assets	69.3	56.5	82.4	87.5	53.6	25.5
Cash and cash equivalents	141.0	180.5	380.0	222.4	295.9	612.0
Total current assets	**681.3**	**705.4**	**989.8**	**1,079.8**	**1,178.5**	**1,106.4**
Non-current assets classified as held for sale	14.9	12.7		-	-	6.0
TOTAL ASSETS	**6,727.4**	**6,667.0**	**7,020.3**	**5,982.3**	**5,741.1**	**5,557.6**
EQUITY AND LIABILITIES						
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	744.7	744.7	744.7	596.7	589.2	589.2
Other items of equity	-62.3	-139.5	-61.8	-32.7	6.0	12.7
Retained earnings/(Accumulated losses)	-109.0	114.3	288.2	511.3	254.4	160.4
Total equity	**2,812.7**	**2,958.8**	**3,210.4**	**3,314.6**	**3,088.9**	**3,001.6**
Debt liabilities	1,872.2	1,897.6	1,920.0	999.9	1,214.5	1,206.4
Investment commitments	110.1	143.0	153.6	109.7	-	0.6
Provisions for employee benefits	459.9	606.1	585.4	528.8	520.0	490.5
Other financial liabilities	-	-	-	-	-	-
Other provisions	0.7	-	-	14.2	14.2	16.4
Total non-current liabilities	**2,442.9**	**2,646.7**	**2,659.0**	**1,652.6**	**1,748.7**	**1,713.9**
Debt liabilities	393.9	353.7	336.5	231.3	250.4	221.3
Trade payables	446.1	215.6	233.5	292.6	276.1	228.7
Investment commitments	297.7	141.3	249.5	225.5	127.8	70.3
Provisions for employee benefits	99.9	93.7	100.1	92.6	85.9	84.8
Other financial liabilities	42.6	2.7	2.2	1.7	-	59.0
Other provisions	17.7	13.0	33.4	19.4	16.9	11.6
Other liabilities	173.9	241.5	195.7	152.0	146.4	166.4
Total current liabilities	**1,471.8**	**1,061.5**	**1,150.9**	**1,015.1**	**903.5**	**842.1**
Total liabilities	**3,914.7**	**3,708.2**	**3,809.9**	**2,667.7**	**2,652.2**	**2,556.0**
TOTAL EQUITY AND LIABILITIES	**6,727.4**	**6,667.0**	**7,020.3**	**5,982.3**	**5,741.1**	**5,557.6**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2021 prepared according to EU IFRS.

Table 18 Time series of the statement of cash flows of PKP CARGO S.A. in 2016 – 2021

	PLN million					
	2021	**2020**	**2019**	**2018**	**2017**	**2016**
Net cash from operating activities	**500.5**	**417.1**	**649.4**	**709.7**	**478.4**	**237.5**
Net cash from investing activities	**-558.9**	**-559.1**	**-693.4**	**-536.3**	**-780.2**	**-440.6**
Net cash from financing activities	**18.9**	**-57.5**	**201.6**	**-246.9**	**-14.3**	**731.0**
Net increase / (decrease) in cash and cash equivalents	-39.5	-199.5	157.6	-73.5	-316.1	527.9
Cash and cash equivalents at the beginning of the reporting period	180.5	380.0	222.4	295.9	612.0	84.1
Cash and cash equivalents at the end of the reporting period	**141.0**	**180.5**	**380.0**	**222.4**	**295.9**	**612.0**

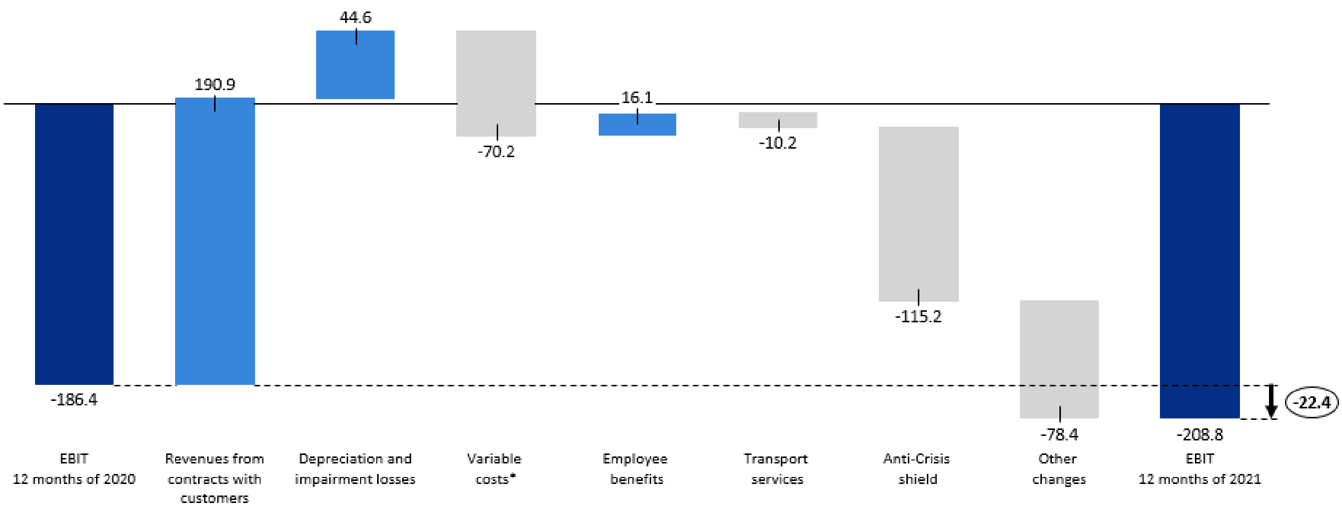
Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2021 prepared according to EU IFRS.

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

5.3.1 Statement of comprehensive income of the PKP CARGO Group

During the 12 months of 2021, EBIT reached PLN -208.8 million, having gone down by PLN 22.4 million compared to the corresponding period of 2020.

Figure 26 EBIT in the 12 months of 2021 as compared to the corresponding period in 2020 (PLN million)



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

Source: Proprietary material

The following is a description of the most significant deviations affecting EBIT in the first 12 months of 2021 as compared to the first 12 months of 2020:

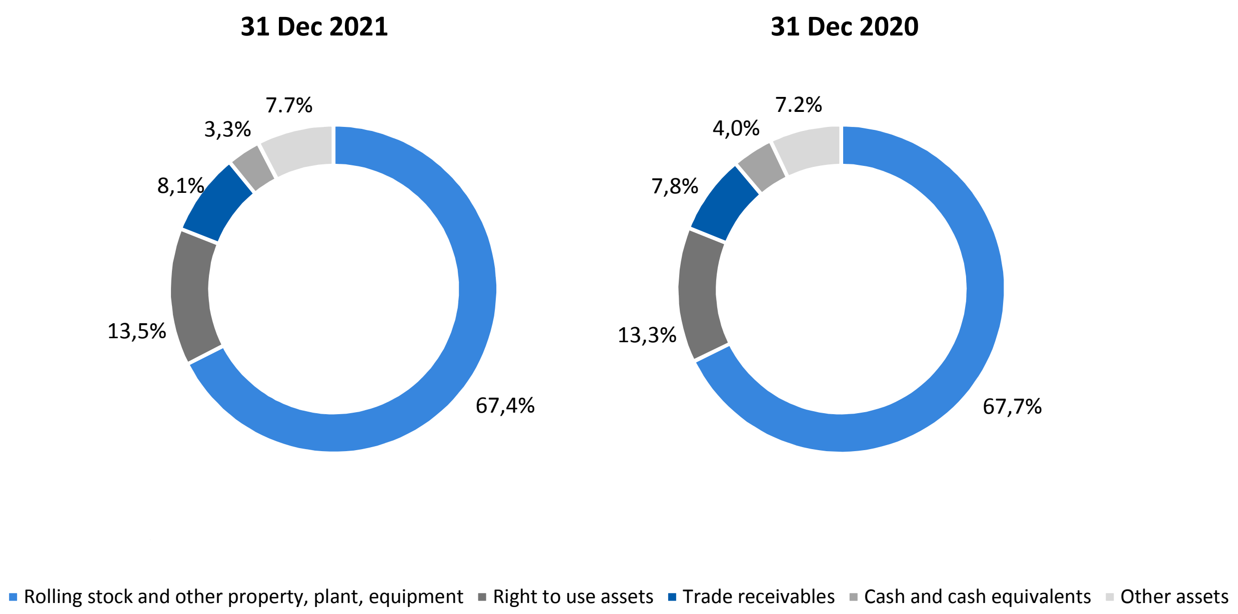
- increase in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services and also revenues from siding and traction services as well as sales of goods and materials) as a direct consequence of the greater volume of transport (including in freight volume by 8.6% and freight turnover by 8.2%). At the same time, in the period under analysis, a decrease in transport rates was recorded, resulting chiefly from the intensification of competition on the rail freight market affected by the COVID-19 pandemic, especially in the bulk cargo segment. The details pertaining to the PKP CARGO Group's transport services are described in section 4.2.5 "Rail transport business of the Company and the PKP CARGO Group";
- decrease in depreciation and impairment allowances resulting from lower capital expenditures (including investments into rolling stock) in 2020 and early 2021 than in previous years, as well as revaluation of the rolling stock residual value as at 31 December 2020 (reduced depreciation of property, plant and equipment);
- increase in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 7.0% associated with an increase in the quantum of transport services as well as the observed increases in wholesale energy prices and fuel prices on the global markets;
- decrease in employee benefits, resulting from, among other things, a year-over-year decrease in employment by 1,069 FTEs (and the related reversal of provisions for employee benefits). Detailed information on the change in headcount is presented in section 4.5 "Headcount";
- increase in the costs of transport services (including, in particular, freight forwarding) correlated with a greater volume of transport;
- impact of non-recurring events – the effect of a high statistical base as a result of the inflow in 2020 of funding under the anti-crisis shield in the amount of PLN 115.2 million (decrease in other operating revenues on a yoy basis);
- increase in costs in the line item of other changes by PLN 78.4 million as a result of, among other factors, an increase in the cost of goods and materials sold by PLN 30.1 million in the wake of the increased revenues in this category, higher costs of other services by PLN 7.2 million and higher costs of energy, non-traction fuel, water and gas by PLN 9.2 million (due to the increase in the prices of energy carriers and fuels), with a simultaneous increase in revenues on sale of non-financial non-current assets by PLN 14.6 million and a decline in the consumption of materials by PLN 4.6 million.

5.3.2 Statement of financial position of the PKP CARGO Group

ASSETS

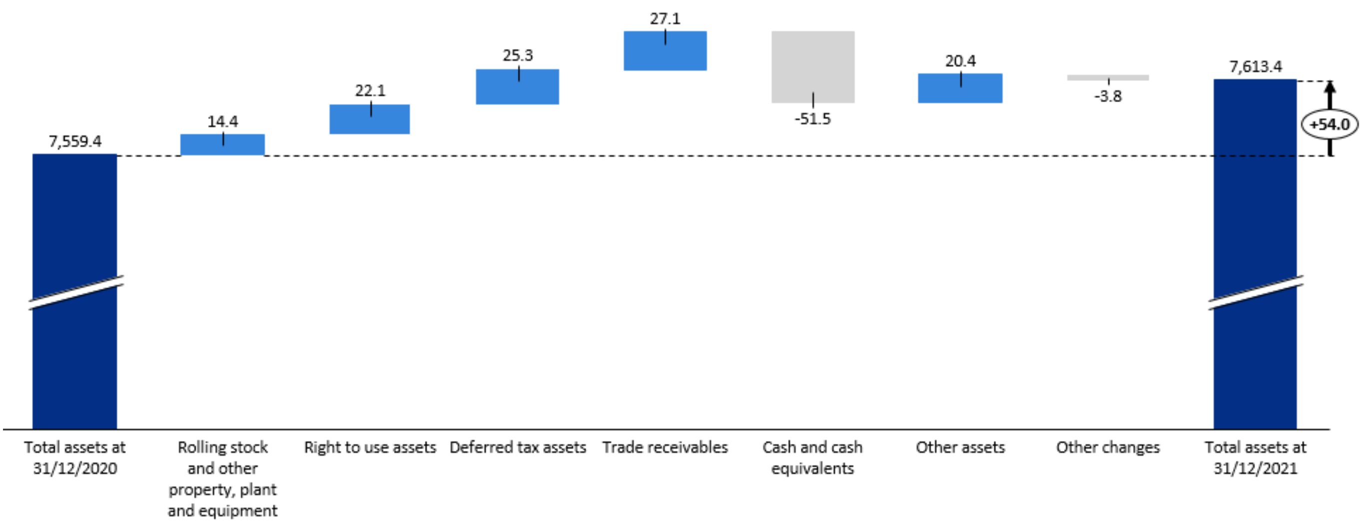
The biggest share in the PKP CARGO Group's asset structure as at 31 December 2021 was held by rolling stock and other property, plant and equipment, which in aggregate accounted for 67.4% of total assets, compared to 67.7% as at 31 December 2020. At the same time, the largest share in the structure of current assets was attributable to trade receivables.

Figure 27 Structure of assets – as at 31 December 2021 and 31 December 2020



Source: Proprietary material

Figure 28 Movement in the PKP CARGO Group's assets in the 12 months of 2021 (PLN million)



Source: Proprietary material

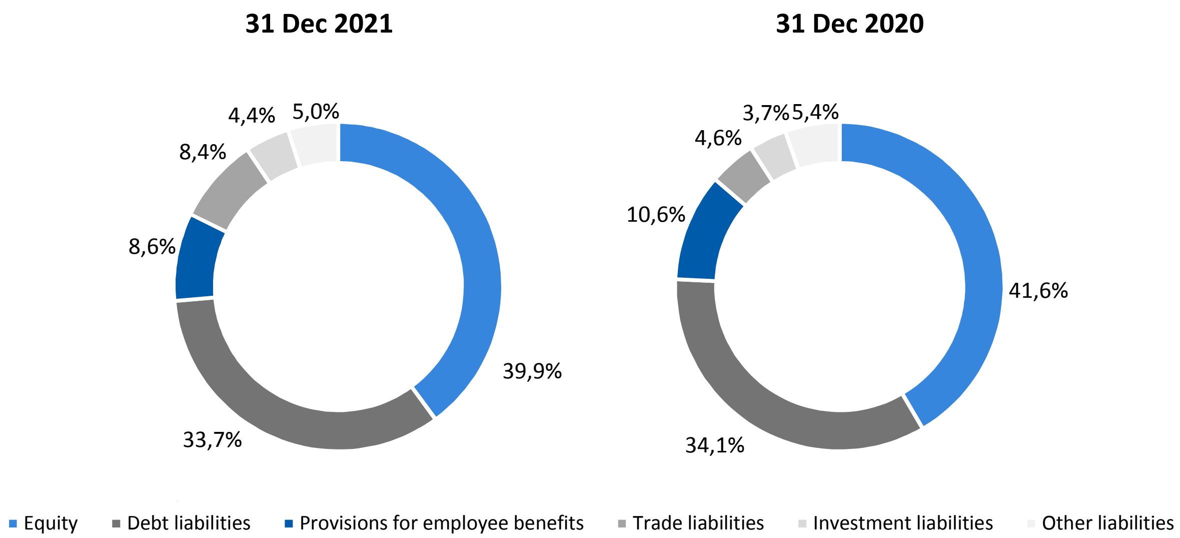
The most significant changes affecting the value of assets as at 31 December 2021 as compared to 31 December 2020 are discussed below:

- increase in the value of rolling stock and other property, plant and equipment was due to the execution by the PKP CARGO Group of investments in property, plant and equipment (chiefly real estate and rolling stock), the aggregate value of which in the period under analysis was greater than depreciation and impairment allowances;
- increase in right-of-use assets resulting mainly from capital expenditures higher than depreciation (acquisition of new right-of-use assets higher than depreciation of the ones already used, including leaseback of locomotives);
- increase in deferred tax assets resulting, among other factors, primarily from the current tax loss disclosed by some companies of the PKP CARGO Group and the reported temporary difference on fixed assets
- increase in trade receivables in connection with a larger scale of business operations (increase of revenues from contracts with customers);
- decrease in cash and cash equivalents resulting predominantly from expenditures related to the acquisition of non-current assets in the amount of PLN 808.5 million, repayment of bank loans and leases with interest in the amount of PLN 519.5 million, with simultaneous operating revenues of PLN 699.8 million, new loans of PLN 323.9 million, sale of non-financial non-current assets of PLN 158.4 million and new subsidies of PLN 93.3 million;
- increase in the value of other assets, mainly due to an increase in costs settled over time by PLN 13.2 million (chiefly prepayments for the purchase of electricity), as well as receivables from the sale of shares in Rentrans Cargo Sp. z o.o. in the amount of PLN 5.3 million.

EQUITY AND LIABILITIES

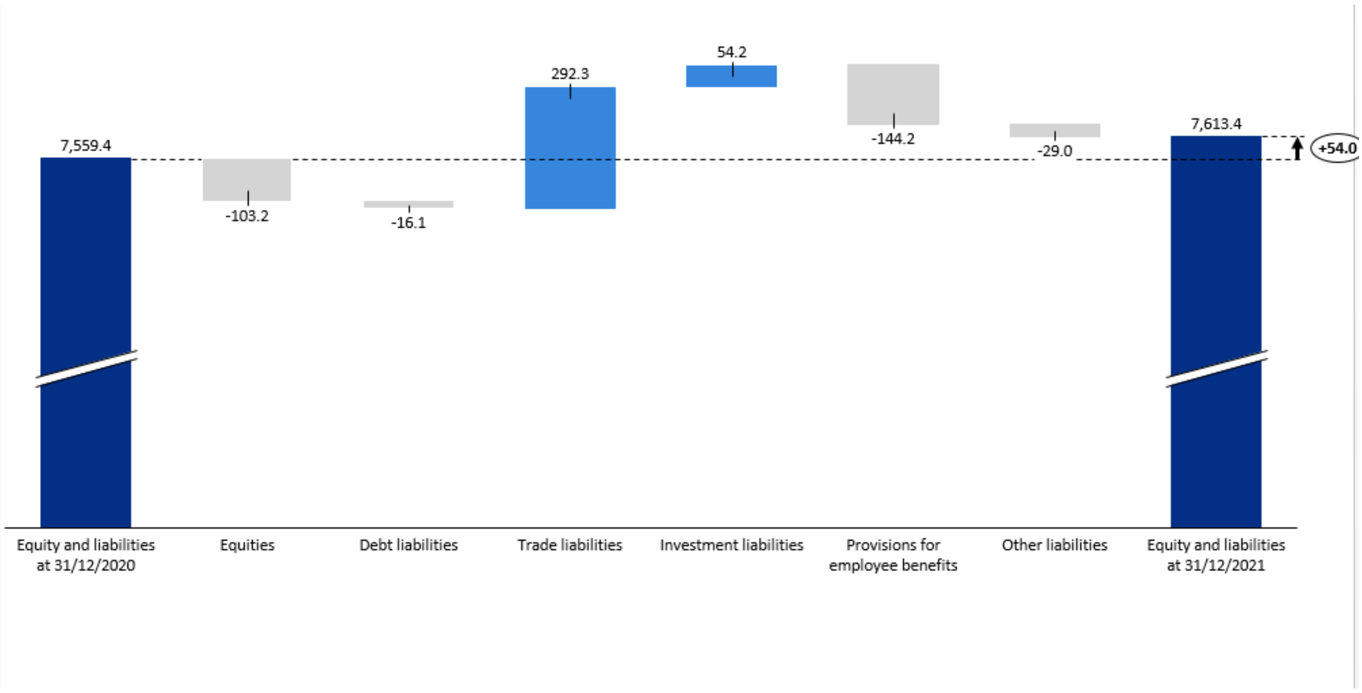
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 31 December 2021 was attributable to equity, which accounted for 39.9% of the sum of equity and liabilities, compared to 41.6% as at 31 December 2020. Debt liabilities accounted for 33.7% of total equity and liabilities, compared to 34.1% as at 31 December 2020.

Figure 29 Structure of the Group's equity and liabilities as at 31 December 2021 and 31 December 2020



Source: Proprietary material

Figure 30 Change in the Group's equity and liabilities in the 12 months of 2021 (PLN million)



Source: Proprietary material

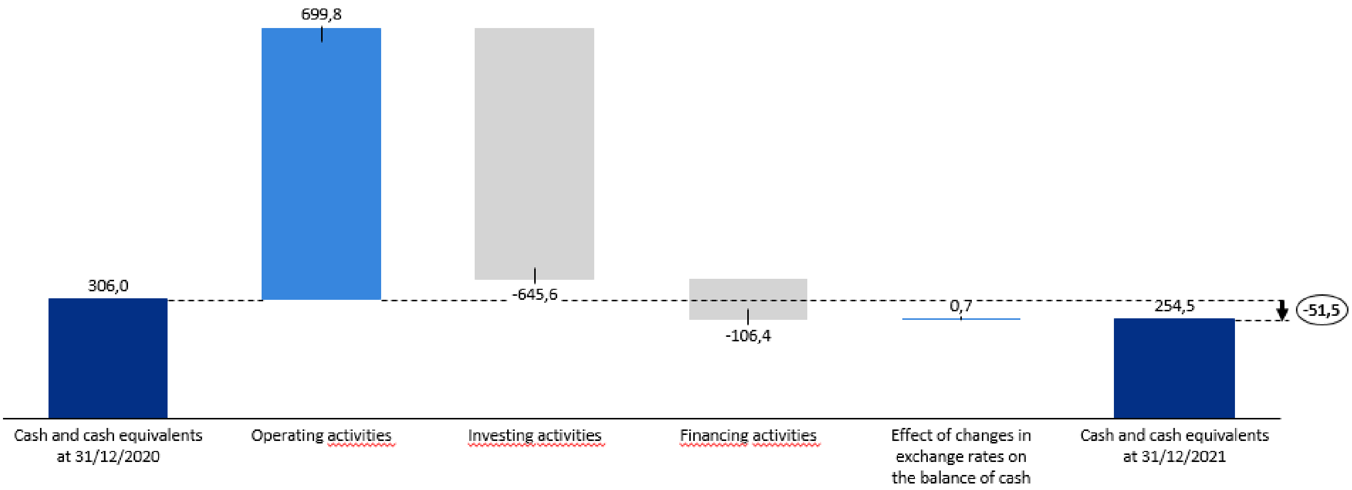
The most significant drivers of changes affecting the value of the PKP CARGO Group's assets as at 31 December 2021 as compared to 31 December 2020 are discussed below:

- decrease in equity mainly due to the net loss for 2021 reported by PKP CARGO Group (drop in retained earnings and supplementary capital), with a simultaneous increase in other items of equity in the amount of PLN 84.4 million (among other factors, as a result of revaluation of provisions for post-employment benefits due to an increase in the discount rate, as well as a positive change in measurement of hedge accounting instruments) and positive exchange differences on translation of statements of foreign entities in the amount of PLN 37.7 million;
- decrease in the value of debt liabilities resulted mainly from the repayment of loans and leases with interest in the amount of PLN 519.5 million, with new loan and lease liabilities amounting to PLN 360.7 million, and an increase in leaseback liabilities by PLN 102.0 million, and a modification of existing leases by PLN 27.1 million. Detailed information on debt liabilities is presented in Note 4.1 to the Consolidated Financial Statements;
- increase in trade payables results from the active management of working capital;
- increase in investment commitments by PLN 38.3 million, chiefly due to an increase in liabilities related to rolling stock by PLN 10.0 million.
- *decrease in the value of provisions for employee benefits caused, among other factors, by decreases in provisions for the Company Social Benefits Fund for old-age and disability pensioners by PLN 53.8 million, as well as provisions for jubilee awards by PLN 51.1 million, retirement and disability severance pays by PLN 29.3 million and transportation benefits by PLN 16.3 million. The change in the level of provisions was significantly influenced by the revision of the discount rate as at 31 December 2021 (a strong rise in the discount rate);*
- decrease in the value of other liabilities was chiefly due to decreases in liabilities on account of security interests (security deposits, bid deposits, guarantees) by PLN 12.3 million and public law liabilities by PLN 12.2 million.

5.3.3 Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 March 2021 decreased by PLN 51.5 million compared to 31 December 2020.

Figure 31 Cash flows of the PKP CARGO Group in the 12 months of 2021 (PLN million)



Source: Proprietary material

Key items affecting the cash flow balance in 2021:

- positive cash flows from operating activities were generated, inter alia, on the reported loss before tax of PLN 264.4 million, depreciation and impairment allowances of PLN 722.0 million, positive cash flows resulting from movements in working capital of PLN 125.1 million (including optimization of management of trade receivables and payables turnover) and other adjustments of PLN 92.0 million (including change in valuation of employee benefits disclosed in other comprehensive income);
- negative cash flows from investing activities resulted mainly from the expenses incurred on the purchase of non-financial non-current assets in the amount of PLN 808.5 million (including investments into rolling stock and purchase of the wagon plant in Gniewczyna), with simultaneous proceeds from the sale of non-financial non-current assets of PLN 158.4 million (mostly, the sale of wagons and locomotives unnecessary for the efficient conduct of operating activities);
- negative cash flow from financing activities were a consequence of repayment of loans and leases with interests in the amount of PLN 519.5 million, offset by inflows of PLN 323.9 million from new loans and PLN 93.3 million from new subsidies.

5.3.4 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the key financial and operating ratios of the PKP CARGO Group in the period of 2016-2021.

Table 19 Selected financial and operating ratios of the PKP CARGO Group in the period of 2016 – 2021

Description	2021	2020	2019	2018	2017	2016	Change	Rate of change
							2021 – 2020	2021 – 2020
EBITDA margin[1]	11.9%	13.7%	17.7%	17.3%	14.8%	11.1%	-1.8 p.p.	-13.4%
Net profit margin[2]	-5.2%	-5.3%	0.7%	3.5%	1.7%	-3.0%	0.1 p.p.	-
ROA[3]	-3.0%	-3.0%	0.5%	2.7%	1.2%	-2.1%	0.0 p.p.	-
ROE[4]	-7.4%	-7.1%	1.1%	5.2%	2.5%	-4.1%	-0.3 p.p.	-
Average distance covered per locomotive (km per day)[5]	209.8	216.8	222.3	250.1	244.7	238.4	-7.0	-3.2%
Average gross train tonnage per operating locomotive (tons)[6]	1474.0	1434.0	1,447.0	1,463.0	1,460.0	1436.0	40.0	2.8%
Average running time of train locomotives (hours per day)[7]	14.5	14.2	14.6	15.8	15.2	14.8	0.3	2.1%
Freight turnover per employee (thousands tkm/employee)[8]	1,206.5	1061.5	1,135.8	1,342.3	1,332.2	1216.7	145.1	13.7%

Source: Proprietary material

1. *Calculated as the ratio of the operating result plus depreciation and amortization (EBITDA) to total operating revenue.*
2. *Calculated as the ratio of net result to total operating revenue.*
3. *Calculated as the ratio of net result for the last 12 months to total assets.*
4. *Calculated as the ratio of net result for the last 12 months to equity.*
5. *Calculated as the ratio of vehicle-kilometers (i.e. the distance covered by the Group's vehicles in the given period) to vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the respective period).*
6. *Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).*
7. *Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of the Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).*
8. *Calculated as the ratio of freight turnover to the average headcount (in FTEs) in the Group in the given period.*

To assess the performance of the PKP CARGO Group, the following basic financial indicators may be applied: EBITDA margin, net profit margin, ROA, ROE, and the following basic operational indicators: average daily mileage, average daily running time of locomotives and average train weight per locomotive (resulting indirectly from the freight volume and the degree of utilization of traction vehicles), as well as the average freight turnover employee.

The drivers of the key changes to the above ratios for 2021 as compared to 2020 are described below:

- in the 12 months of 2021, the EBITDA margin deteriorated as compared to the same period of 2020, chiefly due to the non-recurring events of 2020 (funding obtained under the anti-crisis shield and temporary proportional reductions in FTEs and salaries, resulting in lower payroll costs). Detailed information on the reasons for movement in EBITDA of the PKP CARGO Group is presented in section 5.3. Key economic and financial figures of the PKP CARGO Group;
- lower ROE resulting mainly from a decrease in equity with a similar level of net result;
- deterioration in the average daily haul of locomotives, caused by the high level of closures and operational difficulties on the PKP PLK network and the related decrease in the average commercial speed, with a concurrent increase in the number of active locomotives available for operations in a situation of varying volumes of transport services;
- the recorded increase in the average gross train tonnage per operating locomotive and the average running time of train locomotives attests to the optimal use of the rolling stock and successful optimization of management of traction vehicles;
- increase in the freight turnover per employee ratio was a consequence of an increase in freight turnover by 8.2% yoy coupled with a decrease in the average headcount in FTEs by 4.8% yoy.

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

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

Table 20 Time series of the statement of profit or loss and other comprehensive income of the PKP CARGO Group in 2016-2021

	PLN million					
	2021	2020	2019	2018	2017	2016
Revenues from contracts with customers	4,266.5	4,075.6	4,781.6	5,183.0	4,689.1	4,372.0
Consumption of electricity and traction fuel	-550.2	-492.7	-583.8	-615.1	-544.8	-514.5
Infrastructure access services	-530.0	-517.3	-572.6	-732.0	-717.6	-668.6
Transport services	-350.7	-340.5	-363.3	-463.1	-450.6	-431.7
Other services	-413.9	-365.8	-408.6	-529.6	-450.6	-472.8
Employee benefits	-1,622.0	-1,638.1	-1,737.3	-1,651.4	-1,510.3	-1,442.3
Other expenses	-309.1	-264.6	-292.8	-298.9	-297.3	-274.3
Other income and operating expenses	22.6	123.6	36.7	14.1	-17.6	-78.3
Operating profit before depreciation and amortization (EBITDA)	**513.2**	**580.2**	**859.9**	**907.0**	**700.3**	**489.5**
Depreciation, amortization and impairment allowances	-722.0	-766.6	-716.5	-629.4	-546.9	-621.6
Profit/(loss) on operating activities (EBIT)	**-208.8**	**-186.4**	**143.4**	**277.6**	**153.4**	**-132.1**
Financial income and expenses	-60.3	-82.2	-71.6	-42.0	-37.7	-22.3

Share in the profit / loss of entities accounted for under the equity method	4.7	1.7	1.7	3.7	0.8	3.5
Result on the sale of shares in entities accounted for under the equity method	-	-	-	4.5	-	-
Profit/(loss) before tax	**-264.4**	**-266.9**	**73.5**	**243.8**	**116.5**	**-150.9**
Income tax	39.1	42.6	-37.5	-59.9	-34.8	17.1
NET PROFIT/(LOSS)	**-225.3**	**-224.3**	**36.0**	**183.9**	**81.7**	**-133.8**
OTHER COMPREHENSIVE INCOME						
Measurement of hedging instruments	13.2	-50.8	9.9	-23.4	27.9	-3.9
Income tax	-2.5	9.7	-1.9	4.4	-5.3	0.7
FX differences from translation of financial statements	37.7	27.3	1.7	16.5	-0.6	28.5
Other comprehensive income subject to reclassification to profit or loss, total	**48.4**	**-13.8**	**9.7**	**-2.5**	**22.0**	**25.3**
Actuarial gains / (losses) on employee benefits	91.0	-50.2	-52.2	-13.2	-36.9	21.5
Income tax	-17.3	9.5	10.0	2.5	7.0	-4.1
Measurement of equity instruments at fair value	-	-0.7	0.7	-	-	-
Other comprehensive income not subject to reclassification to profit or loss, total	**73.7**	**-41.4**	**-41.5**	**-10.7**	**-29.9**	**17.4**
Total other comprehensive income	**122.1**	**-55.2**	**-31.8**	**-13.2**	**-7.9**	**42.7**
TOTAL COMPREHENSIVE INCOME	**-103.2**	**-279.5**	**4.2**	**170.7**	**73.8**	**-91.1**
Net profit attributable:						
Net profit attributable to the owners of the parent company	-225.3	-224.3	36.0	183.9	81.7	-133.8
Non-controlling interests				-	-	-
Total other comprehensive income attributable:						
Total other comprehensive income attributable to shareholders of the parent company	-103.2	-279.5	4.2	170.7	73.8	-91.1
Non-controlling interests				-	-	-
Earnings/(loss) per share (PLN per share)						
Weighted average number of common shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Basic and diluted earnings/(loss) per share	-5.03	-5.01	0.80	4.11	1.82	-2.99

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021 prepared in accordance with EU IFRS.

Table 21 Time series of the statement of balance sheet situation of the PKP CARGO Group in 2016 – 2021

	PLN million					
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
ASSETS						
Rolling stock	4,241.6	4,245.0	4,329.6	3,997.0	3,750.4	3,734.6
Other property, plant and equipment	893.4	875.6	872.4	949.9	937.6	966.0
Right-of-use assets	1,030.7	1,008.6	1,078.8	-	-	-
Investments in entities accounted for under the equity method	36.7	42.0	40.4	47.3	53.6	58.2
Trade receivables	4.2	3.0	3.0	0.7	1.8	2.2
Lease receivables	8.5	10.3	10.9	-	-	-
Other assets	40.5	35.1	55.0	56.7	70.4	91.7
Deferred tax assets	203.1	177.8	113.7	135.6	137.7	111.5
Total non-current assets	**6,458.7**	**6,397.4**	**6,503.8**	**5,187.2**	**4,951.5**	**4,964.2**
Inventories	164.6	165.8	161.0	161.7	148.5	121.2
Trade receivables	611.7	585.8	591.3	684.6	687.0	613.8
Lease receivables	0.6	0.7	0.7	-	-	-
Income tax receivables	4.5	2.9	51.4	3.0	0.1	2.8
Deposits above 3 months	-	-	-	201.1	253.8	-
Other assets	103.1	88.1	132.7	121.4	88.0	54.2
Cash and cash equivalents	254.5	306.0	550.4	447.3	516.8	755.9
Total current assets	**1,139.0**	**1,149.3**	**1,487.5**	**1,619.1**	**1,694.2**	**1,547.9**
Non-current assets classified as held for sale	**15.7**	**12.7**	**-**	**-**	**-**	**-**
TOTAL ASSETS	**7,613.4**	**7,559.4**	**7,991.3**	**6,806.3**	**6,645.7**	**6,512.1**
EQUITY AND LIABILITIES						
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3

Supplementary capital	771.7	782.4	781.4	628.2	619.3	618.7
Other items of equity	-75.8	-160.2	-77.7	-44.2	-1.6	5.7
Exchange differences resulting from conversion of financial statements of foreign operations	142.5	104.8	77.5	75.8	59.9	60.5
Retained earnings/(Accumulated losses)	-37.1	177.5	402.8	584.4	400.3	319.2
Total equity	**3,040.6**	**3,143.8**	**3,423.3**	**3,483.5**	**3,317.2**	**3,243.4**
Debt liabilities	2,090.3	2,101.8	2,201.4	1,156.5	1,403.7	1,414.5
Trade payables	2.3	1.5	2.7	0.5	1.3	1.3
Investment commitments	111.8	145.5	157.0	109.8	-	0.6
Provisions for employee benefits	529.1	684.3	657.1	591.5	575.7	542.1
Other provisions	7.0	5.7	5.4	20.5	22.5	26.4
Deferred tax liability	93.3	90.7	92.3	88.5	107.4	106.7
Other liabilities	-	-	-	1.8	0.3	1.0
Total non-current liabilities	**2,833.8**	**3,029.5**	**3,115.9**	**1,969.1**	**2,110.9**	**2,092.6**
Debt liabilities	473.9	478.5	421.3	270.5	297.7	376.0
Trade payables	639.0	347.5	412.2	499.4	445.9	376.0
Investment commitments	221.4	133.5	181.5	177.6	79.1	45.8
Provisions for employee benefits	127.3	116.3	127.1	115.5	108.5	103.5
Other provisions	23.3	24.1	45.6	56.9	59.7	25.0
Other liabilities	254.1	286.2	264.4	233.8	226.7	249.8
Total current liabilities	**1,739.0**	**1,386.1**	**1,452.1**	**1,353.7**	**1,217.6**	**1,176.1**
Total liabilities	**4,572.8**	**4,415.6**	**4,568.0**	**3,322.8**	**3,328.5**	**3,268.7**
TOTAL EQUITY AND LIABILITIES	**7,613.4**	**7,559.4**	**7,991.3**	**6,806.3**	**6,645.7**	**6,512.1**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021 prepared in accordance with EU IFRS.

Table 22 Time series of the statement of cash flows of the PKP CARGO Group in 2016-2021

	PLN million					
	2021	2020	2019	2018	2017	2016
Net cash from operating activities	**699.8**	**553.1**	**806.5**	**863.0**	**600.7**	**380.0**
Net cash from investing activities	**-645.6**	**-655.1**	**-814.8**	**-612.0**	**-740.0**	**-568.6**
Net cash from financing activities	**-106.4**	**-145.9**	**111.4**	**-322.9**	**-99.4**	**663.9**
Net increase / (decrease) in cash and cash equivalents	-52.2	-247.9	103.1	-71.9	-238.7	475.3
Cash and cash equivalents at the beginning of the reporting period	306.0	550.4	447.3	516.8	755.9	276.2
Impact of FX rate movements on the cash balance in foreign currencies	0.7	3.5	-	2.4	-0.4	4.4
Cash and cash equivalents at the end of the reporting period	**254.5**	**306.0**	**550.4**	**447.3**	**516.8**	**755.9**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021 prepared in accordance with EU IFRS.

5.4. Information about production assets

5.4.1 Rolling stock

The PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5 and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, the Group's establishments also repair rolling stock and sub-assemblies for other owners.

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

In 2021, the downward trend in the number of locomotives and wagons used by the Group continued. The PKP CARGO Group keeps purchasing new locomotives and wagons and at the same time carries out the disposal process of its oldest rolling stock.

The most modern part of our fleet is 29 multi-system locomotives (powered by DC or AC voltage), which can cross European country borders without stopping to allow change of the power system (which gives electricity savings), and 10 modern six-axle electric Dragon locomotives (ET25 series) – 3 units – and 7 units of Dragon 2 locomotives (ET26 series) equipped with combustion modules. Out of these locomotives, 20 are brand new, purchased in the past 3 years.

In the Company's rail car fleet, 3,797 are intermodal platforms (out of which 400 were purchased in 2020, and 428 in 2021). Further purchases of such platforms are in progress in 2022.

Locomotives are also modernized as part of overhauls. In the 12 months of 2021, 7 overhauls were performed with modernization of a series SM48 locomotives (with the series designation changed to ST48) and 10 overhauls were performed with modernization of series ST44 locomotives.

The tables below present the structure of the locomotives and wagons used in 2017-2021.

Table 23 Structure of locomotives used by the Group and PKP CARGO S.A., by traction type

Description	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	Change 2021-2020
diesel locomotives	850	1,103	1,261	1,286	1,272	-253
of which in PKP CARGO S.A.	*671*	*912*	*1,065*	*1,077*	*1,076*	*-241*
electric locomotives	969	968	1,079	1,066	1,062	1
of which in PKP CARGO S.A.	*946*	*949*	*1,059*	*1,049*	*1,048*	*-3*
Total	**1,819**	**2,071**	**2,340**	**2,352**	**2,334**	**-252**
of which in PKP CARGO S.A.	***1,617***	***1,861***	***2,124***	***2,126***	***2,124***	***-244***

Source: Proprietary material

Table 24 Structure of wagons used by the PKP CARGO Group and PKP CARGO S.A.

Description	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	Change 2021-2020
Wagons owned and leased	56,183	58,453	62,330	64,151	64,760	-2,270
of which in PKP CARGO S.A.	*51,533*	*53,619*	*57,272*	*59,127*	*60,268*	*-2,086*

Source: Proprietary material

5.4.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. The majority of real estate held by the Group is used on the basis of long-term lease and rental agreements. The table below presents the change of the balance of real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2017-2021.

Table 25 Real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2017-2021

Description	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	Change 2021-2020
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,441	1,415	1,449	1,479	1,573	26
of which in PKP CARGO S.A.	*550*	*520*	*517*	*536*	*566*	*30*
Buildings – owned, leased and rented from other entities [sqm]	728,944	693,213	723,962	738,392	749,492	35,731
of which in PKP CARGO S.A.	*571,841*	*535,910*	*539,554*	*542,337*	*564,091*	*35,931*

Source: Proprietary material

In the period under analysis, there was an increase in the area of land and buildings in use (own and leased from other entities) as a result of the purchase of real estate in Gniewczyna (32.9872 ha). In addition, the size of the necessary assets in the Parent Company as well as in the subsidiaries was reviewed on an ongoing basis and adjusted to the profile of the business (-11.25 ha) (of which -6.3422 ha in CARGOTOR).

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

5.5.1 Information on loan and borrowing agreements executed and terminated

On 17 May 2021, the Parent Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to the maximum amount of PLN 100,000,000.00, which amends the loan terms in that it extends the loan availability until 24 May 2022.

On 16 June 2021, the Parent Company entered into an investment loan agreement with the European Investment Bank for the maximum amount of EUR 60,000,000.00 (EURIBOR or WIBOR + margin).

On 18 June 2021, the Parent Company entered into a current account overdraft agreement with Bank Gospodarstwa Krajowego for the maximum amount of PLN 100,000,000.00 (WIBOR + margin) with the availability term of 12 months.

On 18 June 2021, the Parent Company signed a Master Lease Agreement with PKO Leasing S.A. up to the total net price of assets purchased for lease purposes not exceeding PLN 100,000,000.00. The facility is available for the term of 12 months with a 12-month extension option.

On 9 July 2021, a Group Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. which amends the loan terms in that it decreases the amount to PLN 400,000.00 and extends the loan availability until 9 July 2022.

On 26 November 2021, a Company of the Group entered into an investment loan agreement with a consortium of banks consisting of: ING Bank N.V., UCB CR and SR and Raiffeisen bank a.s. up to a maximum amount of EUR 8,500,000.00 (fixed interest rate) with a repayment period until 26 November 2026.

In November 2021, a Company of the Group concluded an overdraft agreement with ING Bank N.V. up to a maximum amount of EUR 3,000,000.00 (fixed interest rate).

On 17 December 2021, the Parent Company executed an annex to an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. for up to the maximum amount of PLN 100,000,000.00, which amends the loan terms in that it extends the loan availability until 19 March 2023.

No loan or borrowing agreements were terminated in the period under analysis.

5.5.2 Information about granted loans

The Parent Company and the Group Companies did not grant any loans in the period under analysis.

5.5.3 Information about granted and received sureties and guarantees

PKP CARGO S.A. and its subsidiaries did not extend any sureties for loans or borrowings and did not grant guarantees to a single entity or subsidiary of such entity whose total amount would be material.

5.5.4 Issues, redemptions and repayments of debt securities and equity securities

In the analyzed period, in PKP CARGO S.A. there were no issues, redemptions and repayments of debt securities and equity securities.

5.5.5 Assessment of management of financial resources

PKP CARGO S.A. and the Group have been efficiently managing the cash management cycle by matching the maturity of its receivables and payables, in order to mitigate a potential risk of short-term cash shortage. In 2021, PKP CARGO S.A. had three current account overdraft agreements with the total limit of PLN 300,000,000.00

Internal financial risk management policy, allowing for optimization of the maturities and types of investment instruments and the liquidity reserve level, is an element supporting efficient management of the Company's and the Group's finances. Excess cash generated by the Company and the Group was invested in fixed rate bank deposits with maturities depending on the Group's liquidity needs. Decisions made with regard to bank deposits are based on maximizing the rate of return and current assessment of the financial standing of the banks. The structure of assets, including cash and short-term investments, secured the Company's and the Group's ability to settle their liabilities in a timely manner.

The finance management system in PKP CARGO Group companies is efficiently supplemented by the cash pooling mechanism, which makes it possible to reduce the costs incurred in connection with the use of short-term external financing sources and maximize the financial revenues in connection with available cash surpluses.

In 2021, the Company entered into bank guarantee limit agreements, on the basis of which it is possible to issue guarantees on the order of any company from the PKP CARGO Group, which made it possible to reduce the costs incurred in connection with establishment of security interests.

5.5.6 Description of the structure of key equity investments or key investments made within the Company and the PKP CARGO Group

Most financial investments made by the Company and the Group in 2021 were bank deposits, which were executed mainly for a period from up to 3 months, depending on the liquidity needs.

5.5.7 Current and forecasted financial standing of the Company and the PKP CARGO Group

The PKP CARGO Group has full capacity to settle its liabilities. As at 31 December 2021, there were no negative events causing a significant deterioration of the financial standing of the PKP CARGO Group or posing a threat to its status as a going concern. Risks associated with the ongoing COVID-19 pandemic persist, and if materialized – may have an impact on the financial standing of the PKP CARGO Group. The Management Board of PKP CARGO S.A. takes relevant actions to limit the negative effects of the COVID-19 pandemic, and so ensure safe continuation of the PKP CARGO Group's operation.

5.6. Key risk factors and threats

5.6.1 Description of the key threats and risks

Risks related to the economic and market environment

In 2022, PKP CARGO Group will face uncertainty as to the conditions and prospects of its functioning in the economic environment, resulting not only from the ongoing COVID-19 pandemic, but mainly from the developments related to Russia's invasion in Ukraine. The situation in the East will have a direct impact on the Company's international operations, in particular in its relations with partners who have business contacts with Eastern European and Asian countries.

In view of the announced and planned sanctions, which include restrictions on trade with entities from the Russian Federation and Belarus, one should expect significant financial consequences and possible retaliations (especially in terms of price increases for energy commodities, fuel and steel). Nevertheless, at the moment it is difficult to predict the materialization of these risks, as no one knows how long the conflict will last and what sanctions will eventually be introduced and when.

Risks associated with Russia's invasion of Ukraine

The situation in the Ukrainian territory affects the operation of the PKP CARGO Group's border crossings and volume of transport. The threat to coal and ore shipments from the Eastern border, including from Russia, may change the directions of acquisition of commodities.

Given the high uncertainty and lack of stability in the fuel and oil market (no continuity of transit through Ukraine), disturbances may periodically arise in the operation of the supply chain, e.g. deliveries of diesel fuel to specific fuel stations of PKP CARGO, as well as distribution of diesel fuel from fuel producers to distribution centers where contractors purchase their supplies. To mitigate this risk, negotiations will be opened with contractors who are able to ensure the continuity of this process. The other channel of diesel fuel distribution, i.e. refueling of locomotives at PKP Energetyka S.A. fuel stations, is currently working properly and is subject to ongoing monitoring.

Moreover, the political and economic situation may affect the execution of shipments of chemicals and fertilizers and cause a decrease in the volume of services in the automotive segment, including to a customer in Hungary.
Transport of metals (both in containers and conventional wagons) may also decline, as well as container transport from China on the New Silk Road (in transit through the Russian Federation and Belarus due to restrictions on container transport via the territories of Russia and Belarus).
In connection with the CHARLIE-CRP third-degree alert announced by the Government Security Center, a number of mitigating measures and safeguards were taken by the Company in the IT security area.

Risks associated with COVID-19

Further development of the pandemic, including the emergence of new mutations of the COVID-19 virus before a sufficiently widespread vaccination of the population has been achieved, may necessitate a re-tightening of previously lifted restrictions and limitations. This creates a risk – the risk of employees falling ill – which, in turn, may result in a possible reduction in the services offered or a deterioration in their quality. Moreover, if the state of epidemic persists, this will cause an accumulation of the number of employees who, after the state of epidemic is lifted, will have to undergo periodic medical tests. Strong variation in the pace of post-pandemic recovery among different countries potentially results in the occurrence of macroeconomic imbalances in the global economy. Additionally, a risk may appear related to production fluctuations in various industry segments significant from the point of view of rail transport (e.g. steel, construction, power industry), which in case of PKP CARGO Group may have an impact on transport and financial results of Group companies. In 2021 industrial sector remained relatively resistant to the economic impact of the COVID-19 pandemic and played a stabilizing role in the Polish economy. Available data indicate a recovery in the domestic industry in 2021 benefiting from the upturn in the global economy and the post-pandemic spike in demand. The future evolution of the epidemiological situation and the growth path of the Polish and Czech economies will be the key drivers of industrial production growth, and – indirectly – of the scale of the PKP CARGO Group's transport business in the next quarters of 2022.

Risks resulting from the macroeconomic situation

Destabilization of the market environment

Due to the armed conflict in Ukraine in 2022 Poland's GDP, according to analysts' forecasts, may decrease by approx. 1.0%-1.5%. Additional factors for the deterioration of GDP growth rate will be: rising inflation, low investment sentiment with high risks associated with investments in the country, and deteriorating consumer and business sentiment.

The global trends in the macroeconomic environment (most notably, in Germany and other EU countries, with which the economic ties are the strongest) exert a significant impact on the economic standing of Poland and the Czech Republic, and thus also translates, indirectly, into the operating performance and revenues generated by members of the PKP CARGO Group. Poland and the Czech Republic are important participants of European and global trade, and remain strongly integrated within international value chains. After the global economy experienced a recession triggered by the COVID-19 pandemic in 2020, the global economic climate gradually improved in 2021. This was driven by, among others, the advancements made in vaccination programs (especially in developed economies), which enabled the imposed economic and social-distancing restrictions to be relaxed; the adaptation of consumers and enterprises to the pandemic reality; and the support provided through fiscal and monetary policy. According to IMF economists' projections from January 2022, global GDP in 2021 experienced a strong rebound and increased by +5.9% yoy, following a -3.3% yoy decline in 2020. Also in 2022, the global economy is expected to remain on the path of stable growth with the GDP growth rate of +4.4%. At the same time, according to IMF economists, the pace of the post-pandemic economic recovery will remain strongly differentiated between countries. In 2023, the global economy will grow at an annualized rate of approx. +3.8%.

There is an elevated risk of intensification of trade tensions (including geopolitics-related), especially in the case of Eastern countries, the United States and China – an escalation will affect global growth rates.

Despite the positive signals from the global economy in 2021, the scale of uncertainty in the financial markets is currently very high due to the unpredictable economic effects of the armed confrontation between Russia and Ukraine and the prospects for the development of this conflict (including the global effects of the sanctions being introduced). The unpredictability of global epidemiological developments and rising inflation remain measurable risks. China's economic problems are also an area of uncertainty.

Sanctions (including financial ones) imposed on the Russian Federation will directly affect the economic performance of both sides. Europe has strong ties with Russia in terms of importing raw materials, including energy fuels – and the sanctions being implemented could lead to a complete reconfiguration of global economic ties. Polish production primarily targets the safe EU market, however, the number of components imported from outside Europe is still high. An analysis carried out by Goldman Sachs shows the impact of a potential escalation of the conflict in Ukraine on the European economy. From the euro area point of view, this impact is potentially small (trade with Russia and Ukraine accounts for about 1% of GDP), however for Poland it is about 2% of GDP (with the effects of the conflict being particularly tangible in the energy sector).

In addition, EU sanctions against Belarus related to its support of the Russian invasion of Ukraine include a ban on the import of many raw materials and goods. The new sanctions will cover approx. 70% of all Belarusian imports, including raw wood, lumber and wood products, cement, rubber, and fuel, among others. The sanctions also covered exports of steel and iron (which together account for nearly 40% of Belarusian exports to the EU).

One should bear in mind higher prices of production and distribution of goods and services resulting mainly from increased prices of energy fuels (conflict in Ukraine will deepen these trends) and EU climate policy (prices of CO_2 emission allowances, "Fit for 55" program), energy, gas and market price fluctuations e.g. of diesel fuel, inflation, problems with availability and prices of raw materials and components affecting production costs and tensions in global supply networks. The impact of high prices for certain groups of commodity on production costs in other categories (e.g. fertilizers vs. agri-food commodities, or energy vs. metals) and unpredictable weather factors (crop production supply, demand for heating resources).

Re-intensification of supply-side problems (increased absenteeism, supply chain disruptions – continuing disruptions in international supply chains), adversely affect marginal productivity and translate into higher operating expenses for businesses, which will result, among others, in further inflationary pressure.

There is more social unrest due to the current situation related to, among others, rising prices, lack of trust in governments or problems in the labor market. Deterioration of sentiments and decline in risk appetite in global financial markets may force a faster than expected pace of monetary policy normalization and a tightening of financial measures (affecting particularly unfavorably the financial stability and solvency of countries burdened with large debts). We are seeing increasing cyber attacks, including those related to telework and process automation in the economy, which can effectively slow growth. There have been changes in the economic behavior of the population brought about by the COVID-19 pandemic (e.g. concerning a decrease in mobility), the result of which may be, for example, a permanent reduction in demand for certain types of services.

Autarkic tendencies have intensified (reversed decrease in barriers to global trade, smaller scale of foreign investments or reduced diffusion of technologies).

There has been a need for the industry to adapt to new EU regulations (e.g. regarding the "green" transformation) – the reorientation of the economy towards ecology (e.g. the Fit for 55 package and CBAM), new consumer laws entailing numerous changes, the new ETCS system (Directive 2016/797 of the European Parliament and of the EU Council on the interoperability of the rail system obliges individual Member States to implement mandatory ERTMS elements in national systems). The armed conflict in Ukraine may result in redefinition of the energy directions and targets.

Additional risk factors for the medium and long-term outlook of global economic growth are also of a demographic nature (the observed process of the aging of societies, especially in developed economies) and challenges related to climate policy.

Strong divergence in the prices of financial assets and the performance of the real economy undermines the long-term financial stability and potentially triggers another financial crisis.

The state of ongoing armed conflict creates an uncertain and very tense geopolitical situation. Together with the extension of the COVID-19 pandemic (e.g. as a result of the emergence of new, more infectious or vaccine-resistant variants) and the materialization of at least some of the remaining risk factors mentioned above may translate into a permanent loss of global production potential and changes in the supply chain (including in the economies of Poland and the Czech Republic), for instance as a result of a permanent decline in the investment rate or a lower overall productivity growth in the coming quarters and years.

Situation in the labor market

According to the National Bank of Poland's forecasts, the demand for labor in the economy will continue to grow in 2022. This is evidenced, among other things, by the high percentage of companies declaring vacancies and the optimistic employment outlook of companies operating in the enterprise sector. Before the war in Ukraine, unemployment was expected to continue to fall, according to forecasts by the Polish Confederation Lewiatan, the decrease at the end of 2022 was expected to be 5-5.1%. However, the situation has strongly changed with Russia's invasion of Ukraine. We are now dealing with a number of new processes that will affect the labor market in various ways in the coming months. We don't know how the conflict itself will play out, or whether further sanctions will be imposed on Russia. All this will directly or indirectly affect the Polish labor market.

The most important factors that occurred in the last weeks of 2022 include: the outflow of men of Ukrainian nationality from the Polish labor market, mainly from construction and transport due to return to Ukraine to defend the country, and the influx of refugees from Ukraine, mainly elderly people and women with children. Therefore, we should expect even greater problems in some industries, especially in construction and transport in the short term, but also an improvement in many industries, such as catering, tourism, health care, agriculture, agricultural processing, where Ukrainian women can find work. In addition, difficulties can be expected for Polish companies involved in construction contracts in Ukraine due to lack of investment opportunities. Nevertheless, if the conflict in Ukraine deescalates, the situation in the labor market may change.

Inflation

According to information from Statistics Poland, the inflation rate in 2021 stood at +5.1% yoy (compared to +3.4% yoy in 2020). In quarterly terms, 2021 also witnessed an upward trend in the inflation rate compared to the corresponding periods of the previous year; in Q1 2021 the increase was +2.7% yoy, then in Q2 2021 it stood at +4.5% yoy, in Q3 2021 it moved +5.4% yoy, only to reach of +7.7% yoy in Q4.

Due to the armed conflict in Ukraine, there is a risk that Poland's GDP growth rate may deteriorate in 2022. According to analysts' forecasts, Poland's GDP may decrease by approx. 1.0%-1.5%, and additional factors for the deterioration of the GDP growth rate, in addition to rising inflation, will include low investment sentiment with high risk associated with investments in the country and deteriorating consumer and business sentiment. According to the March NBP projection, inflation in 2022 will stand at 10.8%, in 2023 it will be 9.0% and in 2024 4.2%.

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

Apart from factors directly related to the consequences of the ongoing armed conflict and COVID-19 pandemic, significant risk factors for the rate of growth of PKP CARGO Group transport performance in the coming quarters were the issues described below.

Negative impact on the coal market

The reduction in the quantity of hard coal consumption in the Polish economy will be caused both by supply-side factors (inter alia gradual decline in the profitability of mines and their planned shutdowns) and demand-side factors (increase of the significance of other energy sources following the implementation of the EU’s climate policy, and decreasing price competitiveness of energy generation from coal caused by hefty charges for CO_2 emissions and a general increase in energy efficiency).

In February 2021 the Polish government adopted the policy paper “Poland’s Energy Policy until 2040” (PEP), which provides for gradual reduction of hard coal consumption in the Polish economy in the upcoming years, stressing that this process should ensure fair transformation and respect for the interests of all stakeholders. In addition, pursuant to PEP, in 2030 the share RES in the final gross energy consumption should reach a minimum of 23%. The document informed about further development of wind energy and launch of a nuclear power plant in Poland after 2030. It is also important to keep in mind the European Union's environmental/climate protection requirements that will affect coal and lignite rail carriers, causing companies (heating plants and power plants) to switch to other energy sources, increasing the need for rolling stock and personnel).

The observed downward trend in coal consumption in power generation, heating and industry will continue in the coming years. This is evidenced by information from the Ministry of Climate and Environment on the planned shutdown of approximately 70% of coal-fired units in Poland over the next 20 years. This is confirmed by the disconnection of old coal-fired units with a total capacity of 1,645 MW (in the Tauron group and in the PGE and ZE PAK groups) from the grid in January 2021. By the end of 2023, the PGE group plans to shut down units with a total capacity of 900 MW (of which another 450 MW was already shut down in August 2021);

The problem of shutting down the hard coal mining industry appears also in the Czech Republic, where hard coal (mainly coking coal) mining operations are expected to cease by the end of 2022 at the latest. On the one hand, this situation represents a risk of falling transport volumes for PKP CARGO Group companies in the Czech territory (characterized by a large share of hard coal), yet on the other hand creates an opportunity for new export markets to emerge for Polish mines (Poland is the leading exporter of coke and coking coal to the EU countries). Since coke was again recognized by the EU as a strategic raw material, an economic revival once the pandemic is over should be conducive to good demand for this input raw material for steel production. Consequently, the future situation in the Czech Republic creates prospects for Jastrzębska Spółka Węglowa S.A. (the largest coking coal producer in the EU, client of PKP CARGO S.A.) and Polska Grupa Górnicza (client of PKP CARGO S.A.). In addition, the new Czech government in its program statement for the next 4 years has announced a plan to completely phase out coal by 2033 and one of the Czech power utilities CEZ has announced a planned reduction in coal use in power and heating operations, which will result in a decrease in the amount of electricity produced from coal from 39% to 12.5% over the next 8 years.

Another factor affecting the growth rate of transport is the increase in the price of CO2 emission allowances, which translates directly into energy prices (the share of CO2 emission allowances, according to Bank Pekao's analysis, increased from approx. 1/4 in 2016 to nearly 3/4). According to the data provided by the Ministry of Development and Technology, the production of 1 kWh of electricity in Poland requires the emission of about 724 g of CO2, while the average for Europe is about 226 g. Thus, high carbon emissions are the main reason for high energy prices in Poland, and until this state of affairs changes, electricity prices will remain at the highest levels in Europe;

Additionally, the increase in CO2 emission allowance prices results, among other things, in reducing capital expenditures in heating plants and creates a significant risk of the domestic economy becoming increasingly dependent on energy imports from Germany or the Czech Republic. The high price of emission allowances with a concurrent reduction in their free limits by Poland resulted in the non-profitability of coal-fired heat generation (the cost of purchasing an emission allowance is greater than the cost of coal in the process of generation of one GJ of heat).
The European Union announced introduction of the “Fit for 55” package aimed at increasing the target for reducing CO_2 emissions by 2030 from 40% to 55%, which will result in a faster decrease in the availability of new allowances. This, however, generates serious consequences for the domestic and European economies (especially for the Polish power generation sector and industry, which operate largely on the basis of conventional emission-intensive energy sources) as it will cause further increases in electricity prices.

Negative impact on the steel market

The ongoing armed conflict in Ukraine may lead to breaks in supply chains (Poland purchases from Russia and Ukraine e.g. ferroalloys) and may translate into problems for steel importers (in 2021 Ukraine sold 1.37 million tons of steel to Poland and Russia 1.36 million tons). Sanctions imposed against Russia by the European Union, in turn, may result in turbulences in the EU market, but should not pose a major problem for this market (Russia has already significantly reduced its steel exports to the European market when it established high tariffs in August 2021, in order to protect prices in its own market). The armed conflict between Ukraine and Russia, the largest suppliers of iron ore to Central and Eastern Europe, in the long term may result in the elimination of iron ore supplies from both countries.

The steel sector as a whole will be impacted by potential further waves of pandemics and possible COVID-19-related restrictions, resulting in disruptions to the supply chains. Moreover, it may affect the demand for products of the metallurgical sector and, as a result, also for commodities consumed in the production process (iron ore and coke).

The experience of 2020 has shown that steel-intensive industries (i.e. automotive and machinery production) are among the most severely affected branches of the country’s economy. The decline in the consumption of steel and most steel products in 2020 and in the first months of 2021 was chiefly a consequence of the economic downturn caused by the pandemic (the effect of reduced operations in industries that are major buyers of steel products as well as the construction sector).

At the same time, in recent years a gradual decrease of production capacities was observed in the volume of domestic output of steel and steel products, which may certainly be associated with structural factors, such as the greater price competitiveness of imported production, the excess production capacity on the global market (including the EU) in previous periods and even the energy and climate policy pursued by the European Union (increasing costs of CO_2 emissions); One should bear in mind that the introduction of additional charges in the power market and the price increases in the energy commodity market were one of the causes of the permanent shutdown of the commodity part of the Krakow steelworks by the country’s largest supplier of steel products, which exerts an adverse impact on the competitiveness of Polish steel industry.

Negative impact on the liquid fuels and chemicals market

The armed conflict in Ukraine is already causing additional fluctuations in the prices of energy fuels, which contributes to the need to look for new sources of supply. The lack of stability in the oil and fuel market due to macroeconomic and political factors (including the lack of continuity of transit through Ukraine) and the impact of further development of the pandemic situation are factors determining the situation in the liquid fuels and chemicals sector.

In Poland and globally, there is a high dependence of the liquid fuels and chemicals sector on the changes in economic trends (the growth rate of chemicals and chemical products production is correlated with the GDP growth rate, given that products of the chemical industry are most often consumed in manufacturing processes in other sectors of the economy).
Rising energy costs and CO2 emission fees limit the competitiveness of domestic chemical sector manufacturers, which negatively affects their operational and financial performance. In addition, the development of the fuel and chemical industry is affected by the actions and directives of the European Union – including the "Fit for 55" package, which is a basic element of the European Green Deal concept and significantly affects the functioning of the entire European, including the Polish,

chemical industry. Rapid changes caused by national and EU regulations in this sector are to be expected, as chemicals are crucial to the development and existence of other industries in economies.

The year 2022 will likely bring the final shape of the legislative acts included in the "Fit for 55" package, and the regulatory environment will largely determine the future prospects of the oil and chemical industry in Europe. Certainly, however, the entire fuel and energy industry will face challenges related to climate protection and climate policy regulations (decarbonization and lowering the carbon footprint of products).

The situation in the fertilizer market is also difficult due to the high prices of gas and the raw materials necessary for fertilizer production (further exacerbated by the high cost of emission allowances and high freight prices), which negatively affects manufacturers. Currently, gas prices account for up to 90% of the cost of nitrogen fertilizer production (the reason is the price increase of about 600% per year), and the price of fertilizer has jumped during the year. One should also take into account potential threats related to the political instability in Belarus, which is an important exporter of fertilizers to the European Union market).

Negative impact on the construction market:

Continued increase in the prices of raw materials and materials used in the construction industry (e.g. steel prices) may lead to a slowdown of the construction and assembly output growth in the country in the coming quarters. According to the Polish Association of Construction Industry Employers (PZPB), in the coming years, the piling up of works connected with huge road, railroad and infrastructure investments will lead to an uncontrolled rise in prices of materials and services.

In addition, the investment slowdown in the construction market is influenced by the lack of funds from the EU Reconstruction Fund, which are to help offset the economic effects of the COVID-19 pandemic and rebuild the European economy after the coronavirus crisis (the amount applied for is EUR 36 billion). At the same time, the New EU Perspective, which sets out the total scale of road and rail projects, plans for the energy sector and local governments, may exceed the capacity of construction companies (mainly due to staffing and equipment shortages, etc.) and the financial performance of especially large companies.

Negative impact on the cement industry

Due to the involvement of Belarus in Russia's armed conflict with Ukraine, economic sanctions were introduced on cement and other finished products, which in consequence may lead to an increase in the prices on the Polish market and the need to seek new sources of supply.

The cement market will also be negatively impacted by rising costs of purchasing CO2 emission allowances and rising energy prices. In 2022, further increases in demand and costs are expected in Poland, which will certainly translate into higher raw material prices. Domestic cement plants emit 12 million tons of CO2 annually, while allowances cover 8.6 million tons of these emissions. The difference is purchased by the companies, generating a cost of up to EUR 300 million per year, assuming no increase in allowance prices above EUR 90/ton. In addition, the rising prices of emission allowances are compounded by the jump in electricity prices (the share of electricity in the costs of cement plants ranges from 30% to 35%).

An important risk for the industry is that in 2022, a large number of investment projects pursued in the east of Poland (e.g. Via Carpatia, Via Baltica or Rail Baltica) may encourage producers from across Poland’s eastern border to increase their exports to the country.

The postulates of the European cement industry, which lobbies for the introduction of CBAM and seeks to maintain free CO_2 emission allowances on the current terms (during the transition period until 2030) and the information from the European Commission regarding the “Fit for 55” package will have a significant impact on the cement industry in the near future.

Negative impact on the paper and wood industries

A ban on imports of many raw materials and goods from Belarus (including but not limited to raw wood, lumber and wood products) imposed by the European Union as part of the sanctions related to the country's support of the Russian invasion of Ukraine. In recent years, Belarus has been one of the largest foreign suppliers of timber to Poland.
Additionally, growing prices of energy and CO2 emission allowances, a jump in the prices of raw materials (wood, pulp, recycling paper), problems with their availability or rising freight prices hinder the deliveries of raw materials to producers. In addition, the intensified speculative practices in the global market are causing companies to report huge cost increases, which

translates into higher prices. In order to counteract these risks, the PKP CARGO Group is taking action to enable a rapid response to the changing market situation and trends prevailing on the rail freight transport market. Actions taken by the PKP CARGO Group are aimed at the continuous diversification of transport services (pursued by way of investments in specialized rolling stock for intermodal transport and expansion of the terminal network) and the optimization of the whole transportation process (also in light of the numerous periodic track closures on the PKP PLK network).

Negative impact on the equipment and machinery industry:

The problem of rising prices of energy, raw materials and components affects their availability and thus ensuring continuity of supply under conditions of possible limited access to containers and container ships and fluctuations in supply and prices of raw materials and components.

Risk associated with road transport, which constitutes increasing competition for the PKP CARGO Group

Road transport plays a key role on the Polish and Czech freight markets, which in recent years has also been capturing the majority of the market's freight volume available for transportation. Year after year, the transported freight volume is visibly increasing, but the data shows that road transport is the main beneficiary of these changes. What is more, road transport in the pandemic grew year-over-year almost twice as much as all rail transport (i.e. 218.4 million ton) and the share of road transport in freight transport in 2020 increased once again in terms of freight volume, where it was already 89.2% in 2020 (compared to 86.5% in 2019), while the share of rail transport fell to 8.4% (from 10.5% in 2019).

Persisting disproportions in prices of energy sources for rail transport (electricity) and road transport (diesel fuel), growing prices of electricity (mainly due to rapidly increasing charges for CO2 emissions) and prices of crude oil, require regulatory changes that would equalize the conditions for competition between rail and road transport. It should also be borne in mind that the costs of access to road infrastructure (the road network where the tolling system is in place is relatively small in relation to the size of the whole road network) are low.Meanwhile, rail carriers pay the infrastructure manager for every 1 kilometer of train travel.

The operational initiatives implemented by the PKP CARGO Group are aimed at railway transport achieving the position of a means of transport that would be complementary to road transport (e.g. long-haul transportation of high volumes of bulk cargo by rail and their handling by trucks as part of the so-called last-mile services). The PKP CARGO Group is also gradually increasing the scale of its operations in developed countries of Western Europe in market segments that dominate the rail transport market and at the same time offer high growth potential (e.g. intermodal transport). The general competitive position of rail transport should improve after the completion of modernization and construction works on PKP PLK's network executed under the "National Railway Program". Although, in the long run, the development of rail infrastructure will boost the competitive position of rail operators as providers of transportation services, the work that is currently underway to improve this infrastructure is slowing down the average commercial speed of trains (which translates directly into poorer timeliness and slower turnover of rolling stock) and forcing frequent detours (thereby increasing operating expenses and reducing the profitability of rail operators).

Risks associated with the rail freight sector

The freight market is determined by, among other things, a dynamic increase in the number of rail operators performing freight transport. According to data presented by the Office of Rail Transport (UTK), there are currently 112 rail operators active on the Polish rail freight market holding an active license issued by the UTK President for the conduct of rail freight operations (as at 21 December 2021). Among these companies are also three members of the PKP CARGO Group: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s. In recent years, competition on the domestic market has intensified, and the gradual increase in the number of operators is accompanied by a concurrent decreasing concentration of market shares (in 2020, still a total of 84 operators were active on the Polish rail freight market under a license issued by the President of the Office of Rail Transport and providing freight transport services).

Along with the growing number of rail operators, the number of carriers applying for licenses for freight transport is reflected in the number of applications submitted to the Office of Rail Transport in recent years. An additional reason for the significant interest in obtaining a license in this area was also the entry into force of the 4th technical package (European regulations regarding the issuance of documents in the area of rail safety).

Businesses rushed to obtain a safety certificate under the current/domestic rules. In the process, they informed the Office about the postponement of the start date of their business as a rail carrier.
Of course, among the new rail operators there are companies expanding their existing lines of business to include intermodal rail transport (their previous activity was based on other elements of the supply chain, for instance the operations of an intermodal carrier, terminal operator or freight forwarding operator).

2021 saw an increase in the volume of transported loads and the freight turnover yoy as well as continuing expansion of the list of operators who have exceeded the market share threshold of 0.5% of the whole market in 2021, which can be attributed to the phenomenon of setting up rail companies in order to pursue rail transport as auxiliary operations to the company's core business.

2021 showed an increasing share of other cago categories in the freight structure of rail transportation. Among other things, the pandemic brought about a significant development of the e-commerce market and an increase in mail order purchases via the Internet (thus, the market demand especially for delivery of goods directly to the consumer, international transport, delivery of diversified goods, etc.) increased significantly. This is particularly evident in intermodal transport, which is increasing its market share. The share of intermodal transport services in all rail transport services continues to grow steadily, and during the first 3 quarters of 2021, it already accounted for 10.9% by freight volume). In 2021 (as in 2020) in Poland, despite the lingering consequences of the pandemic affecting the economy, the intermodal segment continued to grow very steadily. The pandemic did not slow down the growth of this segment, and all its parameters increased significantly in year-over-year terms.

According to data from the Polish intermodal rail transport segment published by the Office of Rail Transport, in the first 3 quarters of 2021, the total volume of transported intermodal loads was 19.6 million tons (+14.7% yoy) and the freight turnover was 6.0 billion tkm (+6.0% yoy).

In this period, as in the previous years, PKP CARGO provided the majority of intermodal transport services, having remained in the position of the market leader in this segment of freight transport. This notwithstanding, a large year-over-year increase in the volume of intermodal transport in the same period was recorded by those operators whose share of intermodal transport in the total volume of transported loads significantly increased year-over-year, which in combination with, among other factors, their scheduled investments in specialized rolling stock and the growing significance of international logistics groups (Metrans, Rail Cargo Carrier) indicate a high likelihood of an additional degree of competitive struggle in the intermodal segment in the coming quarters.

The situation in the rail freight sector will necessitate an increase in the scale of operations by the players operating in this market. The PKP CARGO Group's rail competitors already now offer the full range of transport and transport-related services, including whole-train carriage of coal and coke, aggregates and other construction materials, metallurgical products, liquid fuels and chemicals. Some companies also offer dispersed transport services (single wagons) and the carriage of special materials (including long rails). Some entities also offer comprehensive freight forwarding and logistics services or provide regular operator trains. Considering the relatively low barriers to entry on this market (including the possibility of using an international license or lease of rolling stock) and its still promising outlook, e.g. for the intermodal segment, a further increase in the number of competitors for the PKP CARGO Group on the domestic market may be expected in the coming quarters, along with a simultaneous increase in the scale of operation by some of the existing market players.

On the Czech market the main competitors of the PKP CARGO Group are companies operating are ČD CARGO (the national carrier and the undisputed leader of the country's transport market), Metrans Rail (an international logistics operator focused on the container transport segment in the countries included in the Three Seas Initiative), ORLEN Unipetrol Doprava (an operator specializing in the transportation of fuels), Rail Cargo Carrier – Czech Republic (a subsidiary of the international carrier Rail Cargo) and IDS CARGO. As is the case on the Polish market, the services provided by competitive operators cover all key segments of the rail freight market: solid fuels, construction materials, liquid fuels, chemicals and containers (intermodal services). In recent quarters, the Czech Republic has seen a gradual decentralization trend in the country's rail freight market (the total market share of small companies is on a gradual upward path).
Bearing in mind the intensifying competition on the Polish and Czech markets for rail freight transport, the PKP CARGO Group is involved in initiatives aimed at the continuous improvement of the quality and development of its services (e.g. by way of investments in specialized rolling stock approved for international traffic, involvement in cross-border cooperation with local operators and endeavors to better customize its commercial offering, including by the appearance of operator trains) and the provision of comprehensive logistics services to clients from various industries.

Risk associated with the rail infrastructure

Exclusions in the rail infrastructure in both Poland and the Czech Republic affect the capacity of the routes. In the case of reconstruction or overhaul of major corridors and routes increased transportation time is a significant risk. The need to run detour routes, in turn, increases transportation costs and reduces the quality of service. Currently in Poland, work has accumulated in strategic points of the rail infrastructure, among others at the junction with the port infrastructure. Moreover, due to the postponement of investments from the EU Reconstruction Fund, projects from the new budget framework may overlap.

This situation results in a real extension of the works carried out by contractors, which may translate into a further reduction in the lines' capacity and effectively eliminate rail transport from part of the services (no timeliness). Longer waiting times from the infrastructure manager to obtain a possible transport date, or even the temporary blocking of transport possibilities on given sections, will adversely affect rail transport, reducing the competitiveness of rail transport in relation to road transport.

The risk of high dependence of the client base on the limited number of industries and business entities operating therein as well as structural changes in the operations of the key clients.

A significant percentage of contracts entered into by the PKP CARGO Group and its clients is of a long-term nature. As a consequence, this largely reduces the degree of uncertainty associated with the conduct of freight business by enabling advance contracting of transport services for large volumes of bulk cargo, such as hard coal, aggregates, metals and ores, along with the simultaneous efficient allocation of rolling stock and human resources.

Such contracts provide for declared volumes of freight services, although in justified cases these volumes may be renegotiated up or down, depending on the situation. As a consequence, amendments to the contractual terms may result in the need to ensure additional resources in order to transport the surplus freight volumes or may unfavorably affect the quantum of transport services actually provided by the PKP CARGO Group. The PKP CARGO Group offers transportation services predominantly to companies operating in the following industries: mining, power generation, metallurgy, production of chemicals and chemical products, and construction. At the same time, a distinguishing feature of these sectors of the economy is their fairly high concentration of production facilities. As a result, if the scale of output generated by any client diminishes (and competition on the transportation market continues to intensify), it will be increasingly more difficult to find new counterparties that might help close the gap resulting from the transport services agreed upon yet not provided.

At the same time, changes in the business structure of entities to which the PKP CARGO Group provides transport services might assume the form of a complete change or diversification of the area of activity (e.g. in the case of entities operating in the petrochemical or energy market, with a potential reduction of their current activities, it is attractive to operate in the field of renewable sources, where rail transport is not required). Moreover, certain large clients also decide to establish subsidiaries focusing on providing transport services covering the goods manufactured by the parent company.

In 2021, over a dozen such subsidiaries operated on the Polish freight transport market, and their market significance is continuing to grow (most of them recorded an increase in transported volumes in year-over-year terms despite the strongly shrinking overall market for rail transport services). Although in periods of overdemand on the transportation market the rolling stock or human resources of specialized companies are often insufficient to handle all orders for transport services placed by their parent companies, in times of a market downturn the rolling stock potential of such subsidiaries is often sufficient to handle all requested traffic.

Considering the trends prevailing on the transportation market (including the gradual increase in volumes carried by specialized companies), it is likely that they will continue to expand the scale of their business, also on a commercial basis (by providing transport services to clients other than their own parent company).
These phenomena may adversely affect the volume of freight transport services available for acquisition on the competitive market (including by the PKP CARGO Group).

The PKP CARGO Group's long-term strategy assumes a gradual improvement of efficiency, competitiveness and quality of the transport and logistics services offered. The measures taken reduce the risk of potential diversification of rail operators by key accounts.

Risk of disproportionate increases in salary costs

On 1 March 2022, during the meeting of the Parties to the Collective Bargaining Agreement, the Management Board of PKP CARGO S.A. requested the Trade Unions acting on behalf of the employees of the PKP CARGO S.A. Units and Head Office to extend the pending social dialog on the implementation of a systemic pay rise as of 1 April 2022, at least until the assessment of the Company's financial results for 2021 and Q1 2022, and thus to postpone any possible decisions on the increase of the wages at PKP CARGO S.A.

In response, the Trade Unions being Parties to the Collective Bargaining Agreement upheld the demand to implement, as of 1 April 2022, a pay rise in the base salary of PLN 600 for employees paid in accordance with the Collective Bargaining Agreement and a proportional pay rise for index-linked salary employees, while stipulating that failure to meet the demands by 7 March 2022 will result in the initiation of a collective dispute. The Company's Management Board, referring to the demands, informed the trade unions that in view of the current financial standing and uncertain prospects of PKP CARGO S.A. operations, resulting from unfavorable environmental conditions (pandemic, war in Ukraine), it is currently unable to meet the wage demands as to the amount and timing of their implementation.

In view of the refusal of PKP CARGO S.A. to accept the demand as regards the presented postulate, the collective dispute was effectively initiated as of 1 March 2022. This circumstance makes it necessary to initiate the procedure provided for by the provisions of the Act on the Resolution of Collective Disputes.

As a result, the Company faced a possible risk of a strike being declared by trade union organizations and a risk of the possibility of wage increases. However, because the outcome of the actions taken as part of the collective dispute is difficult to determine, it is not possible at this time to estimate the extent of their impact on future financial performance.

Risk associated with a shortage of trained personnel

On the market of rail freight both in Poland and Czech Republic there is a strong competition between individual rail operators visible not only in the form of fight for customers, but also in the form of fight for adequately trained staff (winning over employees on similar positions, especially where there is a high demand and market shortage e.g. train drivers). This is complemented by the expansion of logistics centers (e.g. near Ostrava in the Czech Republic), where personnel with the expertise and experience in the railroad industry often prefer to work in logistics centers.

Risk related to the impossibility to attract the appropriate staff

As a result of identification of the risk of difficulties in attracting appropriate personnel to perform the Company's operating tasks and taking into account the current situation in the country related to COVID-19, only selected activities supporting the recruitment of new staff were continued in 2021.

In 2021, the scholarship program was implemented with the students who joined it in 2019. According to the assumptions, the program is addressed to students of selected first level secondary technical schools for a period of 3 years of schooling. The PKP CARGO S.A. scholarship holders who met specified criteria received the study scholarships again in 2021. Additionally, after they graduate and obtain professional qualifications, they may be offered a job in positions responsible for rolling stock operation and maintenance in the company. Due to the remote form of teaching among secondary school and university students, the vocational internship and the summer internship program were not implemented in 2021, similar to 2020.
Apart from the abovementioned actions for new employee attraction ongoing recruitment processes were carried out in accordance with the needs reported by the Company's business units. Employees had an opportunity to receive training from scratch in order to prepare themselves for working as a train driver, rolling stock auditor or switchman.

Financial risks

Liquidity risk

The Group is exposed to liquidity risk ensuing from the ratio of current assets to net current liabilities (current liabilities less short-term provisions). The PKP CARGO Group has full capacity to settle its liabilities.
To ensure an additional source of funds required to secure its financial liquidity, the Group used external financing sources, such as a current account overdraft facility. Information on credit facilities undrawn as at 31 December 2021

is presented in Note 1.4 to the Consolidated Financial Statements for 2021. Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2021, 8 Group companies.

Market risk

The Group is exposed to market risks associated with fluctuations of exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short– and medium-term. The Parent Company manages the market risks ensuing from the aforementioned factors based on internal procedures which define the measurement rules of individual exposures, parameters and the time horizon. The principles of market risk management are implemented by designated organizational units under the supervision of the Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivatives are used only to limit the risk of a change in the carrying amount and the risk of cash flow changes. Derivative instrument transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures.

FX risk

In 2021, the Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables with the maturity up to 1 month and payables expressed in foreign currencies are mostly short– and long-term liabilities on account of investment loan agreements with maturities over 5 years. The balance sheet valuation of receivables and some current and non-current liabilities long-term liabilities expressed in foreign currencies, settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates. Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions. For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. According to the Financial Risk Management Policy in effect in the Company, in 2021, the Group applied FX risk management transactions for the EUR/PLN currency pair for the free portion of the net exposure. In 2021, the Group hedged the surplus in EUR through forward transactions on the EUR/PLN pair at the levels and with transaction maturities determined in accordance with the procedures of the Financial Risk Management Policy. The Parent Company used hedge accounting for all EUR loans and Forward transactions. These transactions were effected by the Parent Company. Details are presented in Note 6.2. Consolidated Financial Statements.

Interest rate risk

The Group is exposed to the risk of volatility of interest rate cash flows following from bank loans and leases based on variable interest rates. In 2021, interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M. The interest rate risk in lease contracts is executed through revaluation of lease installments in one-month periods. In 2021, interest on loan agreements was accrued according to the WIBOR 1M, WIBOR 3M and EURIBOR 3M reference rate plus the banks' margin. The interest rate risk in loan agreements was executed through revaluation of loan installments in monthly, quarterly and semi-annual periods.

Credit risk

The Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received. In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. As part of its internal policy, the Company makes application of the deferred term of payment conditional on acceptability of the counterparty's condition and positive history of cooperation.

Receivables from business partners are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered. In connection with the armed conflict in Ukraine and the sanctions imposed on Russia and Belarus, PKP CARGO S.A. Group is intensifying the monitoring of the timeliness of receivables payment. If customers identified as economically connected through trade with business partners in Ukraine, Russia and Belarus fail to pay, the Company may suspend the use of deferred payment to mitigate the adverse effects of the customers' credit risk.

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from its customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes.
The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.
The maximum exposure to credit risk is represented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through safeguards established in favor of the Group (in the form of bank/insurance guarantees, guarantee deposits, etc.).

5.6.2 Information on financial instruments with respect to risk, and financial risk management objectives and methods adopted by the Company and the PKP CARGO Group

The principles of market risk management are implemented by designated organizational units under the supervision of the Parent Company's Management Board. Financial risk in the PKP CARGO Group is managed with partial use of derivative instruments (spot FX transactions and forward FX transactions), which are used only to limit the risk of a change of the balance sheet values and the risk of cash flow changes.

In 2021, the Parent Company applied cash flow hedge accounting using financial instruments such as forward currency sales transactions and investment loans in EUR. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly likely cash flow denominated in EUR.

6. Key events and information about the activity of the Company and the PKP CARGO Group

6.1. Key information and events

JANUARY

- On 14 January 2021, Polskie Koleje Państwowe S.A., the Company's shareholder, appointed Mr. Marcin Kowalczyk to the Supervisory Board as of 14 January 2021.
- On 25 January 2021, the Supervisory Board PKP CARGO S.A. appointed Mr. Marcin Kowalczyk to the position of Vice-Chairman of the PKP CARGO S.A. Supervisory Board for its 7th term of office.

FEBRUARY

- Notification that the 2nd Regional Logistical Base in Warsaw selected PKP CARGO S.A. as the best bid in the procedure to conclude a 7-year framework agreement for rail transport services.
- Conclusion of a rail coal transport agreement with Tauron Wydobycie. The contract took effect on 5 February 2021 for a term of 12 months. Its value is approx. PLN 68 million.
- Renewal of cooperation between PKP CARGO CONNECT and Eurasian International Freight GmbH. PKP CARGO CONNECT will ensure rail transport of containers in the European Union and on other sections of the New Silk Road – comprehensive rail transport with dedicated customs services. Moreover, the Polish partner will provide transshipment and container storage services. The latter will be supplied by PKP CARGO TERMINALE
- Entry of a new company-level collective bargaining agreement for PKP CARGO Terminale Sp. z o.o. in the Register of Company-Level Collective Bargaining Agreements with the effective date of 1 March 2021.

MARCH

- Conclusion of a framework agreement for rail transport with the State Treasury – the 2nd Regional Logistics Base with its registered office in Warsaw for the provision of services involving domestic and international transport by rail of military equipment and personnel for the needs of certain organizational units of the Ministry of National Defense.

- The Agreement has been entered into for a period of 7 years from the date of its signing. The maximum total value of the contract has been estimated by the contracting entity at PLN 1.1 billion net (PLN 1.4 billion gross).
- The PKP CARGO and PKP CARGO SERVICE consortium signed an agreement for rail transport of hard coal in 2021-2022 with Tauron Ciepło. The value of the agreement is over PLN 36 million. The agreement has been performed from March 2021, and envisages transport of approx. 780 thousand tons / year of hard coal from the mines of Zakłady Górnicze Tauron Wydobycie S.A., Polska Grupa Górnicza S.A. and from other sources to Zakłady Wytwarzania Tauron Ciepło generating plant. The consortium will also provide rail siding services to Tauron Ciepło in the generating plants (Zakłady Wytwarzania) in Tychy, Katowice, and Bielsko-Biała EC1 and EC2.

APRIL

- Approval issued by the President of the Office of Competition and Consumer Protection (UOKiK) for a concentration involving the establishment of a joint venture by PKP CARGO S.A. and LTG Cargo Polska Sp. z o.o.
- Amendments to the Articles of Association of PKP CARGO INTERNATIONAL a.s.

MAY

- On 17 May 2021, the Parent Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to the maximum amount of PLN 100 million, which amends the loan terms in that it extends the loan availability until 24 May 2022.

JUNE

- Consent by the PKP CARGO S.A. Supervisory Board for the Company to enter into agreements with Forespo Poland S.A. regarding the purchase of real properties and movables of the former Fabryka Wagonów Gniewczyna S.A. and for PKP CARGO S.A. to incur liabilities in the total gross amount of EUR 7,380,000.00. On 16 June 2021, PKP CARGO S.A. and Forespo Poland S.A. signed a conditional purchase agreement and a conditional preliminary purchase agreement.
- On 16 June 2021, the Parent Company entered into an investment loan agreement with the European Investment Bank for the maximum amount of EUR 60 million (EURIBOR or WIBOR + margin).
- On 18 June 2021, the Parent Company entered into a current account overdraft agreement with Bank Gospodarstwa Krajowego for the maximum amount of PLN 100 million (WIBOR + margin) with the availability term of 12 months.
- On 18 June, the Parent Company signed a Master Lease Agreement with PKO Leasing S.A. up to the total net price of assets purchased for lease purposes not exceeding PLN 100 million. The limit is available for the term of 12 months with a 12-month extension option.
- On 28 June 2021, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted, among others, a resolution to cover the loss carried in the Standalone Financial Statements of PKP CARGO S.A. for 2020, to adopt amendments to the "Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board", to amend § 14(6)(1) of the Articles of Association of PKP CARGO S.A. and a resolution amending the resolution on the selection of an audit firm.
- On 30 June 2021, the Supervisory Board of PKP CARGO S.A. gave its consent to sign agreements with business partners for the sale of 988 freight cars with the total book value of PLN 14.1 million.
- PKP CARGO S.A. obtained a waiver from the bank with which it has entered into investment loan agreements containing provisions regarding the verification of ratios as at 30 June 2021.

JULY

- Signing of contracts for the transport of hard coal from LW Bogdanka to the ENEA Group (3 contracts with ENEA Wytwarzanie Sp. z o.o. and 2 contracts with ENEA Elektrownia Połaniec S.A.). The total value of the signed contracts is more than PLN 150 million.
- Registration of the amendment to the Company's Articles of Association.
- Resolution of the Extraordinary Shareholder Meeting of PKP CARGOTABOR Sp. z o.o. regarding amendments to the Deed of Formation, consisting of an expansion of the company's operations and granting the company's employees the right to elect one representative (candidate) to the Supervisory Board, who will be appointed and dismissed by the Shareholder Meeting.
- The NSZZ Solidarność Inter-Company Trade Union Organization at PKP S.A. initiated a collective dispute against PKP CARGO CONNECT regarding pay rises for all employees of the company.

- On 12 July 2021, by Resolution No. 61/VII/2021, the PKP CARGO S.A. Supervisory Board adopted the consolidated text of the Articles of Association of PKP CARGO S.A. The amendments to the Articles of Association of PKP CARGO S.A. were approved by the Ordinary Shareholder Meeting on 28 June 2021 and notified to the National Court Register. The Company received a decision issued by the District Court for the Capital City of Warsaw in Warsaw to enter amendments to the Company's Articles of Association adopted by the Ordinary Shareholder Meeting of PKP CARGO S.A. in the National Court Register. According to the decision obtained, the entry was made on 16 July 2021.
- On 22 March 2021, PKP CARGO CONNECT and RENTRANS CARGO Sp. z o.o. with its registered office in Szczecin ("RENTRANS CARGO") entered into a conditional agreement on the purchase of shares for redemption, under which PKP CARGO CONNECT sold all 249 shares held in RENTRANS CARGO. As a result of this transaction, on 22 March 2021 the title to 249 shares in RENTRANS CARGO was transferred to RENTRANS CARGO itself, meaning that, as of 22 March 2021, PKP CARGO CONNECT ceased to be a shareholder of RENTRANS CARGO, and therefore RENTRANS CARGO ceased to be a related party of PKP CARGO S.A.

AUGUST

- Execution of a memorandum of agreement between the parties to the Collective Bargaining Agreement regarding a non-recurring bonus and an increase in the Railway Employee Day cash benefit. According to the Company's estimates, the total cost of this benefit will be PLN 23.9 million, to be captured in the results for Q3 (PLN 21.4 million) and Q4 (2.5 million) 2021.

SEPTEMBER

- Change of the company name from PRIMOL RAIL d.o.o. to PKP CARGO INTERNATIONAL SI d.o.o.
- On 13 September 2021, the Voivode of Lubelskie Voivodship approved the construction design and granted a building and demolition permit for the construction project entitled "Expansion and construction of rail infrastructure at the Małaszewicze Transshipment Zone of corridor no. 8 for cargo lines at the EU border with Belarus".
- On 16 September 2021, the collective dispute initiated against PKP CARGO CONNECT sp. z o.o. by the NSZZ Solidarność Inter-Company Trade Union Organization at PKP S.A. regarding pay rises for all employees of the company.
- Signing of an annex to the contract for the delivery of 31 locomotives with a consortium of Newag and Newag Lease. The annex provides for the rescheduling of the delivery of 12 locomotives from 2021 to 2022 and the last 12 locomotives from 2022 to 2023. The need for the rescheduling resulted, among other factors, from obstacles in the locomotive approval process caused chiefly by the COVID-19 pandemic and the restrictions imposed to counteract it. No other terms of the contract have been amended.

OCTOBER

- Signing of a letter of intent with Wagony Świdnica sp. z o.o. regarding possible cooperation in the production of freight wagons in connection with PKP CARGO's intended construction of a freight wagon manufacturing facility. The letter of intent will remain in effect until the earlier of 30 June or the signing of the agreement. Acquisition from Forespo Poland sp. z o.o. of the perpetual usufruct right and ownership title to seven real properties in Gniewczyna Łańcucka, including buildings, structures, movables and infrastructure, for a total gross price of EUR 7.38 million.
- On 18 October, the Supervisory Board dismissed 4 members of the PKP CARGO S.A. Management Board, namely Mr. Czesław Warsewicz – President of the Management Board, Mr. Leszek Borowiec – Management Board Member in charge of Finance, Mr. Piotr Wasaty – Management Board Member in charge of Commerce, Mr. Witold Bawor – Management Board Member in charge of Operations, and decided to second Mr. Władysław Szczepkowski, a member of the Supervisory Board, to act in the capacity of President of the Management Board for a period not longer than 3 months and to entrust him with discharging the duties of President of the PKP CARGO S.A. Management Board.
- On 18 October 2021, the Supervisory Board adopted a resolution dismissing Mr. Władysław Szczepkowski from the Nomination Committee of the PKP CARGO S.A. Supervisory Board of the 7th term and appointing Mr. Paweł Sosnowski to the same Committee.

- On 22 October 2021, by Resolution No. 81/VII/2021, the Supervisory Board initiated a recruitment procedure for the positions of President of the PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Commerce, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Operations.
- Acquisition by PKP CARGP S.A. from PKP Linia Hutnicza Szerokotorowa sp. z o.o. of a 100% stake in PKP Linia Chełmska Szerokotorowa sp. z o.o. with its registered office in Chełm.

NOVEMBER

- By force of the resolutions of 16 November 2021, the Management Board of PKP CARGO S.A. granted joint commercial proxies to: Ms. Anna Wierzchowska, Ms. Alicja Chyła, and Mr. Karol Sikora.
- On 18 November 2021, the Shareholder Meeting of PKP CARGO INTERNATIONAL a.s. expressed its consent to the following:
- execution of an EUR 8.5 million term loan agreement between PKP CARGO INTERNATIONAL a.s. and ING Bank N.V. for 5 years, and a multi-product loan agreement on granting to PKP CARGO INTERNATIONAL a.s. of credit facilities in the total amount of EUR 12.5 million, consisting of a EUR 3 million overdraft facility and a bank guarantee limit (guarantee facility) of EUR 9.5 million,
- execution of a master agreement for bank loan products between PKP CARGO INTERNATIONAL a.s. and Raiffeisenbank a.s., granting a credit facility in the total amount of up to CZK 60 million, with the validity term of each bank guarantee issued expiring on 30 September 2029, as well as bank guarantees payable until 30 September 2029 and letters of credit valid until 31 March 2023,
- encumbrance of certain accounts receivable and assets of PKP CARGO INTERNATIONAL a.s., encumbrance of certain assets of AWT ROSCO a.s., and encumbrance of certain assets of AWT Rekultivace a.s. through the establishment by these companies of pertinent security interests in favor of the said banks under the aforementioned agreements.
- On 30 November 2021, PKP CARGO signed a letter of intent with PKP Polskie Linie Kolejowe S.A., whereby PKP CARGO and PKP PLK expressed their interest in taking steps aimed at the acquisition by PKP PLK from PKP CARGO of a 100% stake in CARGOTOR Sp. z o.o.

DECEMBER

- On 31 December 2021, the Management Board of PKP CARGO S.A. concluded five transport contracts with PGE Group companies (PGE Górnictwo i Energetyka Konwencjonalna S.A. with its registered office in Bełchatów, PGE Energia Ciepła S.A. with its registered office in Warsaw, Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. with its registered office in Wrocław) on rail transport of hard coal and limestone sorbents in the total maximum weight of 19.4 million tons. The estimated total net value of the contracts over their duration is PLN 619.06 million, which is equivalent to the gross value of PLN 761.44. The contracts are in effect from 1 January 2022 to 31 December 2024.

JANUARY 2022

- On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 1/VII/2022 on ending the secondment of Mr. Władysław Szczepkowski, a PKP CARGO S.A. Supervisory Board Member, to act temporarily in the capacity of the President of PKP CARGO S.A. Management Board.
- On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 2/VII/2022 deciding that the composition of the Management Board of PKP CARGO S.A. joint 8th term of office shall at any one time be no more than 5 persons.
- As a result of the completed recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Commerce, PKP CARGO S.A. Management Board Member in charge of Finance, and PKP CARGO S.A. Management Board Member in charge of Operations, on 13 January 2022 the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 6/VII/2022 on the appointment of Mr. Marek Olkiewicz to the position of the Management Board Member in charge of Operations.

- On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 7/VII/2022, seconding Mr. Władysław Szczepkowski, a PKP CARGO S.A. Supervisory Board Member, to act in the capacity of the President of PKP CARGO S.A. Management Board for a period not longer than 3 (three) months.
- On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 9/VII/2022, on ending without a decision the recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Commerce, and on starting a new recruitment procedure for the following positions: President of PKP CARGO S.A. Management Board, PKP CARGO S.A. Management Board Member in charge of Finance and PKP CARGO S.A. Management Board Member in charge of Commerce.
- On 19 January 2022, by force of Resolution No. 12/2022, the Management Board of PKP CARGO S.A. temporarily entrusted oversight over organizational units in the Company's Head Office to:
- Mr. Władysław Szczepkowski – seconded by the Supervisory Board of PKP CARGO S.A. pursuant to Resolution No. 7/VII/2022 of 13 January 2022 to perform the duties of the President of PKP CARGO S.A. Management Board for a period not longer than 3 months, excluding the organizational units entrusted to Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative, falling within the scope of responsibilities of the following functions:

  PKP CARGO S.A. Management Board Member in charge of Commerce, PKP CARGO S.A. Management Board Member in charge of Finance, as well as temporary oversight over the affairs and organizational units falling within the scope of responsibilities of PKP CARGO S.A. Management Board Member in charge of Operations until 2 February 2022.

  Mr. Zenon Kozendra – PKP CARGO S.A. Management Board Member – Employee Representative, for a period not longer than 3 months, over the following units: Human Resources Management Department of PKP CARGO S.A. Head Office, the Information and Communication (ICT) Department of PKP CARGO S.A. Head Office, and the Procurement Department of PKP CARGO S.A. Head Office
- On 27 January and 1 February 2022, the Supervisory Board adopted Resolution No. 11/VII/2022 and Resolution No. 12/VII/2022, respectively on amendments to the Bylaws for Electing Candidates for Employee Representative to PKP CARGO S.A. Management Board and for Employee Representatives to PKP CARGO S.A. Supervisory Board, as well as on the procedure of their dismissal.

FEBRUARY 2022

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

MARCH 2022

- In performance of the Memorandum of Agreement concluded on 27 August 2021 between the parties to the Collective Bargaining Agreement of PKP CARGO S.A. stipulating the commencement by 31 January 2022 of talks regarding the implementation of a system-based salary raise from 1 April 2022, on 1 March 2022 the Company requested the Trade Unions representing employees of PKP CARGO S.A. Units and Head Office ("Trade Unions") to extend the pending social dialog at least until the evaluation of the Company's financial performance for 2021 and Q1 2022, and consequently to defer any potential decisions on the system-based salary raise. As the Trade Unions upheld the postulates of implementing the salary raise as of 1 April 2022, the Parties signed a protocol ending the social dialog on 1 March 2022. On 1 March 2022, a collective dispute was launched by the Trade Unions.
- On 11 March 2022, PKP CARGO S.A. concluded an agreement with PKP S.A. on the disposal by PKP S.A. of 50 (fifty) shares held by PKP S.A. in the company Centralny Terminal Multimodalny Sp. z o.o. with its registered office in Warsaw, of the share par value PLN 50.00 each, and of the total par value of PLN 2,500.00 to PKP CARGO S.A.

(as a Partner of the company Centralny Terminal Multimodalny Sp. z o.o.), for a total price equivalent to the total par value of the shares sold, i.e. PLN 2,500.00.

6.2. Evaluation of factors and unusual events affecting the result recorded by the Company and the PKP CARGO Group

Environmental policy – Taxonomy – new environmental care standards

Pursuant to Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (hereinafter the “Regulation” or the “Taxonomy Regulation”), as from 2021 non-financial undertakings are obliged to disclose the percentage share of taxonomy-aligned activities, without the requirement to disclose detailed qualitative information on the alignment.

In PKP CARGO S.A., the percentage share of the taxonomy-eligible economic activities in the total turnover, capital [expenditure] and operating expenditure was calculated at 87%. The remaining, taxonomy-non-eligible activities represent 13% of the Company’s operations.

PKP CARGO S.A.’s core activity is rail transport of cargo. According to the climate policy of the European Union, rail transport has a chance to become a significant driver of the achievement of CO_2 reduction objectives. Pursuant to Article 19 par. 4 of EU’s Regulation 2020/852, the technical screening criteria comprise criteria related to the switch to clean or climate-neutral mobility, including through modal shift, efficiency measures and alternative fuels.

In recent years, the Company performed on average 90% of its freight turnover on electric traction. According to the technical screening criteria, such transport, as having zero exhaust pipe emissions (but excluding the transport of fossil fuels), is eligible as an environmentally sustainable activity.

Given that the Taxonomy Regulation is designed as a tool of climate transition in the European Union, by channeling financial flows to only and exclusively ecological products and activities, it is highly likely that our operations will be supported by investors and the European Union funds.

Situation on the rail transport market

The effects of the COVID-19 pandemic are still affecting Chinese ports. A part of deliveries is still impacted by major delays due to the difficulties in export transport out of China, both by sea and by rail. Poor container availability, and the resulting prohibitive prices, have done little to normalize situation in this market. Renovation works on rail lines in Poland are another significant obstacle to efficient transport organization.

A noticeable problem is the high rate increase, both in road and rail transport, resulting, among others, from the growth in fuel prices (by about 35% in comparison to 2020) and traction energy by over 20%. Nevertheless, the modernization works in Gdańsk Port are nearing completion, and in 2022 the market expects increased throughput and timeliness. However, modernization works on traffic routes, being subject to continual postponement, will still have a significant impact on the timeliness of deliveries to sea ports for a few years to come.

Metals and metallurgical resources

Lack of wagons and much longer transport times continue. Given these conditions in the freight market, our counterparties applied additional price increases, both in Q3 and Q4 of 2021. Competing cargo transport from the East continues to grow dynamically.
The full shutdown of the blast furnace in Kraków (despite ArcelorMittal Poland’s assurances about its planned re-start) still results in limited volumes of metallurgical freights. Further negative effects came from the continued impact of last year’s factors, such as drastic price hikes for scattered transport – of over 100%, and for freight of min. 240 tons of as much as about 50-80% in comparison to 2020, as well as from increased charges for retained wagon availability.
Noteworthy, the rail rates are unfavorable in comparison to road, with road freight transport being our primary competitor.

Infrastructural investments

The greatest transport difficulties were caused by track closures connected with, among others, continued modernization of the port infrastructure within the loading zones of the ports in Gdańsk, Gdynia, Szczecin, Świnoujście, and on sections of the access lines, which hindered efficient operation of key sidings and continuation of the junction modernization in Czechowice-Dziedzice, Oświęcim, Trzebinia, Mysłowice, Zebrzydowice/Petrovice, as well as the reconstruction of the Warsaw junction and the Małaszewicze and Lublin regions.

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

Situation in the intermodal transport market

In 2021, the intermodal transport market was overshadowed by the ongoing renovations and traffic restrictions on the railway lines of PKP CARGO S.A, PKP PLK S.A., as well as in port and transshipment terminals, which had a direct impact on freight transport capacity and full running time utilization of wagons/container platforms. Furthermore, absence of adequate rail infrastructure (short tracks) in port container depots caused difficulties in providing rail services to these loading sites, and the transshipment capabilities of the DCT terminal in Gdańsk – too low relative to the existing needs, hindered access to loading/unloading slots for new freights, or made such slots entirely unavailable.

Short loading and unloading tracks at the DCT terminal in Gdańsk (618 m) in comparison to the capacity of the rail line (Warsaw, Łódź – 730 m) restricted the length of intermodal trains and increased the cost of container cargo transport on these lines. The situation was further deteriorated by the rail operator’s inability to provide the sufficient number of rolling stock, as well as failures and stoppages, which in turn forced the Company to hire private wagons at the expense of its margin, so as to ensure the fulfilment of transport plans. The situation on the intermodal market was also influenced by the continuing competitive advantage of road over rail transport and lack of legislative regulations in support of the intermodal segment.

Costs of access to rail infrastructure

The costs of access to rail infrastructure continue to constitute a significant item of operating expenses. In the nationwide timetable structure for 2020/2021, price lists from the previous timetables were continued as regards access to the PKP PLK S.A. infrastructure. On the other hand, relative to the market situation, private rail infrastructure operators applied pricing from earlier timetables, or higher rates.

Due to the epidemic situation in 2021, PKP PLK did not offered any discounts, whereas the CARGOTOR Sp. z o.o operator offered a 20% discount for all services.

Difficulties in respect of foreign infrastructure included introduction in Germany as from 13 December 2020 of the Act on protection of the environment against noise and ban on the passage of wagons with cast iron blocs. Consequently, in the future the use of rolling stock with cast iron blocs will be fined.

Customs agency services

Utilization of the amount of PLN 200 million released thanks to an exemption to provide guarantees for transit transport of cargo for large commercial undertakings with high frequency of customs clearance or high custom and tax charges in the various modes of transport (rail, maritime and road transport).

Furthermore, departure of the United Kingdom from the European Union creates an opportunity for customs agencies to impose customs clearance under the export procedure to the United Kingdom and on imports from the United Kingdom.

6.3. Information on contracts of material importance for the Company and the PKP CARGO Group.

Contracts with vendors

Execution of a contract with PKP PLK S.A.

On 7 December 2021, a contract was concluded with effect as from 12 December 2021 to 10 December 2022. Pursuant to the contract, PKP PLK S.A. provides PKP CARGO with access to rail infrastructure, in order to utilize the throughput capacity for cargo transport in the 2021/2022 timetable. The expected net value of the contract during its validity term is PLN 541.5 million (PLN 666.1 million gross).
The contract is of key importance for the pursuit of PKP CARGO S.A.'s core business. This is a regular agreement concluded by the Company on an annual basis.

Execution of an agreement with Forespo Poland S.A.
On 16 June 2021, PKP CARGO S.A. concluded an agreement with Forespo Poland S.A. to purchase the property of the former Gniewczyna Wagons Factory in Gniewczyna Łańcucka near Przeworsk (Podkarpacie province). Under the notarial deed, PKP CARGO purchased from the Slovakian company Forespo 33 ha of land, with factory shop floors of the area of 4 ha. The property also includes 7.5 km of rail tracks. The value of the agreement is approx. PLN 33 million. The agreement to acquire the property of the former factory in Gniewczyn is another step in the plan to restart wagon production on this site.

Contracts with customers

Execution of a contract with TAURON Wydobycie S.A.
On 11 February 2022, PKP CARGO S.A concluded a successive rail coal transport contract with the Tauron Wydobycie company. Its value is approx. PLN 68 million. The contract took effect on 5 February 2021 for a term of 12 months. The expected total volume of coal to be transported is approx. 3.7 million tons, of which 3.3 million tons is coal for Tauron Wytwarzanie S.A. (Elektrownia Jaworzno II, Elektrownia Jaworzno III, Elektrownia Łagisza and Elektrownia Łaziska) and the company Nowe Jaworzno Grupa Tauron from Zakłady Górnicze Tauron Wydobycie S.A. Moreover, approx. 400 thousand tons of coal will be transported to other wholesale and industrial customers all across Poland.

Execution of an agreement with the State Treasury – Regional Logistics Base in Warsaw.
On 2 March 2021, PKP CARGO S.A. concluded a seven-year agreement with the Regional Logistics Base in Warsaw for rail transport for army needs. The framework agreement is for a term of seven years and covers domestic and international military transport (including transport of weapons and other equipment, as well as people). The estimated gross value of the order is PLN 1.4 billion, whereby over 70% of this amount will be attributable to domestic transport, and the remaining amount – to international transport. Specific services of PKP CARGO will be supplied under separate service provision contracts.

Execution of a contract with Tauron Ciepło
On 3 May 2021, the consortium of PKP CARGO S.A. and PKP CARGO SERVICE Spółka z o.o. signed a contract with Tauron Ciepło for rail transport of hard coal in 2021-2022. The value of the contract is over PLN 36 million. It took effect as from March 2021, and envisages delivery of approx. 780 thousand tons / year of hard coal to Zakłady Wytwarzania Tauron Ciepło generating plant from the mines of Zakłady Górnicze Tauron Wydobycie S.A., the mines of the Polska Grupa Górnicza S.A. and from other sources. The consortium will also provide rail siding services to Tauron Ciepło in the generating plants (Zakłady Wytwarzania) in Tychy, Katowice, and Bielsko-Biała EC1 and EC2. The transports will be carried out in full sets of railway cars made of normal and special design coal wagons. This new contract is a successive one in the framework of cooperation between PKP CARGO S.A. and the Tauron Group started in 2012.

Execution of an agreement with ENEA Elektrownia Połaniec S.A.
On 13 April 2021, PKP CARGO S.A. concluded with ENEA Elektrownia Połaniec S.A. agreements on transports from the Sileasian mines over the next eighteen months. The estimated gross value of these agreements is almost PLN 31.77 million, covering the transport by PKP CARGO S.A. of 1.5 million tons of hard coal.

Execution of contracts with the ENEA Group
On 5 July 2021, PKP CARGO S.A. concluded five contracts for transport of hard coal from LW Bogdanka to the ENEA Group (3 contracts with ENEA Wytwarzanie Sp. z o.o. and 2 contracts with ENEA Elektrownia Połaniec S.A.). The contracts were won in two tenders and have the gross total value of over PLN 150 million. The estimated gross value of the contracts signed with ENEA Wytwarzanie is almost PLN 116 million.
Moreover, PKP CARGO concluded this year two more contracts for transport of coal from LW Bogdanka to the ENEA Group's power plant in Połaniec. The contracts cover approx. 1.7 million tons of coal to be transported between July 2021 and December 2022. The estimated value of the contracts is approx. PLN 37 million. Combined with the earlier orders, PKP CARGO will deliver to Elektrownia Połaniec 3.2 million tons of coal from LW Bogdanka and the Silesian mines.

Information on agreements of significance for the business of the PKP CARGO Group, including the agreements between the shareholders (partners) of which the Group is aware, insurance agreements, collaboration or cooperation agreements

On 17 May 2021, the Parent Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for the maximum amount of up to PLN 100,000,000.00 which amends the loan terms in that it extends the loan availability until 24 May 2022.

On 16 June 2021, the Parent Company entered into an investment loan agreement with the European Investment Bank for the maximum amount of EUR 60,000,000.00 (EURIBOR or WIBOR + margin).

On 18 June 2021, the Parent Company entered into a current account overdraft agreement with Bank Gospodarstwa Krajowego for the maximum amount of PLN 100,000,000.00 PLN (WIBOR + margin), with the availability term of 12 months.

On 18 June, the Parent Company signed a Master Lease Agreement with PKO Leasing S.A., up to the total net price of assets acquired in leasing not exceeding PLN 100,000,000.00. The facility is available for the term of 12 months with a 12-month extension option.

On 26 November 2021, a Company of the Group entered into an investment loan agreement with a consortium of banks consisting of: ING Bank N.V., UCB CR and SR and Raiffeisen bank a.s., for a maximum amount of up to EUR 8,500,000.00 (fixed interest rate), with the maturity date of 26 November 2026.

On 17 December 2021, the Parent Company executed an annex to an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. for the maximum amount of up to PLN 100,000,000.00, which amends the loan terms in that it extends the loan availability until 19 March 2023.

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

PKP CARGO S.A. S.A. has not published any financial forecasts for 2021.

7. Development policy of the Company and the PKP CARGO Group

7.1. Description of external and internal factors of relevance for the development of the Company and the PKP CARGO Group

Economic standing

Poland and the Czech Republic are important participants of European and global trade, and remain strongly integrated within international value chains.

After the global economy experienced a recession triggered by the COVID-19 pandemic in 2020, the global economic climate gradually improved in 2021. This was driven by, among others, the advancements made in vaccination programs (especially in developed economies), which enabled the imposed economic and social-distancing restrictions to be relaxed; the adaptation of consumers and enterprises to the pandemic reality; and the support provided through fiscal and monetary policy. Despite positive signals from the world’s economy in 2021, the scale of uncertainty in the global financial markets continues to be large due to the military confrontation between Russia and Ukraine, the successive wave of the pandemic, as well as high inflation and growing expectations of interest rate hikes. Another area of uncertainty is the economic problems of China. Given the persisting low level of investment, combined with high investment risk in the country (which will be higher due to the missing impulse of the European Union funds from the National Recovery Plan), we expect a slower GDP growth in Poland in

2022. The worse GDP in 2022 will also be attributable to the cooling of the economy by interest rate policy, conflict with the EU and the deteriorating consumer and business sentiment. Furthermore, the global trends in the macroeconomic environment (most notably, in Germany and other EU countries, with which the economic ties are the strongest) exert a significant impact on the economic standing of Poland and the Czech Republic, and thus also translates, indirectly, into the operating performance and revenues generated by members of the PKP CARGO Group.

Situation on the energy fuel market

The current geopolitical situation increases the uncertainty and tense situation in the global economy, which may bring about specific and tangible business effects. Military conflicts may represent a high risk, and their consequences are currently unpredictable. Polish production primarily targets the safe EU market, however, the number of components imported from outside Europe is still high. This persistent uncertainty also has an impact on foreign investor sentiment regarding Poland as an investment destination. An analysis carried out by Goldman Sachs shows the impact of a potential escalation of the conflict in Ukraine on the European economy. From the euro area point of view, this impact is potentially small (trade with Russia and Ukraine accounts for about 1% of GDP), however for Poland it is about 2% of GDP (with the effects of the conflict being particularly tangible in the energy sector, given that 30-40% of gas imported by Europe comes from Russia). Nevertheless, coal transport will continue to be the basic cargo category in transport carried by the PKP CARGO Group and the situation in this market will have a significant effect on the results and market shares achieved by the Company and the Group.

Situation in the aggregates market

In 2021, transport of aggregates and construction materials was characterized by a growing trend of about 13.8% (in terms of freight turnover) and 10.8% (in terms of freight volume).

Situation in the intermodal transport market

In the coming years, an especially rapid growth is expected in the intermodal transport market. In 2021, intermodal transport performed by PKP CARGO S.A. constituted about 9% of the total mass of the Company’s transportation services (10% in 2010). In comparison to 2020, the mass in tons increased by 1.7%. As regards an analysis of the transport service growth rate in 2021, PKP CARGO carried 6,926,886 tons of intermodal cargo, compared to 6,907,500 tons in 2020. The general situation in the global intermodal market – the persisting pandemic, inflationary pressure and growing energy costs, have translated into the amount of freight in this market segment. Transport along the New Silk Road fell by 7% in 2021 y/y, due to the worse throughput and modernization works en route to Germany. Despite the unfavorable geopolitical and macroeconomic environment, the Group maintains its active involvement as a transport operator on the New Silk Road and continues freight to Germany, the Netherlands, the Czech Republic, Hungary, France, Belgium and Italy, as well as transport of container trains from and to the ports in Gdańsk/Gdynia; regular container connections Gliwice-Duisburg-Gliwice are operated with Duisport Agency Polska.

Condition of rail infrastructure

Infrastructural investments into the modernization of rail infrastructure carried out by the infrastructure manager PKP PLK S.A. caused hindrances and the necessity to route railway traffic via detours. Track closures have a direct adverse effect on the throughput of railway lines and stations. However, future investment projects will have a positive impact on line throughput, and the resulting freight transport capacity. At the same time, large investments into expanding the railway network leading up to ports will open up opportunities for PKP CARGO S.A. to acquire additional streams of cargo in the coming years.

Technical regulations related to rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group’s modernization and repair activity. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. The number of periodical repairs and periodical overhauls performed in individual periods results from the cycles defined in Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport.

Amendments to legal regulations

The business activity pursued by both PKP CARGO S.A. and PKP CARGO Group companies is subject to specific legal regulations. These include, among others, the Act of 23 July 2021 on Amending the Rail Transport Act (Journal of Laws of 2021, item 1556); the Act of 29 October 2021 on Amending the Personal Income Tax Act, the Corporate Income Tax Act, and Certain Other Acts (Journal of Laws item 2105); Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law. The detailed influence of these regulations is described in detail in section 8.2.

Financing of capital expenditure

The PKP CARGO Group will finance capital expenditures with its own funds, investment loans, and from other sources.

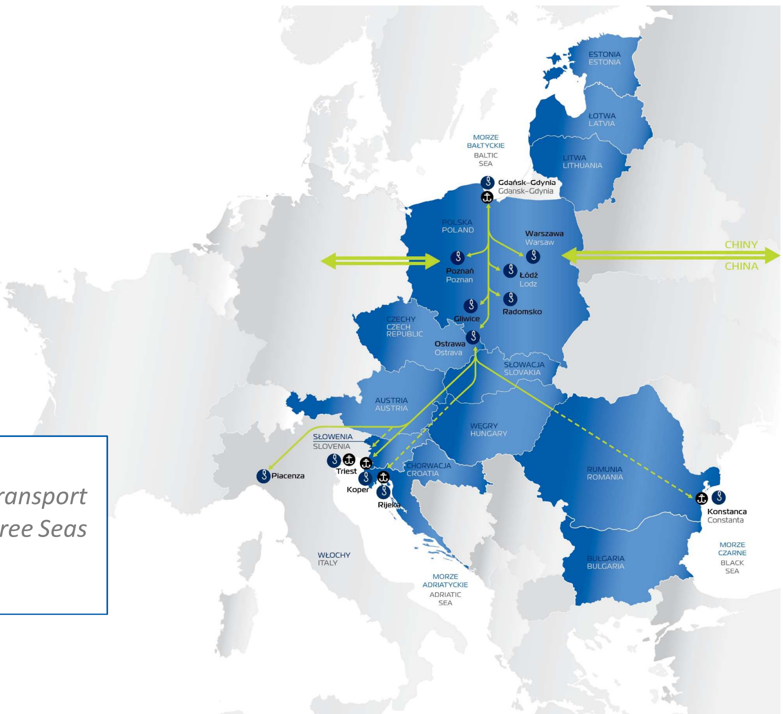
Social dialog

Social dialog in PKP CARGO S.A. is based on the principles contemplated in the generally binding laws, the Company Collective Bargaining Agreement and the agreements defining mutual obligations of the parties to the social dialog. The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's competitiveness and efficiency.

7.2. Description of the growth prospects and development policy of the Company and the PKP CARGO Group at least in the next financial year

PKP CARGO Group's Strategy for 2019-2023

The PKP CARGO Group's strategy was adopted in November 2018 and lays down the vision and mission of the PKP CARGO Group for 2019-2023, setting the Group's long-term and short-term strategic objectives.

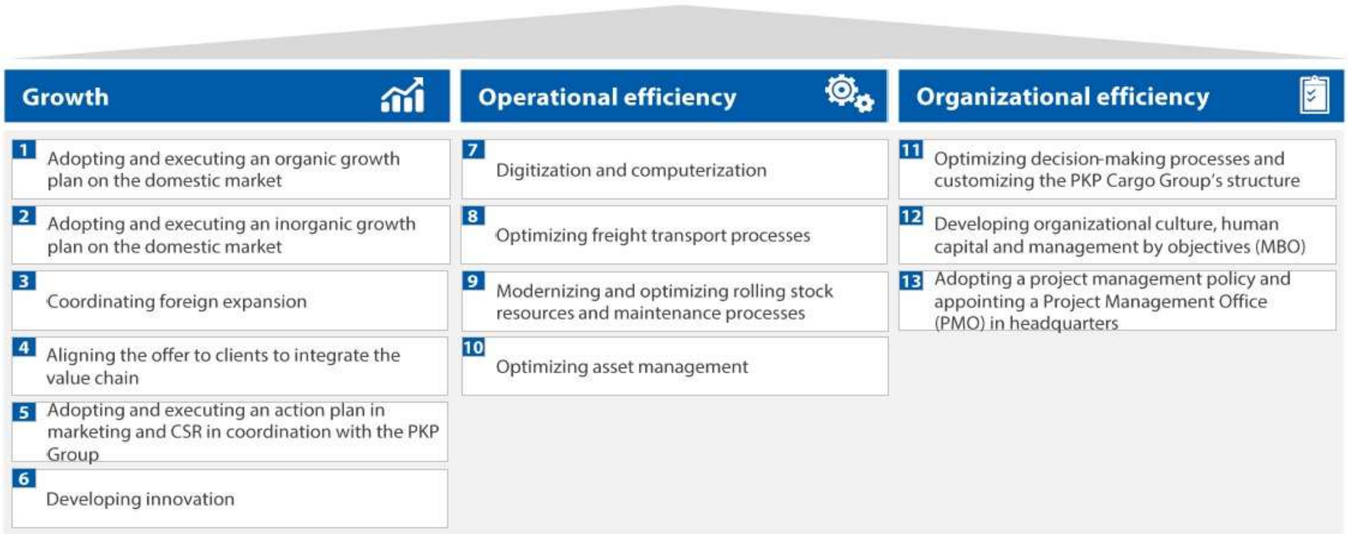


VISION
Become the Central European leader in rail freight transport by taking the dominant position in the area of the 'Three Seas Initiative' and on the 'New Silk Road'.

MISSION
Offering comprehensive logistics services on the rail freight and intermodal services market in a way to make it the supplier of first choice.

PKP CARGO strives to devise a competitive offer for business partners in Poland and internationally, including on the New Silk Road and in the area of the Three Seas Initiative. The PKP CARGO Group tries to tap into Poland's natural advantages, such as rapid economic development and the resulting stronger international position. Many experts believe that Poland's key advantage is the location at the crossroads of critical trade routes. The Company's strategic objectives are pursued based on 13 strategic initiatives spanning three pillars:

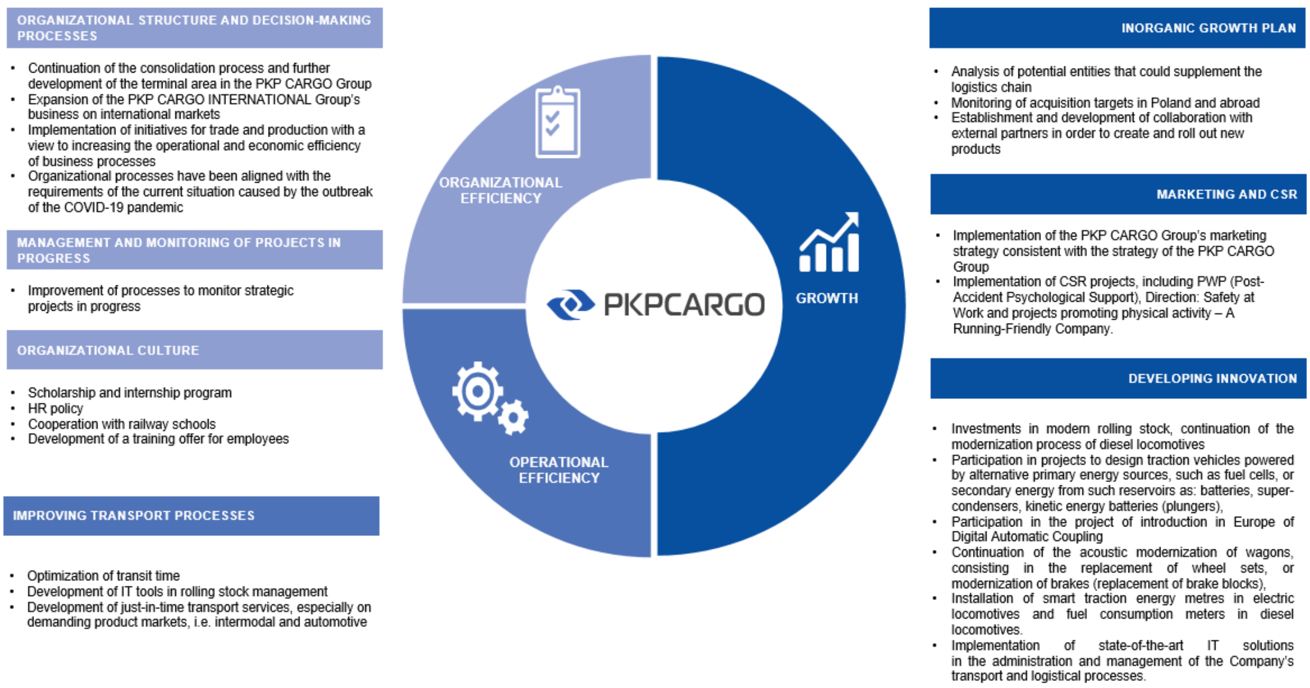
Figure 32 Strategic initiatives



Source: Proprietary material

So far, the Group's Strategy efforts have been focused on the consistent implementation of initiatives in all three areas: growth, operational efficiency and organizational efficiency. The PKP CARGO Group continually increases efficiency of rolling stock utilization and modernization processes, and improves asset management policies in all its companies. Growing organizational efficiency is equally important. The consistently progressing alignment of the Group's structure with its activities is achieved by creation of specialized divisions (rolling stock, intermodal, terminals, repair and maintenance, development of foreign operations). Furthermore, the Group optimizes its decision-making processes, by having developed a project management policy and ongoing monitoring.
The figure below presents the activities implemented under the Strategy in 2021:

Figure 33 Chart of activities implemented under the Strategy 2021



Source: Proprietary material

8. Other relevant information and events

8.1. Amendments to legal regulations

The Act on the protection of persons who report breaches of law – the Whistleblower Protection Directive

At present, legislative work is underway on the draft act on the protection of persons who report breaches of the law, which implements into the domestic legislation the provisions of Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law, the so-called Whistleblower Protection Directive. The Directive requires commercial undertakings to adopt regulations which specify the manner of reporting breaches and lay down the scope of protection of persons who report breaches (the so-called whistleblowers). Given that the whistleblowing procedure is new to the Polish legal system, the development of relevant regulations will require consultations to be held with the social partners on the required internal rules, and a range of arrangements with the competent organizational units of the Company's Head Office, in particular in the area of personal data protection, employee-related matters and legal issues. The draft act imposes statutory sanctions for failure to implement the applicable procedures in the Company and its subsidiaries.

Furthermore, in order to meet the legal requirements stipulated by both the European and the domestic law, the President of PKP CARGO S.A. Management Board, by force of Decision No. 55 of 16 November 2021, appointed a Team on law breach reporting, with the task of, among others, preparing the relevant internal procedures as regards reporting breaches of the law.

Amendments to the Rail Transport Act – the Act of 23 July 2021 on Amending the Rail Transport Act (Journal of Laws of 2021 item 1556).

The amendments under the Act will come into force on 1 January 2023 (with some exceptions) and pertain to:

- transforming training and examination centers into training centers;
- introduction of a uniform state examination for the train driver license and train driver certificate;
- introduction of an examination fee for the examinations organized by ethe President of the Office of Rail Transport for candidates for train drivers, which cannot be higher than the equivalent of 50% of the minimum wage in the enterprise sector, excluding profit-sharing, in Q1 of the preceding year;
- creation of a register of examiners;
- creation of a register of train drivers and train vehicle operators (a duty to provide data on the employed train drivers or train vehicle operators to the President of the Office of Rail Transport by 3 January 2023;

addition to the catalog of financial fines of sanctions for failure to provide data to the register, or else for untimely provision of such data or provision of false data.

Income tax statutory acts

The Act of 29 October 2021 on Amending the Personal Income Tax Act, the Corporate Income Tax Act, and Certain Other Acts (Journal of Laws item 2105). The amendments under the Act came into force on 1 January 2022 (with some exceptions) and pertain among others to:

- increase of the non-taxable amount;
- increase of the amount reducing monthly income tax advance payments;
- increase of the income tax threshold;
- removal of the health care insurance contribution deduction from income tax;
- introduction of the so-called middle class exemption;
- introduction of exemption for taxpayers – professionally active pensioners;
- regulations on transfer pricing;
- softening of the rules pertaining to the creation and functioning of tax groups (TG);
- lump sum tax on corporate income.

Resolution of the Supervisory Board of the Warsaw Stock Exchange No. 13/1834/2021 of 29 March 2021

By force of Resolution No. 13/1834/2021 of 29 March 2021, the Supervisory Board of the Warsaw Stock Exchange adopted a new set of corporate governance rules for companies listed on the Main Market – the “Code of Best Practice for WSE-Listed Companies 2021”, which entered into force on 1 July 2021. The Code of Best Practice 2021 covers ESG issues, including climate protection, sustainable development, gender diversity in the composition of governing bodies and equal pay.

On 29 July 2021, PKP CARGO S.A. published “Information on the Application of the Code of Best Practice for WSE-Listed Companies 2021”.

Furthermore, PKP CARGO monitors the following legislative processes on an ongoing basis:

- the draft act on the protection of persons who report breaches of the law, which implements into Polish law the provisions of Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law, the so-called Whistleblower Protection Directive. The Directive requires commercial undertakings to adopt regulations which specify the manner of reporting breaches and lay down the scope of protection of persons who report breaches (the so-called whistleblowers).
- the act amending the Commercial Company Code and Certain Other Acts, designed to introduce the following into Polish law: regulations in the area of holdings law, expansion of existing and assignment of new competencies to supervisory boards, and supplementary regulations pertaining to the rights and obligations of members of corporate bodies;
- the act amending the Act on Competition and Consumer Protection, introducing a new category of entities subject to antimonopoly liability, i.e. commercial undertakings with a decisive impact on another undertaking which committed a breach of the law – Article 6, Article 9 of the act in conjunction with Article 6aa and Article 9a of the draft act.
- the act amending the Labor Code and Certain Other Acts, which envisages: (i) the possibility to test for sobriety and presence of substances with effects similar to those of alcohol in the bodies of employees, persons hired under contracts other than the employment relationship and sole trades, for the protection of life and health of employees or other persons, or else the employer’s property; (ii) regulations on working remotely.

8.2. Information on PKP CARGO S.A. shares

8.2.1 Issue of securities and use of proceeds from the issue

In the reporting period, in PKP CARGO S.A. there were no issues, redemptions or repayments of debt securities or equity securities.

8.2.2 Information about agreements which, in the future, may cause changes to the proportions of shares held by the current shareholders

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

8.2.3 Acquisition of treasury stock

In 2021, PKP CARGO S.A. did not effect any purchase or sale of its treasury stock.

8.2.4 Information on the employee share plan control system

Shares taken up by entitled employees in connection with the right granted under the PGP were subject to contractual limitation of their disposal. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to liability for damages. On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

8.2.5 Shares held by management board and supervisory board members

According to the knowledge of the Company, the holdings of Company's shares or rights to such shares by members of the Company's Management Board in the period from 24 November 2021, i.e. the delivery date of the Q3 2021 report, to the delivery date of this report, was as follows:

Table 26 PKP CARGO S.A. shares held by Management Board members as at the report delivery date

Name and surname	Number of PKP CARGO S.A. shares held by Management Board member		Par value of shares	
	as at the delivery date of this report	as at 24 November 2021	as at the delivery date of this report [PLN]	as at 24 November 2021 [PLN]
Władysław Szczepkowski	0	0	0	0
Zenon Kozendra	46	46	2,300	2,300
Marek Olkiewicz	0	n/a	0	0

Source: Proprietary material

According to the knowledge of the Company, the holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 24 November 2021, i.e. the delivery date of the Q3 2021 report. to the delivery date of this report, was as follows:

Table 27 PKP CARGO S.A. shares held by Supervisory Board members

Name and surname	Number of PKP CARGO S.A. shares held by the Supervisory Board member		Par value of shares	
	as at the delivery date of this report	as at 24 November 2021	as at the delivery date of this report [PLN]	as at 24 November 2021 [PLN]
Krzysztof Mamiński	0	0	0	0

Marcin Kowalczyk	0	-	0	-
Krzysztof Czarnota	70	70	3,500	3,500
Zofia Dzik	0	0	0	0
Dariusz Górski	0	0	0	0
Tadeusz Stachaczyński	0	0	0	0
Władysław Szczepkowski	0	0	0	0
Jerzy Sośnierz	70	70	3,500	3,500
Paweł Sosnowski	0	0	0	0
Izabela Wojtyczka	0	0	0	0
Antoni Duda	0	0	0	0

Source: Proprietary material

According to the Company's knowledge, as at 31 December 2021 and as at the delivery date of this report none of the members of the issuer's Management Board or Supervisory Board, holds any shares or ownership interests in PKP CARGO S.A.'s related parties.

8.2.6 Dividends paid or declared

On 28 June 2021, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 6/2021 on refraining from the distribution of dividend for the financial year ended 31 December 2020.

8.3. Information on transactions with related parties

No entity from the PKP CARGO Group entered into any transactions with related parties in 2021 on conditions other than arm's length terms. Also after the balance sheet date, no such transactions were concluded.
Detailed information on transactions with related parties is presented in Note 7.1 to the SFS and Note 7.1 to the CFS.

8.4. Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO S.A. and its subsidiaries did not participate in any major proceedings pending before courts, arbitration bodies or public administration authorities in cases concerning liabilities or receivables of PKP CARGO S.A. or its subsidiaries.

8.5. Major achievements in research and development

In May 2021, PKP CARGO S.A. and Szkoła Wyższa Wymiaru Sprawiedliwości ("SWWS", University of the Judiciary) signed an agreement on cooperation in the area of research and expert studies, training, teaching, education promotion and publishing. Within the framework of this collaboration, PKP CARGO S.A. takes part in SWWS's projects, such as initiation and implementation of scientific research and development work in the area of public and general safety, creation of task teams for research projects and commercialization of results of scientific research and development work, as well as transfer of scientific results into the economy. The cooperation between PKP CARGO S.A. and SWWS also includes organization of scientific conferences and seminars, scientific and research advisory, technical and technological consultations and expert studies, organization of training and educational courses, as well as exchange of knowledge and experiences.

8.6. Information on natural environment issues

Compliance with the European Union ("EU") Taxonomy

The EU Taxonomy is a classification system of environmentally sustainable economic activities. The purpose of the Taxonomy is to direct investment projects undertaken by commercial undertakings from the European Union to more sustainable investments, in order to support the EU energy goals set until 2030. The European Union Taxonomy provides to companies, investors and decision makers the relevant definitions of an environmentally sustainable activity. It is how the Taxonomy can help protect enterprises and investors against, among others, the so-called "greenwashing".

Pursuant to Article 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (Regulation 2020/852) and Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (Technical Screening Criteria), as well as pursuant to Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation 2020/852 by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU and specifying the methodology to comply with that disclosure obligation (Disclosure Regulation) – all of these regulations hereinafter referred to as the Taxonomy – PKP CARGO S.A. disclosed the percentage share of Taxonomy-eligible economic activity and Taxonomy-non-eligible economic activity in the total turnover, capital expenditures and operating expenditures, as well as the required qualitative information (key performance indicators, key indicators).

The Taxonomy defines an activity classification system which will provide clarity as to what kind of activity classifies as sustainable, and which does not. Specification of criteria for environmentally sustainable economic activity is important in the context of the European Union's objective of achieving sustainable development and transition to safe, climate-neutral, climate-change resistant and more resource-efficient circular economy.

Implementation of the Company's environmental strategy is based on adapting its resources and organization to the requirements of the contemporary transportation market, taking into account the principles of sustainable development, in accordance with the adopted policy of the Integrated Management System (IMS): quality, occupational health and safety, environmental protection.

The Company's environmental policy forms an integral part of its overall corporate management system. The strategic objective for responsible actions taken by PKP CARGO S.A. in the field of environmental protection is to ensure a safe carriage of freight using rolling stock that meets the applicable environmental requirements. The Company invests both in new rolling stock and in the modernization of its existing rolling stock, as well as in maintenance and repair facilities and devices for diagnostics of the Company's rolling stock. These efforts are aimed at achieving high standards of rolling stock maintenance and protecting the natural environment against the possible consequences of breakdowns and accidents involving the Company's rolling stock.

In the process of environmental review (conducted on an annual basis), the effects of the Company's environmental initiatives are evaluated and specific environmental targets and tasks are formulated for subsequent years, based on specific criteria.

The Company diligently monitors all environmental aspects considered to be significant. The purpose of monitoring these aspects is not only to gain knowledge of the magnitude of impacts on the natural environment by tracking certain indicators, but also to implement the environmental protection program in order to improve emission indicators (energy intensity). Year by year, through the introduction of objectives and tasks in significant areas in relation to the adopted classification criteria, the Company keeps minimizing its environmental impact in relation to the activities performed.

The significant environmental aspects are related to the Company's core business of the carriage of cargo and the maintenance and repairs of rolling stock. The most relevant of these deliverables are:

Climate protection

Rail transport is crucial for the achievement of the European objectives related to the reduction of greenhouse gas emissions. Rail transport of goods is almost 9 times lower in CO_2 emissions than road freight transport. Railway is the most decarbonized motorized way of travelling: CO_2 emissions, in turn, are less than 3% of the emissions from the entire transport although it accounts for 17% of the land transport (acc. to. CER Factsheet Climate 2018). All activities leading to the development and growth of the rail market, resulting in an increased share of this type of transport in the overall transport, always translate into the ecological effect in the form of improved air quality and mitigated climate changes. For this reason, the tasks pursued by the Company focus on gradual modernization and procurement of an increasing number of new diesel and electric locomotives, leading to a reduction in harmful gas and particulate matter emissions into the environment and enabling savings of fuel and energy, as well as a lower level of noise emitted to the environment.

Direct greenhouse gas emissions at PKP CARGO S.A.

The predominant share of PKP CARGO S.A. direct emissions (GHG scope 1) result from the use of diesel locomotives and use of fossil fuels in boiler plants. Noteworthy, only 10% of freight turnover by the Company uses diesel traction. Direct greenhouse gas emissions is an area in which the potential of emission reduction is significant and on which we can have direct impact.

Our plans for the upcoming years include gradual discontinuation of use of non-renewable resources, such as coal or diesel fuel. This objective will be achieved by increasingly switching to renewable energy sources and discontinuation of the use of diesel locomotives to be replaced by hydrogen fuel. These changes will be introduced gradually, in keeping with the climate policy to be adopted by PKP CARGO S.A.

Indirect greenhouse gas emissions at PKP CARGO S.A.

About 90% of PKP CARGO S.A.'s freight turnover proceeds on electric traction. Given the volume of the services we provide, energy consumption, and the resulting indirect greenhouse gas emissions (GHG scope 2), are significant. Electric traction rail, after exclusion of the transport of solid fuels, meets the criteria of an activity with significant contribution to climate change mitigation. Should the freight we carry be transported by road, the greenhouse gas emissions would be almost 9 times higher.

PKP CARGO S.A.'s carbon footprint resulting from the operation of electric locomotives is mostly determined by the structure of fuels and other primary energy sources used to generate the needed electricity. Therefore, as regards lowering of indirect emissions, we are subject to external factors. If energy generators increase the share of renewable energy sources they use, it will translate into a significant reduction of our indirect emissions. Our direct actions, aimed at lowering greenhouse gas emissions linked to the procured electricity, will focus primarily on the improvement of energy efficiency, achieved, among others, as a result of the purchase of modern locomotives and modernization of our rolling stock.

The share of other indirect emissions (GHG scope 3) in PKP CARGO S.A.'s activities is attributable primarily to waste utilization, purchase of resources and business trips of our employees.

We do not expect these emissions to represent a significant share of our total greenhouse gas emissions. Given that our employees receive subsidies for rail travel, the majority of business trips are made by train. Furthermore, in view of the restrictions introduced due to the COVID-19 pandemic, a majority of meetings, training, and even audits and inspections, take place in a remote format. This trend is most likely here to stay, as it allows the costs of employee business trips to be reduced.

PKP CARGO S.A. contracted an external company to conduct a verification of the existing methodology of calculating the Company's carbon footprint. The processes of calculating greenhouse gas emissions in all 3 scopes will be formally adopted in 2022.

Protection against environmental damage

PKP CARGO S.A. is a rail freight carrier. Transport of hazardous materials is subject to special monitoring, as any accident in this area can lead to significant environmental damage. Over recent years, the Company has not noted any events connected with improper carriage of hazardous cargo that would lead to environmental damage. We are aware of the costs involved in restoring the environment to the required standards, therefore we continuously monitor the quality of the environmental safety of our transport. This process is supported by improvements in diagnostics and inspections of the rolling stock through earmarking considerable funds for that purpose, including purchases of diagnostic equipment, repair equipment, garage equipment for diagnostics and repairs of locomotives and rail cars, and on purchases of new rolling stock and modernizations of the rail cars.

As regards the operation of stationary facilities, in order to prevent any potential damage to the environment, PKP CARGO S.A. decommissioned all fuel stations with single-shell tanks and constructed state-of-the-art container fuel stations. Old single-shell tanks for used oil were also withdrawn from service. They were replaced with modern equipment with forced removal of used oil, equipped with leak detectors. When a leak occurs, an acoustic alarm signal enables a quick response, inspection of the tank and repair of any leakage.

Water conservation

PKP CARGO S.A. consumes water for potable and technological (cleaning of shop floors, rolling stock, etc.) purposes. The Company's Units purchase the majority of water they consume from water supply companies. We also operate 4 own water intake wells and one surface water intake. Relative to its headcount, water consumption in PKP CARGO S.A. does not exceed the permissible norms. Successive investment projects designed to better organize water and sewage management are planned for the upcoming years. As a result, the legal situation regarding environmental protection will be fully regulated, and fees and charges for water services will be reduced. The Company conducts on-going inspections of the water and sewage network, including the cleaning of oil-derived substance separators and the required tests of discharged effluent parameters.

Protection of the environment against effects of waste generation

The provision of rail transport services requires subjecting the rolling stock to regular inspections, repairs, modernizations and withdrawals from service of locomotives and wagons unfit for further use. It involves generation of a significant amount of waste. Due to its volume (thousands of tons per year) and diversity (potentially, over 100 various types of waste may be generated), the Company has implemented measures ensuring correct waste management, in accordance with the applicable waste hierarchy.

The individual Units operate internal rules and regulations pertaining to the management of industrial and municipal waste. The creation of an internal waste management system resulted in assigning responsibility to each of the main employee groups at successive stages of the waste management process, thus effectively minimizing the risk of conducting the activities without the required permit decisions, waste accumulation on sites not intended for this purpose or allowing collection of waste by an unauthorized entity. Whenever needed, the Company applies for amendment of existing or for new decisions regarding waste management, and we regularly update the relevant internal rules and regulations. Due to repairs of locomotives and wagons, a large part of our waste is scrap metal, which is recycled.

Organizational measures in the context of the Company's Environmental Policy and climate protection.

The PKP CARGO S.A. conducts its business nationwide and abroad. The consumption of materials, fuels and electricity during the conduct of business operations causes extensive impact on the environment. In order to avoid any breaches of environmental protection laws and minimize the risk of sanctions against the Group's member companies, continuous monitoring and inspection of the conduct of their operations are required.

Regulatory compliance is achieved by the engagement of qualified personnel for environmental management, who have access to tools such as software providing an up-to-date database on the extent of the use of the environment. Employees have access to up-to-date regulations and instructions, and take part in specialized training. Dedicated training is also provided to remaining employees responsible for tasks associated with the transport of cargo, supervision and maintenance of emission-generating installations, and for waste management. In view of the dynamic changes in climate policies, PKP CARGO S.A. engaged an external company to organize a training for employees and managers entitled “Climate and Carbon Footprint in Rail Transport”. Furthermore, the Company ordered development of a tool to calculate its carbon footprint, which – after verification – will be formally adopted for application in the Company.

8.7. Description of the Company’s and the PKP CARGO Group’s sponsorship, charitable or other similar activities

Year after year, PKP CARGO S.A. has consistently executed community programs and provided sponsorship support in the selected areas:

- TFL industry;
- science and education, including industry vocational education;
- safety in rail traffic;
- sports activities with participation of PKP CARGO Group employees;
- education in the area of raising social awareness regarding rail transport, both contemporary and its history.

Charitable support activities are focused on environmental protection and ecology (including supporting the initiatives related to ecology of transport).
In 2021, within the framework of its transparent policy PKP CARGO S.A. organized a program of donations for hardship-facing current and retired employees and their families.
Sponsorship activities in 2021 included among others: support for the 32nd “Solidarność” and the Olympians Bike Race, with participation of trade union organizations which belong to PKP CARGO’s stakeholders. In 2021, due to the persisting pandemic, PKP Cargo and other companies from the PKP CARGO Group significantly reduced the scope of their sponsorship activities in comparison to the previous years.

8.8. Compensation Policy

8.8.1. General information about the compensation system adopted in the Parent Company

In PKP CARGO S.A., compensation rules are established in accordance with the generally applicable laws and internal regulations in force in the Company.

The compensation system is comprised of the following:

- Company Collective Bargaining Agreement for Employees of the Units of PKP CARGO Spółka Akcyjna (CCBA)
- Bonus regulations of individual Units,
- Resolutions of corporate bodies of PKP CARGO S.A. to establish and introduce the rules for compensating key management, staff of the Company’s Head Office, as well as employees in managerial and independent positions in the Company’s standalone units. A major portion of the Company’s employees, over 83%, is remunerated in accordance with the provisions of the Company Collective Bargaining Agreement under which these employees are eligible for compensation components, benefits, performances and other entitlements that are not provided for in the generally applicable regulations or are regulated in a less favorable manner.

These employees’ compensation consists of fixed and variable components, while their type and level vary depending on the position held, competences of the employee and nature of the tasks performed. In addition, employees remiunerated under the Company Collective Bargaining Agreement are eligible for monthly bonus paid according to the Units’ bonus payment rules. The bonus fund includes a pool of funds earmarked for payment of bonuses for ongoing performance of tasks and for payment of bonuses for the employee’s individual achievements.

Pursuant to the delegation contained in the Company Collective Bargaining Agreement, the employees of the Company's Headquarters and the employees in managerial and independent positions in the Company's Units, who in 2021 represented 17% of total number of employees, receive their compensation based on the principles defined in the Resolution adopted by PKP CARGO S.A. Management Board, i.e. based on the individual wage coefficient assigned to a given job position and the average monthly salary in the enterprise sector published by Statistics Poland (GUS).

The employees remunerated under the Resolution of PKP CARGO S.A. Management Board may be paid, depending on their position, a quarterly discretionary bonus, on condition that the Company's business goals are satisfactorily achieved, or an annual bonus based on the Management Through Objectives Program in place in PKP CARGO S.A. – if the Program is launched in the given year.

In addition, the compensation system includes other benefits and perks: jubilee award, disability or retirement severance pay, coal allowance in the form of cash equivalent, rights to transportation benefits, a benefit paid on the occasion of the Railway Employee Day, additional holidays awarded to employees in certain positions.
In cases justified by the Company's special interest, including primarily where employees have access to particularly important information constituting company secrets or information whose disclosure may put PKP CARGO S.A. at a risk of losses, employees may be subject to a non-competition clause after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. or other members of the PKP CARGO Group.
In connection with the IPO of PKP CARGO S.A.'s shares on the Warsaw Stock Exchange, on 2 September 2013 the Employee Guarantee Package ("Package") was adopted by the signatories of the Company Collective Bargaining Agreement, which has a significant impact on the performance of the Company's HR policy. The Package introduced several solutions that were beneficial to PKP CARGO S.A. employees, including, among others, the following:

- guaranteed employment, compensation and place of work on the conditions stipulated in the Package, excluding management positions,
- one-off benefit in the form of employee shares,
- participation of representatives of employees on the Supervisory Board and the Company's Management Board,
- participation of employee representatives in negotiations on annual compensation raises, depending on the Company's performance and financial standing.

In 2019, PKP CARGO S.A.'s HR Policy was adopted that includes a set of standards and best practices in human resource management. In addition to activities aimed at applying and improving practices in the area of recruitment, induction, and development of employees' competences, this Policy has highlighted the significance of an extensive employee compensation system based on stable internal regulations, ensuring additional rights and benefits specific to the rail sector, which has a favorable impact on the employees' sense of belonging in the Company and thus their work motivation.

In pursuit of the objectives formulated in the Company's strategy and taking into account the rapidly changing market environment, actions have been taken to implement legal and organizational solutions related to the employee compensation system. Negotiations of the Company Collective Bargaining Agreement signatories have been underway since November 2020, with the aim to revise the Agreement. The participants of the negotiations jointly work out solutions designed to streamline compensation rules, taking into particular consideration their incentivizing role and higher efficiency of work organization.

Works on amendments to the Company Collective Bargaining Agreement are carried out in all the areas covered by its regulations, especially taking into account issues connected with working time and place of performing work, compensation rules and additional employee rights and benefits. The parties to the CCBA seek to conclude the negotiations in a conciliatory manner, with amendments to the CBA that are beneficial to both the Company and the employees, in the form of an additional protocol unanimously adopted by all signatories.

As part of the non-compensation incentive system for employees, the program of additional fringe benefits in the form of discounts on cultural events, goods or services for all employees of PKP CARGO S.A. (launched in 2018) has been continued. The Company's offer of discounts and rebates on products and services is more attractive than the corresponding offering in the market at large. The Company seeks to ensure that its offer is available to the largest possible number of employees.

Employees are informed about the offer through such communication channels as the Intranet, e-mail, local messages and a newsletter distributed in electronic form. Furthermore, all employees of the Company have access to a broad range of social welfare benefits under an offering defined in the social benefits bylaws. The social benefit offer is updated on a yearly basis, in consultation with the Social Partner, in order to meet employees' needs in this respect to the greatest extent possible. The Company's employees can also use subsidies to medical care packages and join a cost-attractive group insurance program. In addition, in connection with the position held or functions discharged in the organization, employees may be granted, in accordance with the rules in force in the Company, the right to obtain subsidies to the rent for an apartment, a company car, a company payment card, as well as other tools and technical equipment necessary to discharge their duties.

8.8.2. Terms and value of compensation and fringe benefits of Management Board and Supervisory Board members

Management Board

In accordance with the "Rules for compensating key management at PKP CARGO S.A." and the "Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board", all Management Board members are employed under management services contracts and non-competition agreements. The basic terms and conditions of the management contracts and non-competition agreements are as follows:

- Management Board members provide management services consisting in personal management of the entrusted areas of the Company's operations; the contract is concluded for the duration of discharging the function in the company's Management Board, and terminated at the end of that period;
- Management Board members are vested with the right to receive the remuneration consisting of a fixed part, constituting the monthly basic compensation ("Base Compensation"), and the variable part ("Bonus"), constituting the supplementary compensation for the financial year in connection with the Manager's achievement of the management objectives of particular importance to the Company and the Group;
- Management Board members undertake that during the term of validity of their contract they will not conduct any business competitive to that of the Company or of any member of the PKP CARGO Group;
- the non-compete clause continues to be binding for a period of six months after the termination of the contract and the expiration of the term of office of the Management Board member. Due to the obligation to adhere to the extended non-compete clause by Management Board members, the Company will pay them a base compensation for each month of validity of the extended non-compete clause applicable to the pertinent Management Board member;

Management Board members are entitled to a break in the provision of their services – based on their own decision, including as a result of an illness, which will not result in a reduction of the Management Board member's base compensation, provided that the break is no longer than 24 calendar days in a given financial year of the Company. If a Management Board member has provided his/her management services for a period shorter than one financial year, the break will be calculated on a pro rata basis in relation to the service provision period. If a Management Board member does not exercise all or part of the right referred to in the previous sentences in a given financial year of the Company, such a Management Board member will lose this right and will not be entitled to claim any cash benefit, compensation, or other similar benefit from the Company in return. The register of breaks in the performance of management contracts is kept by the department in charge of serving the Company's Supervisory Board/Management Board.

The amount of the Base Compensation, in consideration of the applicable laws, is set by the Supervisory Board, following the issue of a recommendation by the Nomination Committee, in an amount equal from eight to twelve times the average monthly wage in the enterprise sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland and based on an analysis of market rates of compensation for persons holding the position of Management Board Member, including in entities with a similar profile of business and a similar scope and scale of operations, taking into account the needs and capabilities of the Company as well as the individual qualifications and level of experience of the respective Management Board Member, in line with the management tasks assigned to such Management Board Member.

The Base Compensation also includes a fee for the transfer to the Company of all proprietary copyrights to works created by the Management Board Member and industrial property rights to inventions, utility designs, industrial designs, developed

trademarks or topographies of integrated circuits created as a result of the performance of duties of a Management Board Member.
Management Board Members are entitled to a Bonus for the achievement of management objectives specified by the Supervisory Board. Such objectives should be determined no later than by the end of April of the financial year in which they are expected to be achieved.
The bonus award criteria are set in a manner ensuring the provision of sustainable incentives to individual Management Board Members to achieve the objectives and pursue the strategies of the Company and the PKP CARGO Group, taking into account the Company's interests, and should be set in a manner contributing to the Company's environmental protection efforts. The following resolutions must be adopted by the Shareholder Meeting before a Management Board Member may acquire the right to the Bonus for the respective financial year: a resolution approving the Management Board's report on the Company's activity for the financial year for which the Bonus is set, a resolution approving the Company's financial statements for the financial year for which the Bonus is set, a resolution granting a discharge to the Management Board Member on the performance of his or her duties for the financial year for which the Bonus is set.

The Bonus is paid on the basis of a resolution of the Supervisory Board awarding the Bonus to the respective Management Board Member for the financial year in question. Each Bonus the granting or amount of which is subject to assessment by the Supervisory Board is set and settled on the basis of a resolution of the Supervisory Board. The amount of the Bonus may not exceed 50% of the Base Compensation payable to the respective Management Board Member in the financial year for which the Bonus is due. The Bonus is payable pro rata to the period of discharging the function during the respective financial year.

Management Board members are entitled to other cash and in-kind benefits, including in particular: reimbursement of expenses borne in connection with trips undertaken in the interest of PKP CARGO S.A. or PKP CARGO Group; refund of expenses borne in connection with participation in conferences, seminars, meeting, provided that the Manager's attendance is necessary or justified by the performance of duties; reimbursement of justified expenses borne in connection with representing PKP CARGO S.A. in the scope necessary to properly perform services for the benefit of PKP CARGO S.A.; reimbursement of costs of legal aid related to establishment or defense of rights of Management Board member in case of a dispute with a third party in relation to performance of duties; legal aid expenses are refunded in line with third party liability insurance agreement executed by PKP CARGO S.A. for persons discharging specific functions at PKP CARGO S.A., where such agreement has been executed by PKP CARGO S.A.; use of equipment and resources owned by PKP CARGO S.A., including a portable personal computer with wireless Internet access, means of communication, including a mobile phone and a landline phone and company car for the purposes of appropriate performance of duties.

The discharge of a function in the Management Board is the main area of professional activity of a Management Board Member. It may be permitted for a Management Board Member to be additionally involved in the activities of the management or supervisory bodies of other members of the PKP CARGO Group, however without the right to collect any additional remuneration on this account. The Company's Management Board members may sit on the management boards or supervisory boards of companies other than members of the PKP CARGO Group only with the consent of the Supervisory Board. The table below presents total compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2021.

Table 28 Compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2021 (PLN)

Full name	Compensation	Bonus	Severance pays, indemnities, non-competition	Other revenue subject to taxes and social security contributions	Subsidiaries	Total
Current Management Board members						
Władysław Szczepkowski	118,400	0	0	1,440	0	**119,840**
Zenon Kozendra	516,000	344,000	0	15,336	0	**875,336**
Former Management Board members						
Czesław Warsewicz	460,800	110,462	240,000	2,476	0	**813,739**
Leszek Borowiec	412,800	98,955	215,000	1,546	90,308	**899,023**

Witold Bawor	412,800	168,474	215,000	12,441	90,308	**899,023**
Grzegorz Fingas	0	344,000	0	5,160	0	**349,160**
Piotr Wasaty	412,800	0	215,000	2,370	12,624	**642,794**

Source: Proprietary material

Supervisory Board

In accordance with the "Rules for compensating key management at PKP CARGO S.A." and the "Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board", Supervisory Board Members are not employed by the Company (this applies to the form of appointing a Supervisory Board member; Supervisory Board members – employee representatives may be Company employees).

Compensation of Supervisory Board Members is established by the Shareholder Meeting. The amount of the monthly compensation for a Supervisory Board Member discharging the function of Chairperson of the Supervisory Board is equal to the product of the average monthly compensation in the corporate sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland, and the compensation multiplier of 2.75, with the reservation that, in calculating the monthly compensation of the Chairperson of the Supervisory Board, the generally applicable laws should be taken into consideration to the extent that they govern in a different manner the basis for the calculation referred to in Article 1(3)(11) of the Act of 9 June 2016 on the Rules for Setting the Compensation of Persons Managing Certain Companies.

The amount of the monthly compensation for a Supervisory Board Member who does not discharge the function of Chairperson of the Supervisory Board shall be equal to the product of the average monthly compensation in the corporate sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of Statistics Poland, and the compensation multiplier of 2.37, with the reservation that, in calculating the monthly compensation of the respective Supervisory Board Member, the generally applicable laws should be taken into consideration to the extent that they govern in a different manner the basis for the calculation referred to in Article 1(3)(11) of the Act of 9 June 2016 on the Rules for Setting the Compensation of Persons Managing Certain Companies.

The compensation of a Supervisory Board Members is not contingent on the Company's performance, options and other financial instruments or any other variable component, unless the Shareholder Meeting adopts a resolution to grant compensation to a Supervisory Board Member in the form of the right to a share in the Company's profit for the respective financial year, intended for distribution among the Company's shareholders, in accordance with Article 347 § 1 of the Commercial Company Code. The rule is that compensations of Supervisory Board Members should be commensurate with the entrusted scope of activities and discharged functions, e.g. work in Supervisory Board's committees. Moreover, Supervisory Board Members may be granted the right to use, in accordance with the rules in force in the Company, any tools and technical equipment necessary to discharge the duties of a Supervisory Board Member. If the appointment or dismissal of a Supervisory Board Member occurs during a calendar month, the compensation due such Supervisory Board Member shall be calculated pro rata to the number of days of the discharge of his or her function in the Supervisory Board; this provision applies accordingly to other cases of expiration of the mandate of a Supervisory Board Member.

Compensations of the Supervisory Board Members do not constitute a significant item in the costs of the Company's operations and do not significantly affect its financial performance.
The table below presents total compensation and fringe benefits of the Company's Supervisory Board members in 2021.

Table 29 Compensation and fringe benefits for PKP CARGO S.A. Supervisory Board members in 2021 (PLN)

Full name	Position	Compensation for discharging a function in the Supervisory Board PKP CARGO S.A.	Other compensation (PKP CARGO S.A.)	Subsidiaries
Krzysztof Mamiński	Supervisory Board Chairman	0	0	0
Mirosław Antonowicz	Vice-Chairman of the Supervisory Board	0	0	0
Krzysztof Czarnota	Supervisory Board Member	126,246	132,724	0
Zofia Dzik	Supervisory Board Member	125,244	0	0

Antoni Duda	Supervisory Board Member	126,741	0	0
Dariusz Górski	Supervisory Board Member	127,122	0	0
Małgorzata Kryszkiewicz	Supervisory Board Member	0	0	0
Marcin Kowalczyk	Supervisory Board Member	122,276		
Paweł Sosnowski	Supervisory Board Member	125,400	0	0
Jerzy Sośnierz	Supervisory Board Member	127,988	154,013	0
Tadeusz Stachaczyński	Supervisory Board Member	128,005	92,021	0
Władysław Szczepkowski	Supervisory Board Member	101,151	0	0
Izabela Wojtyczka	Supervisory Board Member	126,160	0	0

Source: Proprietary material

Other than the various forms of compensation specified in this Section, the Company does not grant any individual benefits to Management Board Members or Supervisory Board Members, in particular under early retirement plans, nor shall Management Board Members or Supervisory Board Members receive any shares, options or other rights to acquire shares or any payments based on changes in share prices.

The Company does not grant any individual benefits under old-age or disability pension plans to Management Board Members. Supervisory Board Members may participate on a voluntary basis in the employee capital scheme established by the Company.

Terms of non-financial components of compensation for other key managers

The Company's key managers may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card, tools and technical equipment necessary to discharge the duties of a given position, and the right to medical care. The Company's key managers may subject to a ban on conducting any business competitive to that of PKP CARGO S.A. after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. and other members of the PKP CARGO Group.

8.8.3. Indication of material changes introduced in the compensation policy in the last financial year or information on absence of such changes

No material changes in the Company's compensation policies were introduced in 2021.

8.8.4. Evaluation of the practical application of the compensation policy in the context of its goals, in particular the long-term increase of the company's value for shareholders and stability of its operations

The "Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board" in effect from June 2020 enabled the Company to generate value for its shareholders in the following aspects: implementation of internal regulations describing the rules for remunerating the Management Board and Supervisory Board Members ensures compliance with applicable laws and the standards for WSE-listed companies, definition of principles governing the disbursement of compensation to Members of the PKP CARGO S.A. Management Board and Supervisory Board and the rules for granting other benefits in a manner that ensures the pursuit of the adopted business strategy of PKP CARGO S.A. while guaranteeing the security and stability of the Company, the adoption of the regulation means that the compensation rules defined therein are not set on an ad hoc basis but are a set of permanent, transparent and independent compensation rules contributing to the stability of the enterprise, The regulations adopted by the Company define in particular the transparent form, structure and manner for determining the compensation of Management Board and Supervisory Board Members and other benefits, which helps reduce the risks that would arise from unstable compensation rules applicable to the Company's key personnel, with regard to compensation and fringe benefits, the Company by applying the Policy focuses on ensuring equal treatment irrespective of age, race, culture, gender, disability, sexual orientation, religion, nationality, political beliefs or views, trade union membership, ethnic origin, religion or marital status.

8.9. Information about the financial statements

8.9.1. Information on the agreement with the audit firm

By Resolution No. 2/2020 of the Extraordinary Shareholder Meeting of PKP CARGO S.A of 16 November 2020, amended (in respect to § 1 sec. 1) by Resolution No. 28/2021 of the Ordinary Shareholder Meeting of 28 June 2021, the following audit firms were selected:

- Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, registered under file no. 3654 as an entity authorized to audit financial statements, and
- Grant Thornton Polska spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, registered under file no. 4055 as an entity authorized to audit financial statements

(hereinafter referred to as "Grant Thornton").

The agreement with Grant Thornton was signed on 5 July 2021 and covers:

- audit of the standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2021-2025,
- review of the interim standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2021-2025,
- verification of the reporting package prepared for the purposes of consolidation with PKP S.A.,
- conduct of agreed procedures aimed at confirming the correct calculation of the annual ratios defined in the loan agreements.

The fee charged by the entity authorized to audit financial statements, paid or due for the relevant financial year is (PLN net):

Table 30 Fee charged by the audit firm (PLN net)

Description	Year ended 31 December 2021	Year ended 31 December 2020
Audit of the standalone and consolidated financial statements	138,240	200,350
Audit of the financial statements of the subsidiaries	0	138,500
Other attestation services, including a review of the financial statements	108,630	131,650
Other services	0	0
Total	**246,870**	**470,500**

Source: Proprietary material

8.9.2. Rules for preparing annual financial statements

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2021 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of the standalone and consolidated financial statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018, Item 757) ("Regulation").

The Standalone Financial Statements PKP CARGO S.A. for the financial year ended 31 December 2021 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these financial statements, there are no material circumstances indicating any substantial threat to PKP CARGO S.A.'s and the Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2021 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021 have been prepared in accordance with the historic cost principle except for derivative financial instruments and investments in equity instruments carried at fair value.

8.9.3. Description of unusual items in the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group.

No such items exist.

8.9.4. Description of significant off-balance sheet items

Significant off-balance sheet items are described in Notes 7.2 and 7.3 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2021.

9. Representation on the application of corporate governance

9.1 Indication of a set of corporate governance rules applicable to PKP CARGO S.A. and of the place where the wording of such rules is publicly available

The Company applies the corporate governance rules included in the document entitled "Best Practice for GPW Listed Companies 2021" (hereinafter, the "Best Practice 2021") adopted by Resolution No. 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange on 29 March 2021.The Best Practice 2021 came into effect as of 1 July 2021. Until 30 June 2021, the Company applied the rules stipulated in the Best Practice for GPW Listed Companies 2016. The document is available on the WSE's website at **https://www.gpw.pl/dobre-praktyki2021**

9.2. Extent to which PKP CARGO S.A. failed to observe the provisions of the set of corporate governance rules, indication of such provisions and explanation of the reasons for the failure

The Company makes every effort to ensure that the principles contained in the Code of Best Practice 2021 are implemented. On 29 July 2021, a report was published, which described the status of the Company's application of the principles included in the Best Practice 2021 (it is available, among others, on the Company's website in the Investor Relations/Corporate Governance/Code of Best Practice tab at: **https://www.pkpcargo.com/pl/relacje-inwestorskie/%C5%82ad-korporacyjny/zasady-dobrych-praktyk/**
The Company applies the principles set forth in the **Best Practice 2021** excluding the following: 1.3.1., 1.4.1., 1.4.2., 1.5., 2.1., 2.2., 2.11.6., 3.6., 3.10., 4.8., 4.9.1., 6.2., 6.4.

1.3.1. environmental factors, including measures and risks relating to climate change and sustainable development;
This principle has not been applied.
Explanation: The PKP CARGO Group's Strategy for 2019-2023 does not address environmental/climate issues in detail The Company has taken steps to update the strategy.

1.4.1. explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;
This principle has not been applied.

Explanation: The Company will consider the application of this principle when it updates the strategy to include, among others ESG issues.

1.4.2. present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.
This principle has not been applied.
Explanation: The Company does not publish the value of the equal pay index for its employees. The remuneration rules are defined in intra-company regulations and they do not differentiate employees in terms of gender. The remuneration amount depends on the competence and qualifications as well as the position or function of the employee.

1.5. Companies disclose at least on an annual basis the amounts expensed by the company and its group in support of culture, sports, charities, the media, social organisations, trade unions, etc. If the company or its group pay such expenses in the reporting year, the disclosure presents a list of such expenses.
This principle has not been applied.
Explanation: the Company publishes information on its sponsoring and charitable activity in its annual report, but it does not disclose its expenses on this account. Nevertheless, the provisions of the Articles of Association obligate the Management Board to present, at least once a year, an expense report to the Supervisory Board pertaining to its sponsoring, charitable, social communication and public relations activities.
2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.
This principle has not been applied.
Explanation: the Company has not developed a formal diversity policy applicable to the Company's authorities and there are no internal regulations that specify the minimum target participation of minority groups.

2.2. Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.
This principle has not been applied.
Explanation: The Company has not developed a formal diversity policy, however all processes, especially recruitment (also relating to the Company's authorities), take into consideration such diversity aspects as gender, education, age and professional experience. There are no internal regulations that specify the minimum target participation of minority groups.

2.11.6. information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.
This principle has not been applied.
Explanation: the Company has not developed a formal diversity policy applicable to the Company's authorities.

3.6. The head of internal audit reports organisationally to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee.
This principle has not been applied.
Explanation: The head of internal audit operates within the structure of a department, whose director reports directly to the President of the Management Board. The head of internal audit reports functionally to the Supervisory Board Audit Committee.

3.10. Companies participating in the WIG20, mWIG40 or sWIG80 index have the internal audit function reviewed at least once every five years by an independent auditor appointed with the participation of the audit committee.
This principle has not been applied.
Explanation: In connection with the adopted cost-saving measures, the Company has temporarily abandoned the review of the audit function performed by an independent auditor.

4.8. Draft resolutions of the general meeting on matters put on the agenda of the general meeting should be tabled by shareholders no later than three days before the general meeting.
This principle has not been applied.
Explanation: The Company intends to propose to the Shareholder Meeting to adopt the provisions that would allow this principle to be applied.

4.9.1. candidates for members of the supervisory board should be nominated with a notice necessary for shareholders present at the general meeting to make an informed decision and in any case no later than three days before the general meeting; the names of candidates and all related documents should be immediately published on the company's website;
This principle has not been applied.
Explanation: The Company intends to propose to the Shareholder Meeting to adopt the provisions that would allow this principle to be applied.

6.2. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term standing of the company measured by its financial and non-financial results as well as long-term shareholder value creation, sustainable development and the company's stability.
This principle has not been applied.
Explanation: The Company has in place an incentive system for Management Board Members – the bonus is contingent, among other criteria, on the attainment of the objectives correlated with the Company's annual business plan and the projection of the PKP CARGO Group's financial results; the Company however does not have an incentive system for key managers (senior management).

6.4. As the supervisory board performs its responsibilities on a continuous basis, the remuneration of supervisory board members cannot depend on the number of meetings held. The remuneration of members of committees, in particular the audit committee, should take into account additional workload on the committee.
This principle has not been applied.
Explanation: A Supervisory Board Member is entitled to monthly compensation regardless of the number of meetings of the Supervisory Board or committees appointed by the Supervisory Board. The remuneration of Members of Committees does not take into account additional workload on the committee. The Supervisory Board intends to submit a motion to the Shareholder Meeting to increase the compensation of Chairpersons of Supervisory Board Committees.
On 16 November 2021, the Company published a report on an incidental violation of principle 1.6.
Explanation: Due to the pending recruitment procedure for the positions of: the President of the Management Board, the Management Board Member in charge of Commerce, the Management Board Member in charge of Finance and the Management Board Member in charge of Operations, a decision has been made not to organize conferences devoted to the financial performance of the PKP CARGO Group for the period of 9 months of 2021. Over the last 2 years, there were no cases of incidental violation of principles.

9.3. Description of the primary attributes of the internal control and risk management systems used in PKP CARGO S.A. in respect of the process of preparing standalone and consolidated financial statements

Uniform accounting policy

PKP CARGO S.A.'s parent company has developed and implemented the Accounting Policy designed in accordance with EU IFRS. The document is updated on an ongoing basis as statutory amendments are introduced. The principles contained in the document are applied to standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. Companies subject to consolidation are required to apply the Accounting Policy of PKP CARGO S.A. in their preparation of reporting consolidation packages which form the basis for preparation of the PKP CARGO Group's consolidated financial statements.

Uniform consolidation packages of subsidiaries

For the purposes of preparation of the consolidated financial statements of the PKP CARGO Group, a uniform pattern of reporting packages based on EU IFRS to be prepared by the subsidiaries has been adopted. The subsidiaries prepare their reporting packages in accordance with EU IFRS taking into account the differences between Polish Accounting Standards (and other local standards in the case of international companies) and EU IFRS.

Keeping the accounts

The reliability of financial statements is ensured by using data derived directly from the accounting ledgers. The Parent Company keeps a set of accounting ledgers forming the basis for preparation of financial statements in its computerized financial and accounting system SAP. The Company updates its financial and accounting system on an ongoing basis in line with the changing legislation and reporting requirements, both internal and external. Access to the IT systems is restricted by appropriate permissions granted to authorized employees. The IT and organizational solutions used by the Company secure control of access to the financial and accounting system and ensure appropriate protection and archiving of accounting ledgers.

Procedures for the closing of ledgers and authorization of financial statements

Procedures for the closing of ledgers and authorization of financial statements: PKP CARGO S.A. and the subsidiaries have implemented internal procedures for closing the reporting periods, setting the dates and defining the responsibilities of internal departments for each reporting area; financial statements are subjected to internal procedures aimed at verifying their completeness and compliance; EU IFRS-compliant reporting packages are signed by the Management Boards of the subsidiaries and EU IFRS-compliant consolidated financial statements are properly authorized and signed by the Company's Management Board.

Supervision by the Audit Committee

Within the structure of the PKP CARGO S.A. Supervisory Board, the Audit Committee has been established which, in accordance with the applicable regulations, exercises supervision over the process of preparation of consolidated financial statements and the process of financial audit and which analyzes and monitors interim and annual financial data of both the Company and the Group.

Audit and review of financial statements

Annual standalone and consolidated financial statements are audited by a statutory auditor, semi-annual standalone and consolidated financial statements are reviewed by a statutory auditor; reports on the auditor's activities are appended to all approved and published financial statements.

9.4. Shareholders holding directly or indirectly significant blocks of shares

Table 31 Shareholder structure of PKP CARGO S.A. as at 1 January 2021

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,832,083	15.25%	6,832,083	15.25%
Aviva OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	20,832,269	46.52%	20,832,269	46.52%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

Table 32 Shareholder structure of PKP CARGO S.A. as at 31 December 2021

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,832,083	15.25%	6,832,083	15.25%
Aviva OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	20,832,269	46.52%	20,832,269	46.52%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

Table 33 Shareholder structure of PKP CARGO S.A. as at the delivery date of this Report

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,694,285	14.95%	6,694,285	14.95%
Aviva OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	20,970,067	46.82%	20,970,067	46.82%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

The structure of PKP CARGO S.A.'s share capital as at the delivery date of this report is presented in the table below:

Table 34 Structure of PKP CARGO S.A.'s share capital

Shares	Issue date	Issue registration date	Number of shares
Series A	8 July 2013	2 October 2013	43,338,000
Series B	8 July 2013	2 October 2013	15
Series C	2 October 2013	25 April 2014	1,448,902
Total			**44,786,917**

Source: Proprietary material

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

9.5. Holders of securities giving special controlling rights

No PKP CARGO S.A. securities give any of the shareholders any special control rights.

9.6. Exercise of voting rights at the Shareholder Meeting

Right to participate in the Shareholder Meeting and voting rights

A shareholder exercises the right to participate in the Shareholder Meeting and voting rights at Shareholder Meetings. Pursuant to the Commercial Company Code, the Company's shareholders may participate in the Shareholder Meeting and exercise their voting right in person or by proxy. A shareholder wishing to participate in a Shareholder Meeting by proxy must grant the proxy powers in writing or in electronic form. The Company provides a form of proxy document in the notice on convening the Shareholder Meeting. Moreover, the Company should be notified about granting proxy powers in electronic form using the means of electronic communication specified in the announcement on convening the Shareholder Meeting. The Company takes proper action to identify the shareholder and his/her/its proxy to verify the validity of the proxy powers granted in electronic form. A detailed description of the manner of verification of the validity of proxy powers granted in electronic form must be included in the contents of the notice on convening the Shareholder Meeting.

A shareholder holding shares registered in more than one securities account may appoint separate proxies to exercise the rights attached to shares registered in each of his/her/its accounts.
If a member of the Management Board, a member of the Supervisory Board, the liquidator, an employee of the Company, or a member of a corporate body or an employee of the Company's subsidiary or cooperative acts as a proxy, then the proxy document may authorize such a person to represent the shareholder at a single Shareholder Meeting only. The proxy is obligated to disclose to the shareholder any circumstances indicating the existence or possibility of a conflict of interest. In such a situation, it is not permitted for the proxy to grant the proxy powers to others. The proxy will vote in accordance with the instructions given by the Company's shareholder.

Pursuant to § 11 Section 2 of the Articles of Association, each share entitles its holder to one vote at the Shareholder Meeting. Pursuant to § 13 Section 1 of the Company's Articles of Association, voting rights of the shareholders holding more than 10% of all the votes in the Company are restricted in such a manner that no such shareholder may exercise more than 10% of all the votes in the Company existing on the date of the Shareholder Meeting. This restriction does not apply for the purposes of determining the obligations of buyers of significant blocks of shares, which are prescribed by the Act on Public Offering. The above restriction of the voting rights does not apply to shareholders who, on the date of adoption of the Shareholder Meeting resolution introducing the restriction, were entitled to exercise voting rights, also as users, attached to shares representing more than 10% of the total number of votes existing in the Company or any other entity that acquires the Company's shares held by the shareholders referred to above in connection with their liquidation.

In accordance with the provisions of the Articles of Association, the limitation of voting rights of shareholders representing more than 10% of the total number of votes in the Company will not cease after a sale of all shares held by PKP S.A. to which the said limitation does not apply.

A Company's shareholder may not, either personally or by proxy or while acting in the capacity of a proxy of any other person, vote on resolutions concerning his/her/its liability towards the Company on whatever account, including exonerating on the performance of his/her/its duties, being released from any of his/her/its liabilities towards the Company or any dispute between him/her/it and the Company. The above restriction does not apply to voting by a shareholder acting in the capacity of a proxy for another shareholder on any of the said resolutions concerning the voting shareholder.

Moreover, pursuant to § 13 Section 1 of the Company's Articles of Association, for the purposes of restricting the voting rights, the votes of the shareholders connected by a parent or subsidiary relationship are added up according to the principles described below.

The shareholders whose votes are accumulated and reduced are jointly referred to as a "Grouping". An accumulation of votes involves adding up the votes held by individual shareholders comprising a Grouping. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Grouping. Reduction of votes is effected according to the following principles:

- for each shareholder associated with a Grouping, a percentage of votes vested in the shareholder in the cumulative number of votes vested in the entire Grouping is calculated;
- the number of votes corresponding to 10% of all the votes in the Company is calculated on the date of holding the Shareholder Meeting;

Pursuant to § 13 Section 7 of the Company's Articles of Association, in order to determine the basis for vote accumulation and reduction, each Company shareholder, the Management Board, Supervisory Board and individual members of these bodies, as well as the Chairperson of the Shareholder Meeting may demand that a Company shareholder whose votes are reduced provide information as to whether he/she/it is a person having the status of a controlling entity or subsidiary of another shareholder.

9.7. Restrictions on the transfer of ownership title to PKP CARGO S.A. securities

Statutory restrictions on the transferability of shares

The Act on Public Offering, the Act on Trading in Financial Instruments and the Commercial Company Code provide, among others, for the following restrictions on the unconstrained transferability of shares:

- the obligation to notify the Polish Financial Supervision Authority and the Company applies to anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a company and, as a result of a reduction in this shareholding, reached 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90%, respectively, or less of the total number of votes; (iii) has changed his/her/its previously held share greater than 10% of the total number of votes by at least 2% of the total number of votes in a public company whose shares are admitted to trading on an official stock market (as at the Prospectus Date, the market in question is the main market of the Warsaw Stock Exchange); (iv) has changed his/her/its previously held share greater than 33% of the total number of votes in a public company by at least 1% of the total number of votes;

- the obligation to announce a call to subscribe for the sale or conversion of shares in the event of: (i) the acquisition of shares entitling the holder to exercise more than 10% or 5% of the total number of votes at the Shareholder Meeting, (ii) exceeding the threshold of 33% of the total number of votes at the Shareholder Meeting, (iii) exceeding the threshold of 66% of the total number of votes at the Shareholder Meeting;
- the prohibition of the acquisition or sale, for one's own account or for a third party, of any financial instruments, based on confidential information;
- the prohibition of the acquisition or sale of financial instruments during the lock-up period by the persons referred to in the Act on Trading in Financial Instruments;
- the parent company, within the meaning of Article 4 Section 1 Item 4 of the Commercial Company Code, is required to inform a subsidiary of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

Apart from the foregoing, there are no other statutory restrictions on the transferability of shares in the Company.

Contractual restrictions on the transferability of shares

Contractual restrictions of the transferability of shares applied to shares subscribed for by eligible employees in connection with the right granted to them as part of the Employee Guarantee Package. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to compensatory liability.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.
Pursuant to the Conditional Agreement for Underwriting the Subscriptions of Institutional Investors on the Principles of Underwriting the Initial Public Offering of PKP CARGO S.A. Shares ("Underwriting Agreement") executed on 8 October 2013 by and between PKP S.A and PKP CARGO S.A, and the following entities: Goldman Sachs International, Morgan Stanley & Co. International plc, Powszechna Kasa Oszczędności Bank Polski S.A. (also acting through its branch: Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie), Dom Inwestycyjny Investors S.A., IPOPEMA Securities S.A., Mercurius Dom Maklerski Sp. z o.o., Raiffeisen Centrobank AG, UniCredit Bank AG, London Branch, UniCredit Bank Austria AG, UniCredit CAIB Poland S.A., collectively referred to as the "IPO Managers", the Company and PKP S.A. were subject to the following contractual restriction on the transferability of shares and the issue of shares:

- PKP S.A. made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO. The restriction referred to above does not apply to the disposal of shares by PKP S.A. in response to a call to subscribe for a conversion or sale of Company shares to a strategic investor for a price not lower than that provided for in the IPO.
- The Company made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO.

9.8. Rules for appointment and dismissal of managers

The PKP CARGO S.A. Management Board consists of between one and five members, including the President of the Management Board. Management Board members are appointed for a joint 3-year term of office. The President and other Members of the Management Board are appointed by the Supervisory Board pursuant to the Company's Articles of Association and the Bylaws for Appointing Management Board Members in PKP CARGO S.A. and the Bylaws for Electing Candidates to Become an Employee Representative in the PKP CARGO S.A. Management Board and to Appoint Employee Representatives to the PKP CARGO S.A. Supervisory Board and the Procedure for Their Removal. The Supervisory Board sets the number of Management Board members.

Management Board Members are appointed following the conduct of a recruitment procedure only from among candidates participating in the qualification procedure who received a favorable opinion from the recruitment consultant. Unless the Supervisory Board decides otherwise, the recruitment procedure for a Management Board Member is prepared, organized and carried out by a professional personnel consulting company selected by a resolution of the PKP CARGO S.A. Supervisory Board. A participant in the procedure for appointment of Management Board Members is the Nomination Committee which exercises ongoing supervision over the process of selection of a Management Board Member and the process of evaluation and appointment of Management Board Members.

The Supervisory Board also selects one Management Board Member from among candidates nominated by the Company's employees. Such a candidate should have higher education, at least 5 years of professional experience in the PKP Group and have no criminal record. A Management Board Member cannot simultaneously discharge an elective function in a trade union organization or in a trade union organization in a group company. The bylaws for electing candidates for a representative of employees in the Management Board are adopted by the Supervisory Board. Failure to appoint a representative of employees to the Management Board does not preclude the appointment of the Management Board or the effective adoption of its resolutions. The power referred to in the first sentence above was granted to the Company's employees in connection with Article 4 section 4 of the Act on Commercialization and Restructuring of PKP and the provisions of the Employee Guarantee Package.

As long as the State Treasury, PKP S.A. or other state legal persons hold less than 100% of the Company's shares, the President of the Management Board and other Management Board members are appointed and dismissed by the Supervisory Board. In the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have the personal power to select candidates for the President of the Management Board on its own. The personal rights referred to in the preceding sentence are exercised by way of delivering a written statement to the Supervisory Board Chairperson. Pursuant to § 18 and § 25 Section 3 Item 2 of the Articles of Association, the PKP CARGO S.A. Management Board is authorized, with the consent of the Supervisory Board, in accordance with the rules laid down in the provisions of the Commercial Company Code, to pay shareholders an interim dividend towards the dividend expected at the end of the financial year. The Company's executives are not authorized to make any decisions on the issue or redemption of shares.

9.9. Rules for amending the Articles of Association of PKP CARGO S.A.

The rules for amending the Company's Articles of Association are based on Article 430 and Article 402 § 2 of the Commercial Company Code.

Any amendment to the Articles of Association requires a resolution of the Shareholder Meeting. Moreover, the adoption of a resolution on amendments to § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing 50% of the total number of votes in the Company plus one vote.

Any amendments to the Articles of Association are subject to approval by the Shareholder Meeting and their registration by the appropriate court. Pursuant to § 25 Section 3 Item 11, the Supervisory Board is entitled, after the court's decision on the registration of amendments to the Company's Articles of Association becomes final non-appealable, to adopt the consolidated version of the Company's Articles of Association.

An amendment to the Company's Articles of Association which involves a material change in the line of business does not require a buyout of the shares held by the shareholders objecting to such an amendment if the relevant resolution of the Shareholder Meeting in this matter is adopted by a majority of two thirds of the votes in the presence of shareholders representing at least one half of the share capital.

9.10. Manner of operation and key powers of the Shareholder Meeting, description of shareholders' rights and the manner of their exercise

The Company's Shareholder Meeting operates pursuant to the provisions of the Commercial Company Code, the Company's Articles of Association (in particular, §10-§13) and the Bylaws of the Shareholder Meeting. Shareholders are entitled to participate in and exercise their voting rights at the Shareholder Meeting in person or by proxy. The Shareholder Meeting is valid irrespective of the number of shares represented thereat. Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes except for resolutions, for which the Commercial Company Code or the Articles of Association envisage more stringent requirements. Moreover, the adoption of a resolution on amendments to § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing 50% of the total number of votes in the Company plus one vote.

Votes at the Shareholder Meeting are cast in an open ballot. A secret ballot is ordered for elections and motions for the dismissal of members of the Company's corporate bodies or the Company's liquidators, or for holding them accountable, or in other personal matters. Moreover, a secret ballot must be ordered at the request of at least one shareholder attending or represented at the Shareholder Meeting. The Shareholder Meeting may adopt a resolution on waiving the secrecy of voting in matters concerning the selection of a committee appointed by the Shareholder Meeting.

The Shareholder Meeting is presided over by its Chairman who oversees its efficient conduct in accordance with the adopted agenda. The Chairman may make decisions concerning procedural matters. Without the consent of the Shareholder Meeting, the Chairman may not remove or change the order of business entered in the adopted agenda. The Shareholder Meeting of PKP CARGO S.A. is opened by the Chairperson of the Shareholder Meeting appointed by the President of the Management Board. If the President of the Management Board fails to appoint the Chairperson of the Shareholder Meeting prior to the designated start time of the meeting, the provisions of Article 409 § 1 of the Commercial Company Code are applied and then the Chairperson of the Shareholder Meeting is elected from among the persons entitled to participate in the Shareholder Meeting. The Chairperson of the Shareholder Meeting is elected by an absolute majority of votes cast in a secret ballot.

The Extraordinary Shareholder Meeting may be convened by a shareholder whose stake in the total number of votes in the Company is greater than 33%. In such a case, the shareholder convening the Extraordinary Shareholder Meeting appoints the Chairperson of the Shareholder Meeting.The Shareholder Meeting adopts the Bylaws of the PKP CARGO S.A. Shareholder Meeting laying down a detailed procedure of conduct for its meetings. Draft Bylaws of the Shareholder Meeting are presented by the Management Board. It is permitted to participate in the Shareholder Meeting by means of electronic communication, provided that the notice of convocation of the Shareholder Meeting contains information about such a possibility.

9.11. Personnel composition and changes to it during the most recent financial year, description of the activity of PKP CARGO S.A.'s managing, supervising or administering authorities and their committees

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates on the basis of regulations of law, and in particular:

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws No. 94, Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84, Item 948, as amended);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 61/VII/2021 of the PKP CARGO S.A. Supervisory Board of 12 July 2021);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018 and approved by Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018;
5. Other internal regulations.

Powers of the Management Board

The Management Board manages the Company's day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the

Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance. Two Management Board Members acting jointly or a Management Board Member acting with a commercial proxy are authorized to make statements of will on behalf of the Company.

On 19 January 2022, by force of Resolution No. 12/2022, the Management Board of PKP CARGO S.A. temporarily entrusted oversight over organizational units in the Company's Head Office to:
1. Mr. Władysław Szczepkowski – seconded by the Supervisory Board of PKP CARGO S.A. pursuant to Resolution No. 7/VII/2022 of 13 January 2022 to perform the duties of the President of PKP CARGO S.A. Management Board for a period not longer than 3 months, excluding the organizational units entrusted to Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative, falling within the scope of responsibilities of the following functions:
   1) PKP CARGO S.A. Management Board Member in charge of Commerce,
   2) PKP CARGO S.A. Management Board Member in charge of Finance,

as well as temporary oversight over the affairs and organizational units falling within the scope of responsibilies of PKP CARGO S.A. Management Board Member in charge of Operations until 02 February 2022.
2. Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative, for a period not longer than 3 months, over the following units:
   1) HR Management Department at the PKP CARGO S.A. Head Office,
   2) ICT Department at the PKP CARGO S.A. Head Office,
   3) Procurement Department at the PKP CARGO S.A. Head Office.

Operation of the Management Board

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

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

Diversity policy

In the Company, no formal diversity policy has been prepared with regard to the Company's corporate bodies; nevertheless, the policy carried out by the Company in all the processes, especially recruitment, takes into consideration such diversity aspects as sex, education, age and professional experience, accepting diversity and equal opportunities as significant competitive advantages, which make it possible to win and retain talented employees and benefit from their professional capacity, especially with regard to the Company's corporate bodies.

The Company applies transparent rules to elect members of its Management Board and Supervisory Board. The Company's Articles of Association define the rules of appointing the Management Board and electing Management Board members by employees. Pursuant to § 14 Section 10 of the Company's Articles of Association, a Management Board member is obligated to satisfy the requirements specified in Article 22 of the Act on the Rules for Managing State Property (Journal of Laws 2016 Item 2259, as amended).

The recruitment procedure for the position of Management Board member is conducted on the basis of:
- PKP CARGO S.A. Articles of Association;
- Bylaws for Appointing Management Board Members in PKP CARGO S.A.;

- Bylaws for Electing Candidates to Become an Employee Representative in the PKP CARGO S.A. Management Board and to Appoint Employee Representatives to the PKP CARGO S.A. Supervisory Board and the Procedure for Their Removal;

The Bylaws for Appointing Management Board Members in PKP CARGO S.A. define in particular the qualifications that will be evaluated when selecting candidates for respective positions in the Management Board.

An amendment to the Bylaws for Appointing Management Board Members of PKP CARGO S.A. requires consent of at least one Supervisory Board member who meets the independence criteria and is appointed following the rules set forth in § 20 and 21 of the Articles of Association of PKP CARGO S.A.

Table 35 Composition of the PKP CARGO S.A. Management Board from 1 January 2021 to the date of submission of this report

Full name	Position	Period in office	
		from	to
Władysław Szczepkowski	Temporary discharge of the duties of President of the Management Board	18 October 2021 13 January 2022	13 January 2022 for a period of at most three months
Marek Olkiewicz	Management Board Member in charge of Operations	3 February 2022	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Czesław Warsewicz	**President of the Management Board**	27 March 2018	18 October 2021
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	18 October 2021
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	18 October 2021
Piotr Wasaty	Management Board Member in charge of Commerce	1 September 2020	18 October 2021

Source: Proprietary material

Subject to the reservation arising under Resolution No. 12/2022 adopted by the PKP CARGO S.A. Management Board of 19 January 2022, the internal allocation of tasks and functions discharged by Management Board members, resulting from the provisions of the Management Board Bylaws, is as follows:

President of the Management Board – the scope of the President's activity includes directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's business, in particular in the area of business strategy, business security and internal audit.
Special powers of the President of the Company's Management Board include performance of the Company's defense tasks resulting from the regulations on general defense obligation.

Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular in the area of financial management, purchases and sale of assets. Special powers of the Management Board Member in charge of Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.
Management Board Member in charge of Commerce – the scope of duties of the Management Board Member in charge of Commerce covers responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's business, in particular in the area of commercial policy, sales of transportation services.
Management Board Member in charge of Operations – the scope of activity of the Management Board Member in charge of Operations includes caring for the effective execution of the Company's business and technological processes and overseeing

the management of specific areas of the Company's activity, in particular in the areas of transport execution, maintenance of rolling stock.

Management Board Member – Employee Representative – the scope of activity of the Employee Representative in the Management Board includes overseeing the management of specific areas of the Company's activity, particularly in the area of real estate management and administration, management of human resources and relations with social partners in specified areas.

WŁADYSŁAW SZCZEPKOWSKI	acting PRESIDENT OF THE MANAGEMENT BOARD

Mr. Władysław Szczepkowski graduated from the Faculty of Law and Administration in the Department of Theory of the State and Law of the Nicolaus Copernicus University in Toruń.

In 1992-2005, he was associated with the banking sector, where he was involved in financial analysis and restructuring of companies.

In 2010-2016, he worked for PGNiG Group companies. He has many years of experience in the rail industry; he is a former Director for Corporate Affairs in Przewozy Regionalne sp. z o.o.; in 2017 he was a Director – Management Board Representative at PKP S.A. for the strategy and organization of the PKP Group.

In April 2017, he was appointed a PKP CARGO S.A. Supervisory Board Member. Since October 2021, he has been delegated as Acting President of the PKP CARGO S.A. Management Board

MAREK OLKIEWICZ	MANAGEMENT BOARD MEMBER IN CHARGE OF OPERATIONS

Mr. Marek Olkiewicz is a graduate of the Warsaw University of Technology and the Częstochowa University of Technology and MBA, DBA and LL.M post-graduate courses of study. He has more than thirty years of experience in the rail industry, including fifteen years in managerial positions. Prior to becoming the Management Board Member in charge of Operations in PKP CARGO S.A. as of 3 February 2022, he worked in PKP Polskie Linie Kolejowe S.A. as the Vice-President – Director of Operations, Deputy Director and Director of the Railway Lines Unit in Łódź. He also served in the capacity of a Management Board Member in the Association of PKP Railway Employers and he sat on the supervisory boards of other commercial law companies. Mr. Marek Olkiewicz is a specialist in transportation and management. He has gleaned experience in all of the key areas of operational management – ranging from running train traffic, to logistics, finance and human resources and to the management of geographically and organizationally distributed structures. He coordinated the work of the Council of Railway Operators and he worked on the project to create opportunities for cargo transportation using intermodal trains at a velocity of 120 km/h and he participated in the work done by the team appointed at the ministerial level to streamline the organizational processes involved in hauling aggregates and transporting coal in Poland. He was also responsible for organizing the process of enhancing the efficiency of service at border crossings to use them to a greater extent in rail transport. Mr. Marek Olkiewicz has received multiple awards including the Badge of Honor entitled "Medal of Merit for the Railway Industry", the "Medal of Merit for Transport in the Republic of Poland" and the "Medal of Merit for PKP PLK S.A.".

ZENON KOZENDRA	MANAGEMENT BOARD MEMBER – EMPLOYEE REPRESENTATIVE:

Mr Zenon Kozendra – currently the Employee Representative to the PKP CARGO S.A. Management Board and Deputy Chairman of the General Council of the Union of Railway Employers. He has decades of experience in the railroad industry, including in management positions; he has held the position of Employee Representative to the Management Board and Supervisory Board of PKP CARGO S.A. several times. Since the beginning of his professional career he has focused on employee representation areas. He graduated from the Higher School of Public Administration in Kielce and completed post-graduate study of Management at the Kozminski University in Warsaw. In 2001-2005 he was a Member of the PKP CARGO S.A. Supervisory Board representing employees. From December 2005 to June 2008 he served as the PKP CARGO S.A. Management Board Member in charge of employee and administrative affairs. Subsequently he aw the Personnel Strategy Representative of the PKP CARGO S.A. Management Board and the Employee Representative on the Supervisory Board of PKP S.A. From 2006 to 2009, he sat in the Management Board of the Union of Railway Employers in Poland. He is an avid promoter of partnership management – he shared best practices among others at the HR Congress, the Manager's Congress and the European Economic Congress in Katowice. He initiated the implementation of the idea of CSR – corporate social responsibility – in PKP CARGO The initiatives he oversaw in the employee practices and CSR areas over the decade received accolades and were recognized in prestigious contests, among others under the patronage of the Ministry of Economy.

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Vice-Chairperson) appointed for a joint term of office. The number of Supervisory Board members in a specific term of office is set by PKP S.A. (in the 7th term: 11 members). The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

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

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson or Vice-Chairperson. Resolutions of the Supervisory Board are adopted by a simple majority of votes. If an equal number of votes is cast "for" and "against", the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. The Supervisory Board may adopt resolutions without holding a meeting, by following a written procedure or using means of direct remote communication. Decisions in this respect are made by the Supervisory Board Chairperson at his/her own initiative or at a written motion of a Management Board member or Supervisory Board member.In accordance with the Bylaws of the Supervisory Board, in the event of conflicting interests of the Company and personal interests of a Supervisory Board member, his/her spouse, family or relatives (to the second degree next of kin) and personal relations, the Supervisory Board member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes of the Supervisory Board meeting.

Diversity policy

PKP S.A. is authorized to appoint and dismiss PKP CARGO S.A. Supervisory Board Members in a number equal to half the composition of the Supervisory Board. The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board. The Bylaws of running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal were adopted by the Supervisory Board with Resolution No. 1804/VI/2019 on 21 January 2019. A failure to elect the Supervisory Board members representing the employees does not prevent the Supervisory Board from being appointed or from adopting effective resolutions. Independent PKP CARGO S.A. Supervisory Board Members satisfy the independence criteria for Supervisory Board Members defined by the European Commission in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (EU OJ L. 05.52.51) and additional requirements specified in the "Best Practice of WSE Listed Companies 2016" constituting an attachment to Resolution No. 26/1413/2015 of the WSE Supervisory Board of 13 October 2015, § 21 of the Articles of Association and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, Item 1089, as amended).

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

Table 36 Supervisory Board composition on the report delivery date

Full name	Position	Period in office	
		from	to
Krzysztof Mamiński	Supervisory Board Chairman	26 June 2019	to date
	Supervisory Board Member	26 June 2019	to date
Marcin Kowalczyk	Supervisory Board Member	14 January 2021	to date
	Supervisory Board Vice-Chairman	25 May 2021	to date
Krzysztof Czarnota	Supervisory Board Member	26 June 2019	to date
Zofia Dzik	Supervisory Board Member	26 June 2019	to date
Dariusz Górski	Supervisory Board Member	26 June 2019	to date
Paweł Sosnowski	Supervisory Board Member	26 June 2019	to date
Jerzy Sośnierz	Supervisory Board Member	26 June 2019	to date
Tadeusz Stachaczyński	Supervisory Board Member	26 June 2019	to date
Władysław Szczepkowski	Supervisory Board Member	26 June 2019	to date
	(seconded to temporarily perform the duties of President of the Management Board)	18 October 2021	13 January 2022

		13 January 2022	for a period of at most three months
Izabela Wojtyczka	Supervisory Board Member	16 July 2020	to date
Antoni Duda	Supervisory Board Member	21 August 2020	to date

Source: Proprietary material

Krzysztof Mamiński – Supervisory Board Chairman

Mr. Krzysztof Mamiński has been associated with railways for over 40 years. He is a graduate of the University of Szczecin, where he obtained the degree of Master of Economics. He also completed postgraduate studies in the field of European Management Model in the Kozminski University in Warsaw.

He started working on the railways in 1980, in the IT Center at the Central Regional Directorate of the State Railways (CDOKP) in Warsaw. From 1990, he was a member of the National Committee of the "Solidarity" Trade Union, discharging, among others, the functions of the head of the National Section of Railway Employees of the "Solidarity" Trade Union and the head of the Office of Transport Employees in the union. In 1998-2002 he sat on the Management Board of Polskie Koleje Państwowe, in charge of restructuring and employee relations. From 2001 to 2012, he was President of the Union of Railway Employers, and from 2002 to 2012 – the President of the Management Board of Natura Tour Sp. z o.o., a subsidiary of PKP. In 2012-2013, he was the Representative of the Management Board of PKP S.A. for Social Dialog in PKP Group, and for the next three years – the President of CS Szkolenie i Doradztwo sp. z o.o., a company of the PKP Group. In 2006, he served as a Member of the Supervisory Board of PKP Linia Hutnicza Szerokotorowa Sp. z o.o., and from 2006 to 2013 he was a Member of the Supervisory Board of WARS S.A. From April 2016, he discharged the function of President of the Management Board of Przewozy Regionalne sp. z o.o., and from March 2017 he has been President of the Management Board of PKP S.A. From 26 October 2017 to 25 March 2018, he held the position of President of the Management Board of PKP CARGO S.A.

Marcin Kowalczyk – Supervisory Board Vice-Chairman

Mr. Marcin Kowalczyk graduated from the Faculty of Law and Administration at the University of Warmia and Mazury in Olsztyn. He completed his post-graduate studies at the National Defense University of Warsaw, Earned an MBA degree from the Warsaw Management University.

He started his professional career as an assistant in the political office of the Minister of National Defense and a classified information protection officer at the Chancellery of the President of the Republic of Poland. He also served as deputy CEO of the Military Property Agency and a Supervisory Board member at the Military Property Agency. He held a managerial position at PGE Energia Odnawialna. In 2018-2020, he served as Vice-President of Wojskowe Przedsiębiorstwo Handlowe.

Since May 2020, he has been associated with PGE Dystrybucja, first as Vice-President of the Management Board and then, since September 2020, as President of the Management Board. Currently, he serves as Head of the Political Cabinet of the Minister of State Assets.

Krzysztof Czarnota – Supervisory Board Member

Mr. Krzysztof Czarnota completed the Railway Technical School in Skarżysko-Kamienna as a Transportation Technician. Since 1977, he has worked for PKP, including in the Locomotive Depot in Skarżysko-Kamienna, in the Unclassified Station in Skarżysko, in the District Station in Skarżysko, in the Freight Transport Unit in Skarżysko and currently in the Company's Eastern Unit in Lublin as a dispatcher in charge of the shift.

Since 1992, Mr. Krzysztof Czarnota has served as Chairman of the Independent Trade Union of Railway Workers of PKP Cargo S.A. in Skarżysko-Kamienna. Since the establishment of the Freight and Transshipment Industry Board at the Federation of Trade Unions of Railway Workers, he had served as its Chairman and currently is Vice Chairman of the Cargo Industry Board at the Federation of Trade Unions of Railway Workers. He is a member of the Bureau, the Board and the National Council of the Federation of Trade Unions of Railway Workers.

From the incorporation of the Company, i.e. from 2001 until 29 September 2015, he was a member of the PKP CARGO S.A. Supervisory Board and a representative of all employees of PKP CARGO S.A. as a delegate of the Federation of Trade Unions of Railway Workers.

Zofia Dzik – Supervisory Board Member – independent member

Ms. Zofia Dzik is a graduate of the Kraków University of Economics, University of Illinois in Chicago, University of Social Sciences and Humanities in Warsaw and of the Executive Programs at INSEAD Business School. She holds an MBA title from Manchester Business School and is a certified member of the Association for Project Management (APMP) and a certified member of The John Maxwell Team, a top international organization associating eminent leadership coaches, trainers and speakers.

In the years 1995-2003, she worked for Arthur and Andersen Business Consulting as a consultant responsible for the insurance sector (Insurance Division Director). From 2003 she was associated with Intouch Insurance Group (RSA Group), where in the years 2004-2007 she performed the function of the President of Towarzystwo Ubezpieczeń LINK4 S.A., whereas in the years 2007–2009 a function of a management board member of Intouch Insurance B.V. in the Netherlands and the CEO for East-Central Europe of Intouch Insurance Group. In that capacity, she was responsible for developing new markets; she was also the chairwoman of the supervisory boards of: TU Link4 S.A. and Direct Insurance Shared Services Center in Poland, Intouch Strachowanie in Russia and Direct Pojistovna in the Czech Republic, as well as the deputy chairwoman of the supervisory board of TU na Życie Link4 Life S.A.

In 2006-2008, she served as a management board member of the Polish Chamber of Insurance. In the years 2007-2010, she was a supervisory board member of the Insurance Guarantee Fund. She also sat on the supervisory boards of: KOPEX S.A. and Polish Energy Partners S.A (PEP S.A.)

Currently, she is the President of the Humanites Institute, mentor, author of the “Consistent Leadership” model, director of the Academy for Leaders in Education as well as member of the supervisory boards of BRW S.A., ERBUD S.A., Benefit Systems S.A. and other companies, and in the past she also sat on the supervisory boards of PKO BP S.A., AmRest SE, ERBUD S.A., and PEP S.A., among others.

Dariusz Górski – Supervisory Board Member – independent member

Mr. Dariusz Górski is a graduate of the Warsaw School of Economics (SGH). During his professional career, he underwent extensive training in finance, financial analysis and management, including a course for an investment adviser and corporate finance (scholarship at the Erasmus University in Rotterdam).

He began his professional career in 1992 as a financial analyst at Caresbac Polska S.A., one of the first venture capital companies on the Polish market. In 1993-1996, he worked at Business Management & Finance S.A. as a financial analyst, and from 1995 as the head of projects in the areas of strategic consulting, mergers and acquisitions, privatization and restructuring. In 1996, he joined Robert Fleming & Co (acquired in 2000 by Chase Manhattan Bank) as a stock analyst, initially specializing in the food, industrial and IT sectors. From 1998, he was an analyst of the banking sector in Central Europe. In 2001, he joined ING Securities as a stock analyst covering the whole Polish market with a particular focus on banks, commodity companies and the fuel sector. In 2004, he was hired by Deutsche Bank Securities as the head of stock market analysis for the Central Europe region, responsible for the overall product and the banking sector. In 2008, he became a stock portfolio strategist at Opera TFI. In 2009-2011, he headed the department of analysis of the Polish stock market at Wood & Co where he was responsible for the financial sector, the media and the stock market strategy. From 2011, he was employed at the BZ WBK Brokerage House (currently the Santander Brokerage House), initially as a senior analyst, Deputy Head of the Analysis Team, and from 2015 as the Director of the Stock Exchange Analysis Department responsible for supervision and team products, financial sector analysis and strategy for the stock market. Currently, he serves as the Corporate Banking Director in Bank Millennium.
Mr. Dariusz Górski’s professional achievements include a host of high positions in international and national investor rankings. In 2004, the team of ING Securities analysts in Warsaw came third in the Institutional Investor Magazine ranking and in 2003 it won the top place in the same ranking. In 2007, the DB Securities team was #1 in the Thomson Extel ranking in the Hungarian/Czech market category and #2 in the Polish market category, while the banking team was #1 in the EMEA Financials category. In 2006, the Polish DB Securities team was #3 in the Institutional Investor Magazine ranking (2005: #4), while the team of DB banking analysts was #2 (2005: #3). In rankings compiled by GG Parkiet analyst, it was at the top of the list – the banking team was #2/3/3 in 2017/16/15, respectively, and the market strategy team was #5/2 in 2017/16, respectively.

Tadeusz Stachaczyński – Supervisory Board Member

In 1980, Mr. Tadeusz Stachaczyński completed a Railway Technical School specializing in the operation and repair of traction vehicles. In 2010, he graduated in engineering from the Subcarpathian School of Higher Education in Jasło, majoring in transportation and freight forwarding. In 2011, Mr. Stachaczyński completed postgraduate studies in marketing and market research.

Since 1974, Mr. Tadeusz Stachaczyński has been employed by PKP CARGO S.A.'s Southern Unit (formerly, PKP's Locomotive Depot in Jasło). In 1995-2014, Mr. Stachaczyński was a councilor of the Town Council of Jasło where he served in the budget, development and audit committees.

Since 2009, Mr. Tadeusz Stachaczyński has served as Chairman of the Company Council of the Trade Union of Train Drivers at PKP CARGO S.A.'s Southern Division, and since 2013 has been Chairman of the Freight Sector of the Trade Union of Train Drivers.

Mr. Tadeusz Stachaczyński was a member of the Supervisory Board of PKP CARGO S.A. Centrum Logistyczne Medyka-Żurawica Sp. z o.o. in 2011-2013.

Władysław Szczepkowski – Supervisory Board Member

Mr. Władysław Szczepkowski graduated from the Faculty of Law and Administration in the Department of Theory of the State and Law of the Nicolaus Copernicus University in Toruń.

In 1992-2005, he was associated with the banking sector, where he was involved in financial analysis and restructuring of companies.

In 2010-2016, he worked in PGNiG Group companies. He has a long-term experience in the rail industry, holding the positions of Director for Corporate Affairs in Przewozy Regionalne sp. z o.o. and, in 2017, Director and Management Board Representative of PKP S.A. for the strategy and organization of the PKP Group.

In April 2017, he was appointed a PKP CARGO S.A. Supervisory Board Member. Since October 2021, he has been Acting President of the PKP CARGO S.A. Management Board

Jerzy Sośnierz

Mr. Jerzy Sośnierz graduated from the Technical School of Metallurgy in Dąbrowa Górnicza in the field of mining machinery construction in 1978. He took a train traffic controller course in 1979. In 2010 he received a master's degree from the Administration and Management Faculty of the Humanitas University in Sosnowiec, majoring in public administration.

Mr. Jerzy Sośnierz has 40 years of experience in the railway industry. His career began in 1978 when he became a train traffic controller in Bukowno, later becoming a dispatcher in Jaworzno-Szczakowa and after the restructuring of PKP CARGO S.A. he became a shift dispatcher in Katowice. He co-founded the Bukowno Chapter of the NSZZ Solidarność trade union. He has been connected to NSZZ Solidarność ever since, acting as the Chairman of the Union at the PKP Cargo S.A. South Unit. During his term in office, he was a member of the Executive Committee of the Trade Section in PKP CARGO S.A., a member of the Council of the Trade Section in PKP CARGO S.A., a member of the National Council of the Railwaymen Section and a Delegate for the General Meeting of the Transport Secretariat.

Paweł Sosnowski

Mr. Paweł Sosnowski graduated from the Faculty of Law and Administration at the University of Warsaw and from the Faculty of Canon Law at the Warsaw Theological Academy. He obtained a Ph.D. degree in administrative law from the Catholic University of Lublin. Mr. Paweł Sosnowski is also a licensed legal counsel and a member of the Regional Chamber of Legal Counsels in Warsaw.

In 1992-2006, Mr. Paweł Sosnowski was associated with Totalizator Sportowy Sp. z o.o., and in 1998-2002 he rendered his services to the State Fund for the Rehabilitation of the Disabled. In parallel, he also lectured at the Faculty of Administration and Social Sciences of the Warsaw University of Technology and cooperated with the Department of Administrative Law and Local Self-Government at the Cardinal Stefan Wyszyński University in Warsaw. In 2003-2007, he served as Deputy Mayor of the Wawer District of Warsaw and Chief Specialist in the Legal Department of the Warsaw City Hall. In 2007, he also served as Deputy County Construction Supervision Inspector in the County Construction Supervision Inspectorate for the Capital City of Warsaw. Since 2007, he has worked for the General Counsel to the Republic of Poland.

Mr. Paweł Sosnowski was a member of the Supervisory Board of LIGIA Sp. z o.o. (2000-2002), Supervisory Board Chairman of Towarzystwo Budownictwa Społecznego "WOLA" Sp. z o.o. (2003-2006) and a member and secretary of the Supervisory Board of PKP S.A. (2017-2018).

Izabela Wojtyczka

Ms. Izabela Wojtyczka is a graduate of economics from the Global Economic Interdependence Department at Warsaw School of Economics in Warsaw, the Department of Political Science and International Studies at the University of Warsaw and a scholarship holder from the Pázmány Péter Catholic University in Budapest. She holds an Executive Master of Business Administration (EMBA) degree and an international project management certificate from the PRINCE2 Foundation. She is Vice-President of the Management Board of PZU Centrum Operacji SA. In 2020-2021, she was the Deputy Director of the Ownership Supervision Reform Department in the Ministry of State Assets, responsible for preparing a reform, the most far-reaching for 20 years, of the Commercial Company Code in Poland. Since July 2020, she has been a PKP Cargo S.A. Supervisory Board member. In the past, she has worked with the Ministry of Entrepreneurship and Technology, Polskie Górnictwo Naftowe i Gazownictwo Obrót Detaliczny sp. z o.o., the Polish Institute of International Affairs and non-governmental organizations.

Antoni Duda

Mr. Antoni Duda graduated from the Electrical Engineering Department at the AGH University of Science and Technology in Kraków. In 1974, he began to work as an associate lecturer in the Higher School of Engineering in Opole making the city his permanent home.
When the Solidarity movement was born, he combined his professional activity with his social commitment and co-formed the structures of the Original Solidarity movement at the university. At the same time, he got involved in the establishment of the Catholic Intelligence Club in Opole with which he continues to maintain his affiliation to the present. He served as vice-president from 1993 and he has been the president since 2002.

In 1983, his professional career took him to industry, where he joined PRiMUE Remak companies (at the time, the group was a major provider of maintenance, repair and overhaul services for the power sector) for more than ten years and then worked for APC METREM. He supplemented his education with postgraduate studies in non-destructive material testing methods. In the landmark year of 1989 he became involved in the recreation of trade union structures in PRiMUE Remak, one of the larger trade union organizations at that time in the Opole region. That led him to be a delegate from the Opole Region of Silesia at the second and third National Convention of Delegates of NSZZ "Solidarność" held in Gdańsk in April 1990 and February 1991.

In 1998 he became the director of the Opole branch of the ZUS Social Insurance Institution during the most difficult period of implementing the largest reform in the history of ZUS. In the meanwhile he enriched his technical education with postgraduate studies in business and commercial law at the University of Wrocław. He was a member of the Supervisory Board of the Regional Sickness Fund in Opole from 1999 to 2002, while from 2007 to 2008 he was a member of the Supervisory Board of BOT KWB in Turoszów.
He headed up the County Labor Office in Opole from 2003. He presided over the Assembly of Directors of County Labor Offices in the Opole region three times. The Opole Chamber of Commerce conferred the silver and gold award on the office headed up by Antoni Duda for skills and competences in the category of a "person or institution supporting the development of a market economy or education to meet a company's needs" (in 2009 and 2012). In turn, he received the title of Excellent Leader in the 11th annual Quality Award of Opole (2014). In 2015 he received a gold medal for his many years of service. He was elected to be a member of parliament from the Law and Justice party's list in the parliamentary elections held on 25 October 2015. He worked in three commissions in Poland's Sejm: the Economy and Development Commission, the Social Policy and Family Commission and the National and Ethnic Minorities Commission.

SUPERVISORY BOARD AUDIT COMMITTEE

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

The tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the firm authorized to audit financial statements, also when it provides to the Company other services than financial audit and review, assessing the independence of a statutory auditor and giving consent for it to provide permitted financial audit services, recommending a firm authorized to audit financial statements to the Shareholder Meeting to perform financial audit activities in the Company, in compliance with the policies in force in the Company: "Policy and Procedure for the selection of an audit firm to audit the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group and Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network."

Table 37 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2021 to the delivery date of this report

Name and surname	Position	Period in office	
		from	to
Dariusz Górski	Committee Member Committee Chairman	1 July 2019	to date
Zofia Dzik	Committee Member	1 July 2019	to date
Władysław Szczepkowski	Committee Member	24 August 2020	to date

Source: Proprietary material

In 2021, the Audit Committee held 9 meetings and took 2 votes without holding a meeting, using means of direct remote communication. In 2021, the Audit Committee adopted 12 resolutions.
The Audit Committee members who satisfy the statutory criteria of independence in relation to the issuer:

- Ms. Zofia Dzik,
- Mr. Dariusz Górski,

As required by the provisions of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (Journal of Laws of 2019, Item 1421, as amended), the independent members of the Audit Committee submitted statements confirming their fulfillment of the criteria listed in Article 129(3) of the said Act.

The Audit Committee members who have the knowledge and skills in the area of accounting or auditing of financial statements:

1. Ms. Zofia Dzik: 9 years of experience in a Big Four firm providing audit services and financial and business consulting services in 1995-2004, Senior Manager and Director in a business and financial consulting department, MBA postgraduate studies, Manchester Business School, member, vice-chair and chair of audit committees in public interest entities (since 2011). At the same time, Ms. Zofia Dzik sat on the corporate bodies of a company in the transport, forwarding and logistics industry (InPost S.A.).
2. Mr. Dariusz Górski: M.A. in economics (1995) – Warsaw School of Economics, investment advisor (1995), Erasmus Universiteit Rotterdam scholarship holder in a corporate finance program (1992/1993);

A member of the Audit Committee who has the knowledge and skills in the specific industry in which PKP CARGO S.A. operates is:

1. Mr. Władysław Szczepkowski (Committee Member since 24 August 2020): 12 years of experience in banking, including financial analysis and corporate restructuring, legal counsel (since 2000) – Faculty of Law and Administration of the Nicolaus Copernicus University in Toruń, President of the PKP CARGO S.A. Management Board (2005 – 2007), Representative – Director for Corporate Affairs of Polskie Koleje Państwowe S.A. (since 2017), discharging the functions of a member of the supervisory board and the strategy and nomination committees of the supervisory board of PKP CARGO S.A.

In accordance with the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019, Item 1421, as amended), The Supervisory Board's Audit Committee, by Resolution No. 9/2019 of 15 April 2019, established the

Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network and the Policy and procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.

The policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. In accordance with the Articles of Association of PKP CARGO S.A., the audit firm is selected by the Shareholder Meeting of PKP CARGO S.A. from among entities participating in the Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. The selection is made on the basis of a recommendation submitted by the Audit Committee, which contains:
   - at least two options for the selection of an audit firm along with a justification and indication of the candidate for the auditor preferred by the Audit Committee;
   - statement by the Audit Committee that its recommendation is devoid of any third party influence;
   - statement by the Audit Committee confirming that PKP CARGO S.A. has not entered into any agreements containing clauses that would confine the Shareholder Meeting's selection of an audit firm to certain categories or lists of audit firms.
2. When issuing a recommendation and when selecting an audit firm, the Audit Committee and the Shareholder Meeting, respectively, are required to pay special attention to:
   - the need to maintain the independence and objectivity of the audit firm and the auditor – the scope of services provided during the most recent financial years by the audit company itself as well as by its related parties and network members to the Company or its parent company or entities controlled by PKP CARGO S.A. is a matter of detailed analysis;
   - experience in auditing standalone and consolidated financial statements of public interest entities of a similar size to that of the Company and the PKP CARGO Group and listed on the Warsaw Stock Exchange;
   - experience in auditing companies with a similar business profile to that of the Company;
   - professional qualifications and experience of persons directly involved in the conduct of the audit/review of the Company and selected subsidiaries of PKP CARGO S.A.;
   - the ability to provide the required range of services within the specified period, including the ability to ensure the stability of the team;
   - the availability of qualified specialists in of specific issues related to financial statements, such as tax analysis, hedge accounting, measurement of derivatives, IT systems;
   - costs of the audit.
3. The selection of an audit firm must be made sufficiently in advance to enable the execution of the audit contract early enough to enable the audit firm to prepare for the interim review.
4. Verification and monitoring of the independence of the statutory auditor and the audit firm are carried out at every stage of the procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.
5. The selection of an audit firm is made in consideration of the principle of rotation of audit firms and key statutory auditors in such a manner that the maximum duration of uninterrupted statutory audits for individual financial years carried out by the same audit firm or by a company related to this audit firm or any member of the network operating in European Union Member States which includes these audit firms does not exceed five years and the key statutory auditor does not perform any statutory audits in the Company for more than five years. The same key statutory auditor may be selected no earlier than three years after the completion of the most recent statutory audit.
6. The first contract for a statutory audit is entered into with an audit firm for a period not shorter than two years with an option to extend the contract by subsequent periods of at least two years, in consideration of the rules of rotation of audit firms and key statutory auditors in compliance with the applicable laws.
7. The audit firm selection process is conducted in accordance with the adopted "Policy and Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group".

The Policy and Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. The selection procedure is initiated by the Audit Committee of the Supervisory Board which lays down detailed guidelines regarding the requirements to be satisfied by the audit firm responsible for conducting audits of standalone

financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group as well as the selection criteria. The technical organization of the audit firm selection process is the responsibility of the person appointed by the Audit Committee (Coordinator) in consultation with the PKP CARGO S.A. Management Board Member in charge of Finance.

2. The coordinator, with the support of the Procurement Department of PKP CARGO S.A., prepares and carries out a procurement procedure in accordance with the Regulations for awarding contracts at PKP CARGO S.A. If the selection of an audit firm is carried out under a procurement procedure resulting from the establishment of a procurement group within the PKP S.A. Group, the PKP CARGO S.A. Supervisory Board designates a person/persons to join the tender committee and represent PKP CARGO S.A.
3. The request for proposals to be sent to audit firms in compliance with Article 130 Section 3 Item 2 of the Act should contain at least the following information:

- presentation of the business of PKP CARGO S.A. and its controlled entities, the organizational structure of the Company and the PKP CARGO Group, locations of business;
- list of entities and the scope of their financial statements subject to audit and review, period covered by the request for proposals, additional services (if any) (taking into consideration the requirements of the Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network).
- selection criteria applied by the Company in the evaluation of proposals submitted by audit firms.
- additional expectations and requirements for bidders resulting from, without limitation, the selection criteria adopted for application, including, in particular, the need to provide information on:
  - total price offered for the conduct of interim reviews and the audit of the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group and, if specified in the request for bids, separately for each member of the PKP CARGO Group (including statutory VAT), specifying the price of each interim review and annual audit of the financial statements and the terms of payment of the fee for these services;
  - planned dates for carrying out the work, including, in particular, the time limits for the submission of audit/review reports;
  - methods of the audit firm's work, certificate of entry in the list of audit firms authorized to audit financial statements;
  - current third party liability insurance policy covering the audit firm;
  - composition of the audit team(s) dedicated to the conduct of reviews and audits of the financial statements, along with information on the competences and experience of the team members;
  - independence of the statutory auditor and the audit firm;
  - readiness to participate in meetings of the Company's statutory bodies (Supervisory Board and Shareholder Meeting) and the Audit Committee;

4. The Company evaluates the proposals submitted by audit firms. If the procurement procedure is conducted by a member of the PKP Group, the evaluation referred to in the preceding sentence is made on the basis of documentation from the procurement procedure provided by that member company. The Company submits for approval to the Audit Committee a report containing the conclusions of the selection procedure (hereinafter: the report) along with all documentation from the procurement procedure.
5. After receiving the report, the Audit Committee prepares a recommendation for the Shareholder Meeting in accordance with the provisions of the Policy, taking into consideration the conclusions of the annual report of the Audit Oversight Commission referred to in Article 90 Section 5 of the Act, the analysis of proposals submitted by audit firms, documentation of the procurement procedure and the report.
6. In accordance with the Company's Articles of Association, the selection of an audit firm is made by the Shareholder Meeting.
7. Based on the resolution adopted by the Shareholder Meeting, the Company signs an audit contract with the selected audit firm.
8. After the adoption of a resolution on the selection of an audit firm by the Shareholder Meeting, the Management Board is required to communicate, in the form of a current report, information about the selection made, in compliance with the applicable laws.
9. If there is a justified suspicion that the pending procedure for the selection of an audit firm may lead to the selection of an auditor out of compliance with the principles laid down in the Act, Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC and the Procedure and Policy for the selection of an audit

firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group, in particular in breach of the principles of impartiality and independence, the Audit Committee may, by resolution, at any time during the procedure, terminate it without issuing the recommendation referred to in item 5 above and immediately start a new procedure.

The Audit Committee has adopted the following rules governing the provision of additional services by audit firms, including their related parties or members of their network (hereinafter: the audit firm) responsible for auditing standalone financial statements of the Company and consolidated financial statements of the PKP CARGO Group:

1. Besides the audit/review of the financial statements, the audit firm may provide the following services to: (i) the Company, or (ii) entities controlled by PKP CARGO S.A. (hereinafter: controlled entities), or (iii) the parent company of PKP CARGO S.A. (hereinafter: the parent company):
   - conducting due diligence procedures regarding the economic and financial standing and preparation of comfort letters in connection with the issue prospectus, carried out in accordance with the national standard of related services (agreed procedures);
   - assurance services regarding pro forma financial information, result forecasts or estimates given in the issue prospectus;
   - audits of historical financial information, referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004;
   - verification of consolidation packages;
   - confirmation of the fulfillment of the terms of loan agreements based on an analysis of the financial information provided in the financial statements;
   - assurance services regarding corporate governance, risk management and corporate social responsibility reporting;
   - auditor's opinion on financial statements or other financial information addressed to supervisory authorities, the supervisory board or another supervisory body of the Company or the shareholders, not covered by the scope of the statutory audit, and intended to support those bodies in the performance of their statutory duties.
2. Provision of the services referred to above is possible only within a scope not related to the tax policy of the Company, its parent entity or subsidiaries, after the Audit Committee of the Supervisory Board has assessed the threats and warranties regarding the independence of the audit firm.
3. The execution of an agreement for the provision of additional services by the audit firm requires in each case the consent of the Audit Committee at the request of the pertinent company's Management Board. Before making a decision in the matter, the Audit Committee may request any and all documents necessary or useful, in the opinion of the Audit Committee, for evaluation of the threats to and safeguards of independence. The consent of the Audit Committee referred to in the preceding sentence is required for the audit firm to execute an agreement with the Company, with each controlled entity and with the parent company.
4. If the audit firm conducting the audit additionally provides non-auditing services for a period of at least three consecutive financial years, then the fee for the provision of such services must be limited to 70% of the average fee for the last three subsequent financial years paid for the statutory audit of the standalone financial statements of PKP CARGO S.A. and, if applicable, its controlled entities and parent company as well as the consolidated financial statements of the PKP CARGO Group. Services that are required to be provided by law are excluded from this limit. The audit firm is responsible for compliance with the set fee limit.
5. As regards prohibited services, that is services other than the authorized services, their provision is prohibited, either directly or indirectly, to PKP CARGO S.A., its controlled entities or the parent company by the audit firm represented by the statutory auditor as well as by any member of its network that conducts audit work in PKP CARGO S.A. during the period from the start of the audited period until the issue of the audit report. In the case of services involving the development and implementation of internal control procedures or risk management procedures related to the preparation or verification of financial information or services involving the development and deployment of technological financial information systems, their provision is prohibited also in the financial year immediately preceding the audited period.
6. The Company presents to the Audit Committee of the Supervisory Board, at least annually, a list of all additional services provided by the audit firm to PKP CARGO S.A., its parent entity and the entities controlled by the Company.

NOMINATION COMMITTEE

The Nomination Committee is appointed by the PKP CARGO S.A. Supervisory Board. The Nomination Committee consists of three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association, to discharge the function of Committee Chairman. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company's Management Board members and over the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and remuneration for the Company's employees, including in particular the Company's Management Board Members and senior management.

Table 38 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2021 to the delivery date of this report

Full name	Position	Period in office	
		from	to
Zofia Dzik	Committee Chairwoman	1 July 2019	to date
Izabela Wojtyczka	Committee Member	21 September 2020	to date
Paweł Sosnowski	Committee Member	18 October 2021	to date
Władysław Szczepkowski	Committee Member	1 July 2019	18 October 2021

Source: Proprietary material

STRATEGY COMMITTEE

The Strategy Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategy Committee supports the Supervisory Board in its supervision over the establishment of the strategy as well as the proper pursuit of the strategy and annual and long-term activity plans for the Company and its Group.

Table 39 Composition of the Strategy Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2021 to the delivery date of this report

Name and surname	Position	Period in office	
		from	to
Władysław Szczepkowski	Committee Member Committee Chairman	1 July 2019 23 September 2020	to date to date
Dariusz Górski	Committee Member	1 July 2019	to date
Paweł Sosnowski	Committee Member	21 September 2020	to date
Antoni Duda	Committee Member	21 December 2020	to date

Source: Proprietary material

10. Representation of the PKP CARGO Group and PKP CARGO S.A. on non-financial information

Social responsibility must be multi-dimensional today: human being, business, environment

– Zenon Kozendra, Management Board Member, Employee Representative and corporate social responsibility (CSR) ambassador in PKP CARGO S.A.

Recent years in PKP CARGO have resulted in a more dynamic approach to the perception of social responsibility – both in the international and domestic perspectives as well as with respect to business management. With each year, there is a growing awareness that the resources on the planet available to the society are becoming increasingly limited. Overriding importance has been attached to climate protection issues, also because of the broadening of laws and regulations in the area. People perceive more and more clearly today – both at the global and local levels – that it is necessary to perform processes in a sustainable manner. Developing activities in the area of corporate social responsibility at PKP CARGO S.A., we make efforts to listen to the expectations of the market, clients and the society just in that regard.

In the business strategy, we take into account key components of sustainable development. We seek solutions which, apart from focusing on achieving profit, will also take into consideration the impact of our activity on protecting the environment and building the social value. Our key objective is to manage the transportation process efficiently and with respect for the highest standards of sustainable development in the economic, social and environmental aspect.

Corporate social responsibility activities have been a constant part of the PKP CARGO S.A. long-term strategy. Their framework is determined by the PKP CARGO S.A. CSR Policy, based on international standards, such as the ISO 26 000 certificate and the Global Reporting Initiative. We also adjust these activities to, so relevant today, the UN Sustainable Development Objectives. Every year, our corporate social responsibility activities are distinguished as model practices in the Polish nationwide Best Practices Report. For PKP CARGO S.A., a responsible approach to performed processes is first of all a long-term active cooperation with our clients, shareholders, employees and local communities. As a Company operating on the Polish and international markets, caring for the performance of business processes in a sustainable and responsible way, we are able to have a positive impact on our entire surroundings. In a long-term perspective, we develop partnership within social dialog with Social Side Representatives, jointly working out the best possible solutions to employee issues or business process development. The pandemic and the variable market environment show us that the partnership with the Social Side serve to build a positive climate of collaboration within the organization and support business operations on the outside.

In the CSR concept covering many years, we focus first and foremost on our employees. The special character of tasks performed in the rail sector requires from us, most importantly, a responsible approach to building a secure workplace. This is of particular significance in view of nearly 7 thousand PKP CARGO S.A. employees working in positions directly related to the operation and safety of rail traffic.

In a long-term perspective, then, we will consistently develop the main initiatives aiming to strengthen the culture of safe workplace, that is the campaign “Direction: Safety at Work” and the Post-Accident Psychological Support program performed since 2017. We count on long-term many years’ programs, adjusted to the Company’s profile and the special nature of the processes performed by it.

The PKP CARGO Group as Poland’s largest rail freight carrier in Poland fulfills the role of patron of rail technology history. For 17 years, the Group has maintained historic rolling stock in an open-air museum in Chabówka (Małopolskie voivoidship). We have been co-funding, jointly with the local governments, the operations of 114-year-old Wolsztyn Railway Roundhouse, which has had the status of the Cultural Institution. Due to the long-term involvement in the area of historical inhereritance, we connect the rail tradition with the future. CSR initiatives, for many years, have also supported integration of our employees, promoting healthy and active lifestyle and encouraging them to help one another. Such initiatives include, for example, the promotion of volunteer blood donation by PKP CARGO S.A. or our many years' flagship program "A Running-Friendly Company".

In 2021, the Company placed great stress on adjusting running activities to the restrictions related to the COVID-19 pandemic. Our jubilee project "2,000 kilometers for the 20th anniversary of PKP CARGO S.A." turned out a great success. It will serve us as the basis for implementing initiatives dedicated to both runners and cyclists in 2022.
With regard to activities promoting the environment, we count mainly on effective management of processes performed by PKP CARGO S.A. The Company's basic activity – rail freight transport – meets the expectations connected with climate protection. The greenhouse gas emission level in rail freight transport is nearly 9 times lower than in the case of road freight transport.

Transporting goods by rail, together with our Clients, we save, for the environment, the emissions of approx. 3.4 million tons of CO_2 per year. The environmental protection control system is governed by internal procedures and monitored. The rules followed by us in everyday practice translate into minimization of our environmental footprint.
In 2022 we will continue to consistently develop our CSR projects, focusing on sustainable development and also involving in activities the Company's clients, business partners, Social Side representatives and employees. Sustainable development and social accountability are constant elements supporting state-of-the-art management. They are an important aspect of the Company's aspirations to make railway perceived as an even more attractive means of transport, offering highest quality services.

10.1. Representation of the PKP CARGO Group

The Representation of the PKP CARGO Group[65] on non-financial information for 2021 (hereinafter: the Representation), constitutes a standalone part of the Report on the PKP CARGO Group Activities (hereinafter: the Group, PKP CARGO Group) and presents non-financial information about the Group for the period from 1 January 2021 to 31 December 2021. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), the GRI guidelines (Global Reporting Initiative) and reflects the provisions of the Accounting Act of 29 September 1994.
In its non-financial reporting, the PKP CARGO Group addresses the following issues:

10.1.1 Description of the business model

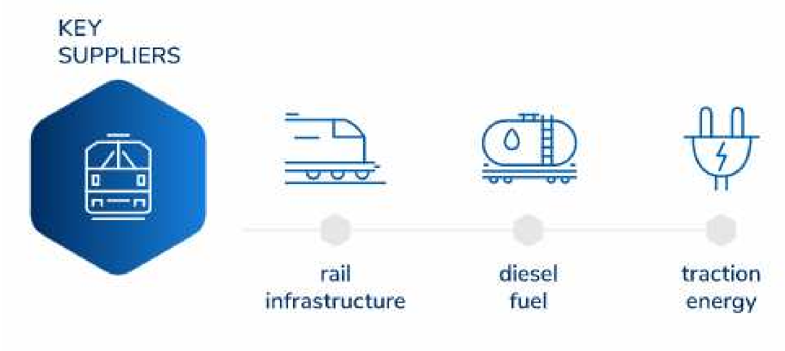
The PKP CARGO Group is one of the biggest rail freight operator in Poland and in the European Union. The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area.

[65] The data included in the disclosures also cover the subsidiaries PKP CARGO CONNECT and PKP CARGO International (formerly AWT)

The Group employs competent staff with extensive experience, who ensure the highest quality of services and form the foundation of the its operations. As at 31 December 2021, the Group had over 20,562 thousand employees.

BUSINESS MODEL

The business model of the PKP CARGO Group is based on performance of the main activity, i.e. rail freight and complementing the offer with additional services. In order to carry out its operations seamlessly, the Group uses the available capital and allocates it in the most efficient way possible.

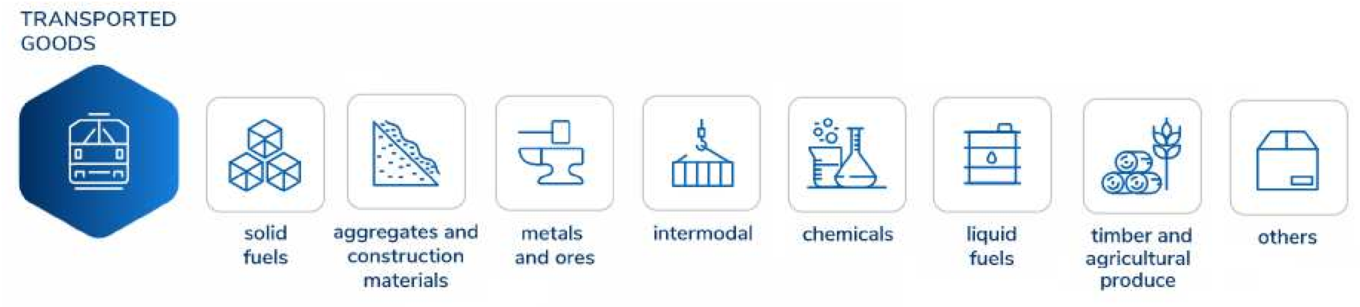


The PKP CARGO Group's operations are also based on relations with the key suppliers of the PKP CARGO Group that are responsible for rail infrastructure, fuels and electricity. PKP PLK S.A. is responsible for the condition of the rail infrastructure used by the Group's rolling stock. The locomotives used by the Group are powered by diesel fuel and traction energy. Electricity is delivered by PKP Energetyka. All the factors listed above have an impact on the costs of the PKP CARGO Group's services.

The Group's key customers include steel mills, coking plants, power plants, mines, steel works and railway shipping companies. The PKP CARGO Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa

Górnicza and MM Kwidzyn (belonging to Mayr-Melnhof Karton AG). The contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by the PKP CARGO Group.

The major categories of goods transported include:



10.1.2 Key non-financial performance indicators of the PKP CARGO Group operations

NATURAL ENVIRONMENT

Table 40 Electricity consumption by the Group in 2017-2021

Electricity	Energy consumed [MWh]				
	2021	2020	2019	2018	2017
Traction	546,327	509,532	607,035	703,493	645,438
Non-traction	39,069	30,021	43,665	45,193	44,512

Source: Proprietary material

Table 41 Air emissions by the Group in 2017-2021

Substance emission	Total emissions [t]				
	2021	2020	2019	2018	2017
Sulfur dioxide	368	373	850	4,369	1,159
Nitrogen dioxide	1,602	1,572	2,079	9,040	3,418
Carbon oxide	616	608	755	657	758
Carbon dioxide	480,342	481,820	505,618	624,717	527,792

Benzo[a]pyrene	0	0	0	2	0
Dust and soot	226	218	214	447	262
Total hydrocarbons	353	312	481	467	455
HFC	0	0	0	0	0
Other	53	51	27	46	35

Source: Proprietary material

Table 42 Primary waste produced by the Group, by type and volume, in 2017-2021 business model

Waste	Waste Code	Waste volume [t] in 2021		Waste volume [t] in 2020		Waste volume [t] in 2019 inventory at the end of		Waste volume [t] in 2018		Waste volume [t] in 2017	
		Prev.	Ver.	Prev.	Ver.	Prev.	Ver.	Prev.	Ver.	Prev.	Ver.
Sawdust, shavings, cuttings, wood, chipboard, and veneer, other than those listed in 03 01 04	03 01 05	12.2	3.9	5.1	12.2	441	5.1	3.9	441	1.4	3.9
Slag, bottom ash, and boiler dust (excluding dust listed in 100104)	10 01 01	107.1	70.2	39.3	107.1	91.6	39.3	195.3	91.6	364.7	195.3
Waste from turning and sawing of ferrous metals and their alloys	12 01 01	71.5	31.9	140	71.5	56.9	140.0	115.8	56.9	133.4	115.8
Waste grinding materials containing hazardous substances	12 01 20*	16.6	4.4	5.4	16.6	22.3	5.4	13.3	22.3	13.6	13.3
Mineral engine and transmission oils	13 02 05*	2.6	9.6	9.8	2.6	15.2	9.8	8.1	15.2	27.4	8.1
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	19.4	8.2	21.5	19.4	11.1	21.5	26.8	11.1	28.2	24.8
worn-out clothes and cleaning cloth	15 02 02*	42.3	15.1	21.8	42.3	25.1	21.8	13	25.1	24.1	13
Ferrous metals (scrap)	16 01 17	3,491.78	1,308.8	6,312.50	3,491.78	3,652.8	6,312.5	4,244.7	3,652.8	3,194.6	4,244.7
Non-ferrous metals	16 01 18	58.9	9.8	50.2	58.9	48.9	50.2	15.8	48.9	16.8	15.8
Other waste, not listed elsewhere	16 01 99	194.4	302.1	78.1	194.4	119.2	78.1	127.9	119.2	117.7	127.9
Worn-out devices, other than those listed in 16 02 09 to 16 02 13	16 02 14	5.7	18.7	19.5	5.7	27	19.5	10.3	27	4	10.3
Lead batteries	16 06 01*	1.8	9.8	9.1	1.8	11.6	9.1	8.8	11.6	19.9	8.8
Iron and steel	17 04 05	31.2	62.1	118.3	31.2	10.2	118.3	16	10.2	21.7	16
Wood	19 12 07	212.0	113.9	130.3	212.0	68	130.3	23.4	68	13.4	23.4
Other waste		228.2	250.4	167.7	228.2	590.5	167.7	53.3	590.5	168.8	55.5

Source: Proprietary material

Table 43 Expenditure on environment protection incurred by the Group in 2017-2021

Expenditures incurred for: [PLN thousand]	2021	2020	2019	2018	2017
Air protection, including:	**1,444**	**1,203**	**3,437**	**1,494**	**1,510**
Boiler plants	471	255	2,078	163	424
Technological processes	258	224	384	308	240
Vehicles and machinery	33	32	54	35	30
Locomotives	650	662	852	960	795
Steam engines	1	1	6	8	7

Other	30	29	63	20	14
Water protection, including:	**2,328**	**1,567**	**1,081**	**937**	**574**
Water intake	505	439	485	365	339
Sewage disposal	1,576	217	218	156	112
Disposal of rainwater and snowmelt	19	39	33	23	17
Other	228	872	345	394	105
Tree and shrub clearing	**152**	**133**	**11**	**43**	**197**
Protection of the earth's surface	**58**	**0**	**54**	**53**	**0**
Waste management	**5,498**	**3,553**	**3,558**	**2,382**	**1,982**
Other costs of environmental protection	**372,288**	**337,258**	**423,316**	**176,903**	**138,910**

Source: Proprietary material

The category "Other costs of environmental protection" is a collective category, comprising capital expenditures and repair expenses related to environmental protection. Expenditures which are qualified here include expenses connected with reduction of emissions to air and noise.

In 2021, the Company spent PLN 371.6 million for that category. The amount is accounted for by over 98% of investments in rolling stock, associated with the purchase of container platforms, modernization of locomotives and replacement of brake blocks in rail cars into composite ones. The remaining portion of the amount was spent on repairs of the infrastructure and facilities for rail transport, costs associated with putting water and sewage management in order, changing sources of heat, etc.

EMPLOYEE AREA

Respect | Reliability | Cooperation | Good management | Safety

Professionalism | Modernity | Transparency | Responsibility

Table 44 Number of employees in the Group in 2017-2021

Number of employees, including:	As at 31 December 2021		As at 31 December 2020		As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	FTEs	persons	FTEs	persons	FTEs	persons	FTEs	persons	FTEs	FTEs
Women	**5,277**	**5,079**	**5,478**	**5,837**	**5,829**	**5,376**	**5,478**	**5,837**	**5,829**	**5,431**
Tertiary education	1,596	1,557	1,593	1,698	1,670	1,586	1,593	1,698	1,670	1,397
Secondary education	2,984	2,847	3,158	3,325	3,330	3,075	3,158	3,325	3,330	3,178
Primary and vocational education	697	675	727	814	829	715	727	814	829	856
Men	**15,946**	**15,483**	**16,868**	**17,781**	**17,928**	**16,438**	**16,868**	**17,781**	**17,928**	**17,824**
Tertiary education	2,201	2,155	2,234	2,341	2,316	2,202	2,234	2,341	2,316	2,063
Secondary education	7,918	7,721	8,362	8,696	8,729	8,168	8,362	8,696	8,729	8,507
Primary and vocational education	5,827	5,607	6,272	6,744	6,883	6,068	6,272	6,744	6,883	7,254

Total	**21,223**	**20,562**	**22,346**	**23,618**	**23,757**	**21,814**	**22,346**	**23,618**	**23,757**	**23,255**

Source: Proprietary material

Table 45 Interns and new employees in the Group in 2017-2021

Description	2021	2020	2019	2018	2017
Number of started internships [units]	24	24	91	57	31
Number of accepted interns [persons]	8	1	8	13	6
Number of new employees [persons]	762	408	1,443	1,838	1,597
Number of new employees [FTEs]	681	320	1,338	1,788	1,563

Source: Proprietary material

Table 46 Training in the Group in 2017-2021

Description	2021	2020	2019	2018	2017
Number of training courses conducted [hours], including:	**75,300**	**86,342**	**131,131**	**95,863**	**101,152**
under the post-accident psychological support program	0	7,068	25,634	7,411	7,486
Number of conducted training courses per employee [hour/person]	**4**	**4**	**6**	**4**	**4**

Source: Proprietary material

The post-accident psychological support program (PPS) has been operated by the Company for many years now, in the form of diverse initiatives, including a specialist helpline, psychologist consultations and training.

SOCIAL AREA

In the business strategy, PKP CARGO S.A. takes into account key components of sustainable development. The Company seeks solutions which, apart from focusing on achieving profit, will also take into consideration the impact of our activity on the environment and social development. Our key objective is to manage the transportation process efficiently and with respect for the highest standards of sustainable development in the economic, social and environmental aspect. Corporate social responsibility activities have been a constant part of the PKP CARGO S.A. long-term strategy, with their framework determined by the PKP CARGO S.A. CSR Policy, an internal regulation adopted by a resolution of the PKP CARGO S.A. Management Board of 7 May 2019, regularly updated and adjusted to the standards and corporate responsibility principles prevailing in the market environment. The PKP CARGO S.A. CSR Policy is based on international standards for conducting business activity in accordance with the concept of socially responsible business:

- Global Reporting Initiative
- ISO 26 000 certification regarding the following areas: organizational order; human rights; work relationships; protection of the natural environment; fair market practices; consumer relationships; social involvement. PKP CARGO S.A. CSR / ESG and environmental activities are also consistent with the performance of Sustainable Development Goals defined by the United Nations resolution: Transforming our world: the 2030 Agenda for Sustainable Development.

Pro-social and pro-environmental projects and long-term activities performed by the Company comply with, among others, the following Sustainable Development Goals: good health and well-being; economic growth and decent work; quality education; climate action. Every year, our corporate social responsibility practices are distinguished as model ones in the Polish nationwide Best Practices Report of the Responsible Business Forum. With reference to 2021, once more, despite the pandemic, we increased the number of best practices compared to the previous year. More information on the reported practices can be found here: *FOB Report for 2020*.

Among the CSR projects carried out in 2021, particular emphasis should be placed on the following:

- "POST-ACCIDENT PSYCHOLOGICAL SUPPORT (PWP)" – a project for employees of train crews, other employees directly associated with conducting the rail traffic and rail traffic safety, and members of standing rail commissions.
- The area according to the ISO 26000 Standard: social involvement and local community development
- The Post-Accident Psychological Support Program has been operated consistently since 2017. The aim of PWP is to increase safety in rail traffic by providing psychological support to Employees – both in connection with participation in rail accidents and also in difficult personal situations that may have an impact on employees' mental condition and level of concentration and, consequently, the safety of transport processes. In 2020-2021, the PWP Project was extended to include aspects of prevention in connection with COVID-19 and is carried out via:
- Psychological Support Hotline staffed with psychologists specialized in the rail sector support. The hotline is free of charge for the callers, ensures the confidentiality of calls and has no influence on employees' employment situation.
- Free of charge consultations at a psychologist's office;
- Activities in the area of stress and post-traumatic stress prevention, also in the form of compulsory periodical instructions and the Company's communication projects.

At present, the Company regards the PWP project as significant for employee psychological support because:

- the program is addressed to approx. 7,000 people altogether directly involved in rail traffic and rail traffic safety (including members of train crews and standing rail commissions). For years, people using the hotline have often been employees who participated in a rail accident involving a person (in many cases a fatality) and families of employees who died in rail accidents;
- employees may use specialist psychological consultations provided in as many as 14 offices all over Poland;
- prevention measures carried out in 2021 in the form of periodical PWP newsletters, which are sent regularly to thousands of train drivers employed in the Company.

Looking at performance indicators, one of the most effective aspects is the short response time of psychologists in the case of accidents – help is provided immediately. For years, people using the hotline have often been employees who participated in a rail accident involving a person (in many cases a fatality) and families of employees who died in rail accidents. The accessibility of psychologists cooperating on a regular basis with PKP CARGO S.A. allows for responding immediately in the case of an accident and focusing on the injured people. The performance of the Post-Accident Psychological Support project contributes to building the safety culture in rail transport. It supports Employees in coping with stress, helps them maintain good psychophysical condition.

For the performance of the PWP program, PKP CARGO S.A. received, among others, a distinction from the Office of Rail Transport in the second edition of the Safety Culture in Rail Transport Contest. The program is successively developed and reinforced with further activities in the area of mental health prevention, making it possible to reach a greater number of employees from the key target group of the project – those directly involved in the safety of rail traffic.

Table 47 Training for train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions

Position	Number of training hours in the year	2021	2020	2019	2018	2017
Operator of rail vehicles on rail sidings, traction vehicle driver, traction vehicle assistant driver	24	3,490	3,604	3,965	4,113	4,135
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	12	14	22	24	18
Rail traffic controller	16	62	70	74	53	77
Control room employee	16	13	13	13	14	23
Train conductor	16	0	21	112	72	151
Rolling stock auditor	16	827	1,332	1,581	1,246	1,072

Shunting master	16	541	1,339	1,316	1,201	1,227
Switchman	16	253	615	673	622	706
Track supervisor	16	10	10	10	10	9
Points operator	16	32	50	51	56	68
Total	**160**	**5,240**	**7,068**	**7,817**	**7,411**	**7,486**

Source: Proprietary material

Responsibility for the natural environment

In the area of activities promoting the environment, we count mainly on effective management of processes performed by PKP CARGO S.A. The Company's basic activity – rail freight transport – meets the expectations connected with climate protection. The greenhouse gas emission level in rail freight transport is nearly 9 times lower than in the case of road freight transport. The environmental protection control system is governed by internal procedures and monitored.

Our activities in the above area are regulated, among others, by the framework of the implemented and maintained INTEGRATED MANAGEMENT SYSTEM – Certificate no. JBSI– 12 /4/2020 attesting the compliance with requirements of the standards: PN-EN ISO 9001:2015-10, PN-ISO 45001:2018-06, PN– EN ISO 14001:2015-9, PN-EN ISO/IEC -27001:2017-06, valid until 18 May 2023. The principles applied by PKP CARGO S.A. in its daily practice translate into minimizing the environmental impact of the Company's business.

Social dialog

The Management Board of PKP CARGO S.A. supports the development of social dialog through cooperation with trade unions on principles laid down in generally applicable regulations and on the basis of agreements concluded defining mutual obligations of the parties to social dialog at the Company and in the Company's Collective Bargaining Agreement. The role of trade unions in PKP CARGO S.A. is influenced in particular by factors such as:

- rights arising from generally applicable laws and the Company's internal regulations,
- participation in the management of the Company through the election of employee representatives to corporate bodies – three employee representatives sit on the Supervisory Board and one on the Management Board,
- high degree of unionization (around 84%). In PKP CARGO S.A., which is a group of employers, social dialog is pursued:
- at the Company level – the President of the Management Board (CEO) or a person authorized by them as well as competent statutory bodies of supra-company trade unions acting at the level of PKP CARGO S.A. and company trade unions being a party to the Collective Bargaining Agreement;
- at the Company's Head Office level – a person designated by the President of the Management Board and the competent statutory bodies of company trade unions;
- at the Company's unit level – the Company's unit manager and the competent statutory bodies of company trade unions.

Taking care of transparent rules of cooperation, PKP CARGO S.A. updates, on an ongoing basis, the internal regulations defining the Social Partners' terms and conditions of cooperation. The basic form of dialog are cyclical meetings, held as a rule once a month at plant level and once a quarter at the Company level, during which current issues, important to both parties, are discussed.

The Company's management supports a dialog based on the principle of equality of the parties and mutual trust, pursuit of compromise and respect for the law. At the same time, it promotes the idea of partnership, which it sees as a natural evolution of social dialog under market economy conditions, with globalisation and increased competition, and as a factor for sustainable business development, job preservation and social improvement. This dialog is developed in a consistent and long-term manner, including on the basis of the Good Principles for Social Dialog adopted by the Social Partners in 2017, which refer to general human values: responsibility, honesty, respect, openness, discipline. Social communication, carried out successively by a Member of the Management Board as a representative of PKP CARGO S.A. employees, contributes to the promotion of partnership dialog as well as being a tool for building modern partnership in management with the participation of the Social Party.

PKP CARGO promotes partnership in social dialog on an ongoing basis. The Company's main initiatives and communication channels include:

- Regular meetings of Company-Level Collective Bargaining Agreement signatories – regular quarterly meetings, and thematic meetings and consultations. In 2021, in order to enable the implementation of issues in the field of social dialog despite the persisting COVID-19 pandemic, meetings with representatives of the Social Party continued, inter alia, in the form of remote teleconferences with the use of video conferencing systems of PKP CARGO S.A. or in the physical form with the observance of the sanitary regime.
- Internal communication on aspects of social dialog in 2021 was carried out on an ongoing basis as requested. It contained, among other things, articles involving the leaders of the largest union organisations. It was implemented through the Company's internal channels, such as the Employee Representative Board Member's intranet page dedicated to social dialog, articles in the company newsletter, mailings and letters.

The important role of social dialog in PKP CARGO S.A. is validated by the fact that the initiatives in this area are a permanent element of the Company's activities pertaining to corporate social responsibility (CSR). One of the components of the internal CSR Policy is to ensure an appropriate atmosphere of partnership dialog. This is in line with both PKP CARGO S.A.'s strategic approach and recognised legal and market standards, including the ISO 26000 Standard guidelines in two key areas: "organisational governance" and "labor relations".

Jointly developed standards, adapted to the Company's business needs, serve to raise awareness of the important role of an open, partnership-based approach in seeking solutions that are optimal for both parties involved in the dialog, with a view to increasing the effectiveness of the Company's decision-making processes. The Report on Trade Unions and Social Dialog at PKP CARGO S.A. is used for monitoring events in the area of social dialog at the Company. It is intended to periodically update the awareness of trends and events in the area of social dialog at the Company.

Among the most significant events in terms of social dialog at PKP CARGO S.A. and the subsidiaries of PKP CARGO Group in 2021, the following aspects should be indicated:

1. Agreement concluded at PKP CARGO S.A. dated 27 August 2021,
2. Additional Memorandum No. 12 to the PKP CARGO S.A. Collective Bargaining Agreement,
3. Social dialog at the level of PKP CARGO Group subsidiaries, i.e. the subject of salary increases, payment of bonuses and increased gratuities on the occasion of the Railwayman's Day, as well as amendments to the Collective Bargaining Agreement and consultations on organisational schemes at the Companies.

On 1 March 2022, PKP CARGO S.A. reported (Current Report No. 10/2022) that in view of the refusal to meet the demands presented by the Trade Unions ("Trade Unions") which were a party to the Collective Labor Agreement for Employees employed by PKP CARGO S.A. ("Collective Bargaining Agreement") demanded that, as of 1 April 2022, a salary increase be implemented in terms of a basic salary of PLN 600 for employees paid in line with the Collective Bargaining Agreement and a proportionate increase for employees remunerated in line with the index, contained in the Trade Unions' letter dated1 March 2022, a collective dispute was initiated by the Trade Unions as of 1 March 2022, in accordance with the provisions of Article 7(1) of the Act of 23 May 1991 on resolving collective disputes (i.e: Journal of Laws of 2020, item 123).

HUMAN RIGHTS

In 2021, no risks related to exploitation of child labor or risks of exploitation of forced labor were identified in the PKP CARGO Group.

Freedom of association

Table 48 Trade unions in the Group in 2017-2021

Description	2021	2020	2019	2018	2017
Number of trade unions [organizations]	171	170	165	179	174
Number of employees who are members of trade unions [persons]	16,996	16,999	17,985	17,973	17,637

% of unionization	**76.1**	**76.1%**	**76.1%**	**76.0%**	**75.6%**

Source: Proprietary material

Right to a safe working environment

PKP CARGO S.A. is conducting a campaign aimed at building a safe workplace culture. It is addressed to all employees, in particular individuals employed in positions directly related to the operation and safety of rail traffic. Work safety is a priority, regardless of the place and type of work duties. Therefore, the campaign “Direction: Safety at Work” aims at growing employee awareness and emphasize everyone’s co-responsibility for their own safety.

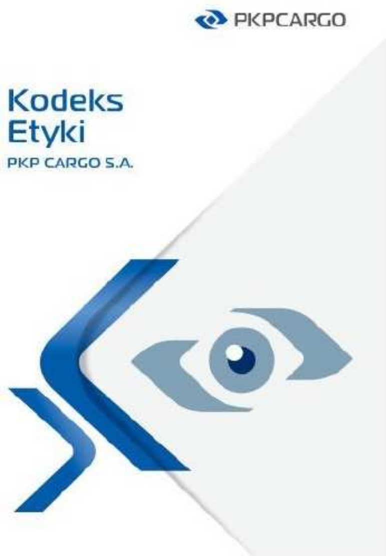
Table 49 Number of accidents and accident ratio in the Group in 2017-2021

Description	2021	2020	2019*	2018	2017
Number of accidents at work [cases]	149	140	162	239	236
Accident ratio [‰]	7.01	6.3	6.8	10.1	10.1

** Data for 2019 have been adjusted due to incorrect data having been provided by a subsidiary*
Source: Proprietary material

COUNTERACTING CORRUPTION AND BRIBERY

In November 2020, an updated Code of Ethics was implemented at PKP CARGO S.A., which is one of the basic elements supporting the process of building and developing the organisational culture at the Company. It contains basic rules of conduct, worked out by representatives of PKP CARGO S.A. with participation of its Employees and Customers, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect, which should be followed by employees in their everyday professional work.



Another document functioning in the company, "PKP CARGO S.A.’s Anti-Corruption and Gift Policy", and the norms of conduct of a universal nature contained in it, have influenced the process of the organisational culture development at PKP CARGO S.A. In implementing "PKP CARGO S.A.'s Anti-Corruption and Gift Policy", the Company's Management Board has met market expectations and changes in the law in line with the "zero tolerance for corruption" principle. The rules contained in the Policy are binding for the Company’s employees, all individuals cooperating with it based civil-law agreements and other individuals performing any activities on behalf of or for PKP CARGO S.A. In addition, Customers, Suppliers, and Business Partners can view the content of the Anti-Corruption Policy at https://www.pkpcargo.com/pl/. The Company has a notification system in place to effectively prevent breaches, protect the Company's image and support operating risk management. Customers, Business Partners and individuals from outside the Company may report any irregularities by providing their name or anonymously via specially dedicated communication channels: a) online platform https://cargo.liniaetyki.pl; b) e-mail address: cargo@liniaetyki.pl; c) hotline: 22 290 69 13. Company employees can report any irregularities by stating their name or anonymously:

– directly to the Ethics, Anti-Fraud and Corruption Coordinator in the following way: a) via a special e-mail address sygnal@pkp-cargo.eu (information for Employees is provided on the PKP CARGO S.A. intranet page in the Anti-Corruption Policy tab and in the Code of Ethics tab. Information for individuals from outside the Company is provided on the website):

– by traditional post, to the following address: Ethics, Anti-Fraud and Corruption Coordinator PKP CARGO S.A., 02-021 Warszawa, ul. Grójecka 17 – with a note: “personal” (Polish: “do rąk własnych”),

– by personally conveying a memo to the Coordinator;

- via the specially dedicated communication channels:
- online platform https://cargo.liniaetyki.pl

- e-mail address: cargo@liniaetyki.pl
- hotline: 22 290 69 13.

In the event of a justified notification that an infringement of the Code of Ethics/Anticorruption Policy has occurred, an investigation is conducted. Such investigation is conducted by the Compliance Department based on the principles set out in the Code of Ethics as well as in the Anti-Corruption and Gift Policy. Each notification is placed in the Register of Notifications of Violations of the Anti-Corruption Policy at PKP CARGO S.A./Register of Notifications of Violations of the PKP CARGO S.A.'s Code of Ethics.

PKP CARGO S.A. respects whistleblowers' right to remain anonymous and to protect their personal data against any retaliatory action. The principles PKP CARGO S.A. is guided by when considering signals of potential infringements are: feedback communication; possibility to report by name or anonymously; reliability in investigating each signal. The reporting channels in place at PKP CARGO S.A. are in line with best whistleblowing practices and the requirements set out in the Act on Public Offering and the Conditions for Introducing Financial Instruments to the Organised Trading System and on Public Companies and Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.

10.1.3 Policies and their results

PKP CARGO S.A., as one of the largest rail freight carriers in Poland and in the European Union, performs national and international transport of goods and provides transport and logistics services. The Integrated Management System ("IMS") which is operational at the Company is based on the Resolution No. 167/2022 of the Management Board of PKP CARGO S.A. of 19 May 2020 on the organisation of certified management systems at PKP CARGO S.A., whose Appendix No. 1 constitutes PKP CARGO S.A.'s Policy on the Integrated Management System. The Integrated Management System ("IMS"), is based on the requirements of the ISO family of standards and covers, within its scope:

- PN-EN ISO 9001: 2015-10 – Quality Management;
- PN-EN ISO 14001: 2015-9– Environmental Management;
- PN-EN/IEC 27001:2017-06 Information Security Management;
- PN-ISO 45001:2018-06– Occupational Health and Safety Management and the WSK System (internal control system for the trade in strategic goods) – system based on the PN_EN ISO 9001:2015-10 standard and the WSK criteria).

The IMS system which is in place at the Company is oriented towards continuous improvement and adaptation of services to Customers' requirements and obliges the Company to provide quality services and maintain process security. Additionally, the Integrated Management System obliges the Company's employees to:

- provide the highest quality of services,
- be customer-oriented,
- ensure care for and safety of the processed information,
- observe the information protection rules,
- respect the environmental protection rules,
- respect the OHS rules,
- be committed to the improvement of the IMS,
- take regular training in the area of Information Security.

The fact of PKP CARGO's having the Integrated Management System in place brings benefits to its operations:

- the availability of simplified customs procedures (Authorised Economic Operator – AEO status), by way of obtaining an international ISO certificate,
- legal international trade in strategic goods,
- positive development of the company's image,
- better comfort of customers, employees and collaborators of the organization,
- higher prestige of and trust in the Company,
- the Company's increased credibility and a commitment to continuous improvement,
- top quality service guarantees,
- rapid development of the Company,
- better organisation of work, clearly defined staff tasks, competences and responsibilities,
- efficient management of resources,

- streamlining of documentation – clear interfaces between processes and procedures.

For the implementation of the integrated quality, environment, H&S and information security policy, PKP CARGO provides the necessary means and resources required. With the scope of their duties and in every job position, employees are obliged to follow the Company's policy in respect of the IMS.

Moreover, all the Company's employees bear individual responsibility for the security of the information they process and personal commitment to the continual improvement of the Integrated Management System.

An integral part of the Integrated Management System is Information Security Management, as a set of processes and procedures applied at PKP CARGO S.A., constituting a list of safeguards – Declaration of Information Security Application – relating to defined assets in the area of information security. The purpose of the Safety Management System is also to ensure supervision over all types of risk associated with rail carrier's activities (with risk analysis and assessment), including maintenance services, the supply of materials and hiring of subcontractors. All elements of the SMS should be documented, and specify the relevant responsibilities within the organizational structure of the rail operator. It should show how the rail operator's management control the work of the system at every management level, what is the involvement of staff and management representatives at all levels, and how continual improvement of the Safety Management System is ensured.

Another system in place at the company is the Maintenance Management System of PKP CARGO freight wagons – Maintenance Management System ("MMS"), implemented in order to ensure safety of railway traffic through maintaining technical efficiency of freight wagons, the efficiency of which is the responsibility of PKP CARGO. Having and ensuring the proper implementation and operation of the MMS System is mandatory for companies responsible for maintaining freight wagons and is a prerequisite for doing business in this area. The System is subject to oversight by the Office of Rail Transport. The MMS system basically covers the area of technical maintenance of freight wagons as part of the main process, which is the implementation of the maintenance process, and auxiliary processes to ensure proper implementation of the activity, such as risk analysis, management of staff competences or cooperation with other companies.

PKP CARGO Group's policy related to social matters

PKP CARGO S.A.

The Company's management supports a dialog based on the principle of equality of the parties and mutual trust, pursuit of compromise and respect for the law. At the same time, it promotes the idea of partnership, which it sees as a natural evolution of social dialog under market economy conditions, with globalisation and increased competition, and as a factor for sustainable business development, job preservation and social improvement. This dialog is developed in a consistent and long-term manner, including on the basis of the Good Principles for Social Dialog adopted by the Social Partners in 2017, which refer to general human values: responsibility, honesty, respect, openness, discipline. The Company's long-standing practice of promoting the idea of partnership in 2021 was supplemented by the popularisation of activities in the field of disseminating the idea of partnership dialog, using various communication channels:

- cyclical meetings of Collective Bargaining Agreement signatories – regular quarterly meetings as well as thematic sessions and consultations (in 2021, owing to the persisting COVID-19 pandemic, meetings with representatives of the Social Party continued, inter alia, in the form of remote teleconferences with the use of video conferencing systems of PKP CARGO S.A. or in the physical form with the observance of the sanitary regime).
- PKP CARGO's intranet site ,
- announcements/letters to employees;
- trade union organisations' trade press.

In PKP CARGO S.A., being a group of employers, social dialog is conducted: at the Company level – the President of the Management Board or a person authorised by him and bodies of supra-company trade unions acting at the level of PKP CARGO S.A. and company trade unions being a party to the Collective Bargaining Agreement; at the level of the Company's Head Office – a person authorised by the President of the Management Board and bodies of company trade unions being a party to the Collective Bargaining Agreement; at the level of the Company's establishment – the Director of the Company's establishment and bodies of company trade unions being a party to the Collective Bargaining Agreement.
Taking care of transparent rules of cooperation, PKP CARGO S.A. updates, on an ongoing basis, the internal regulations defining the Social Partners' terms and conditions of cooperation. The basic form of dialog are cyclical meetings, held as a rule once a

month at plant level and once a quarter at the Company level, during which current issues, important to both parties, are discussed. Activities in the realm of social communication, carried out successively by a Member of the Management Board as a representative of PKP CARGO S.A. employees, contributes to the promotion of partnership dialog as well as being a tool for building modern partnership in management with the participation of the Social Party.

The Management Board of PKP CARGO S.A. supports the development of social dialog through cooperation with trade unions on principles laid down in generally applicable regulations and on the basis of agreements concluded defining mutual obligations of the parties to social dialog at the Company and in the Company's Collective Bargaining Agreement.

The important role of social dialog in PKP CARGO S.A. is validated by the fact that the initiatives in this area are a permanent element of the Company's activities pertaining to corporate social responsibility (CSR). One of the components of the internal CSR Policy is to ensure an appropriate atmosphere of partnership dialog. This is in line with both PKP CARGO S.A.'s strategic approach and recognised legal and market standards, including the ISO 26000 Standard guidelines in two key areas: "organisational governance" and "labor relations". Jointly developed standards, adapted to the Company's business needs, serve to raise awareness of the important role of an open, partnership-based approach in seeking solutions that are optimal for both parties involved in the dialog, with a view to increasing the effectiveness of the Company's decision-making processes. The Report on Trade Unions and Social Dialog at PKP CARGO S.A. is used for monitoring events in the area of social dialog at the Company. It is intended to periodically update the awareness of trends and events in the area of social dialog at the Company.

In 2021, among the most significant events in terms of social dialog at PKP CARGO S.A. and PKP CARGO Group subsidiaries, the following aspects should be indicated: Agreement at PKP CARGO S.A. of 27 August 2021; Additional Memorandum No. 12 to PKP CARGO S.A.'s Collective Labor Agreement;. Social dialog at the level of PKP CARGO Group subsidiaries, i.e. the subject of salary increases, payment of bonuses and increased gratuities on the occasion of the Railwayman's Day, as well as amendments to the Collective Bargaining Agreement and consultations on organisational schemes at the Companies.

In 2021, the Social Party was informed, among other things, on an ongoing basis about the situation of the Company and the safety rules applicable to employees in the workplace in connection with the introduction of a state of epidemics in Poland's territory. Long experience in a joint development of standards, adapted to PKP CARGO S.A.'s business needs, are used for raising awareness of the important role of an open, partnership-based approach in seeking solutions that are optimal for both Parties involved in the dialog, with a view to increasing the effectiveness of the Company's decision-making processes.

PKP CARGO Group subsidiaries also make every effort to ensure that meetings with the Social Party are held on a regular basis and that social dialog is long-term and partnership-oriented. Trade union organisations are kept informed of significant events taking place at individual companies and are involved in consultation processes. Among the most significant events in 2021 with regard to social dialog at the level of PKP CARGO Group subsidiaries it can be pointed out that in particular Q3 meetings were held, which mainly concerned pay increases, the payment of bonuses and increasing gratuities on the occasion of the Railwayman's Day. This was contributed to, inter alia, by the recommendations contained in the Agreement concluded at PKP CARGO S.A. on 27 August 2021 concerning the payment of gratuities in PKP CARGO Group Companies on principles analogous to those of the Agreement – if justified by the economic situation of these Companies.

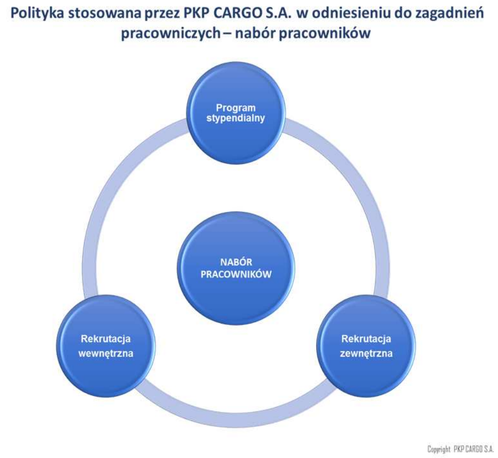
In such subsidiaries as: CARGOSPED Terminal Braniewo Sp. z o.o., acting based on agreements with schools in the immediate vicinity, organised apprenticeships in order to reduce unemployment in the region and prepare for vocational training. The Company financially supports social initiatives undertaken by local organisations working to reduce social exclusion and improve the lives of children and young people. In turn, in 2021 PKP CARGO SERVICE Sp. z o.o. continued the "Recommend an Employee" programme, which consists in recommending new individuals (with relevant skills/qualifications) for jobs in PKP CARGO SERVICE Sp. z o.o. The Programme is open to all the Company's staff except those who recruit as part of their job duties.

EMPLOYEE MATTERS

Employee recruitment

PKP CARGO S.A.

In 2021, similarly to 2020, internal and external recruitment processes were ongoing. Due to restrictions to reduce the risk of spreading the COVID-19 virus, most recruitment processes were conducted remotely (online).



In 2021, due to the prevalence of distance learning among high school and university students, the Professional Internship Programme and the Summer Internship Programme have been suspended. In 2021, a Scholarship Programme was implemented with students who joined in 2019. In line with the assumptions, the Programme is aimed at students of a selected lower secondary trade school for a period of 3 years of schooling. PKP CARGO S.A. scholarship recipients who met the specified criteria were again awarded academic scholarships in 2021. Additionally, after they graduate and obtain professional qualifications, they may be offered a job in positions responsible for rolling stock operation and maintenance in the Company.

This activity was aimed at supplying PKP CARGO S.A. staff with talented and promising graduates of technical upper secondary schools and vocational schools, who after graduation may be employed in positions related to the Company's core business.

Adaptation program

In 2021, the professional adaptation programme was continued, tailored to the needs and expectations of separate groups of positions functioning in the Company: administrative employees, managerial staff and for employees working at the Company's plants on other than administrative jobs. The adaptation programme, due to restrictions aimed at reducing the risk of COVID-19 virus spread, was mostly carried out remotely (online). An optimally selected professional training program ensured that new employees were able to take up their duties quickly and effectively. A well designed adaptation program results in decreased risk of employee turnover. To improve personnel qualifications and competences related to their duties, periodic refresher training was held.

Training and Development

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge– and experience-based management and various forms of professional development that would support the accomplishment of business goals.

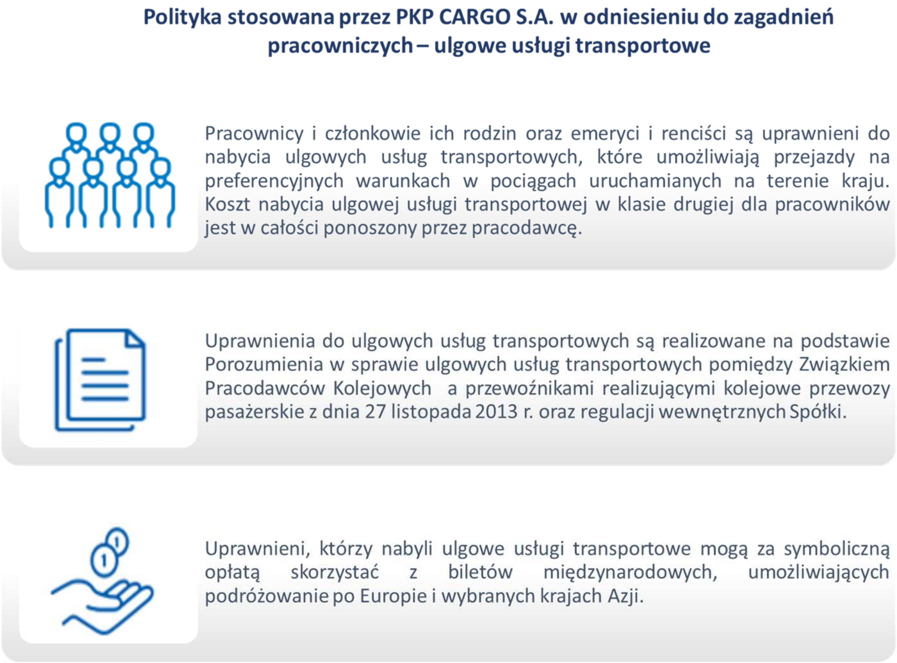
In 2021, managers improved their competences in the MBA managerial postgraduate courses organised for employees working in railway companies.

Training in the form of e-learning was continued and developed. In addition, a series of training courses developing soft skills and acquiring skills in the use of MS Office were continued in 2021. The training courses took place in face-to-face and remote formats.

In order to improve the qualifications of the employees, courses, training courses were also organised in-house. Subsidiaries organised apprenticeships to reduce unemployment in the region and to prepare for the trade. The cooperation in the field of educational activities aimed at the development of vocational education (with a railway profile), initiated in 2017, was carried out in 2021 in the remote form. Also continued was the scholarship programme started in 2019, under which 6 students of the Railway Technical School are paid a monthly scholarship for good results in their studies, with the commitment that after completing their studies they will take up employment in PKP CARGO SERVICE sp. z o.o. thus enriching its human resources.

Social activities and transport services at reduced prices

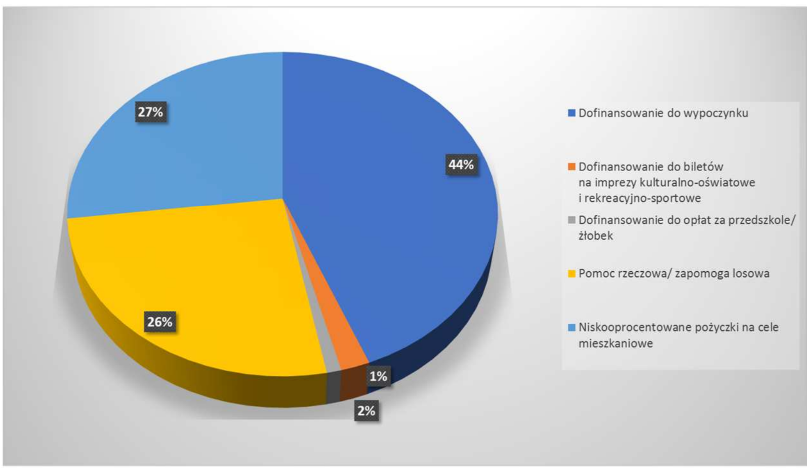
PKP CARGO S.A.



Decisions on granting aid and its amount are taken by social committees composed of representatives of employers and company trade unions. The resources of the Company's Social Benefits Fund are mainly used to finance holidays, "holidaymakers", excursions, summer camps, winter camps, "green schools", school and kindergarten trips, short-term recreation, rallies. The variety of grants awarded gives those eligible the opportunity to choose the form of recreation that is right for them. In order to meet the expectations of employees, the possibility of subsidising the stay of children in kindergartens and nurseries was introduced. Employees can participate in sporting, recreational and cultural events and are able to identify with the company, integrate with co-workers and relax during their time off work.

In turn, out of concern for the employees' health and comfort, the possibility of using sports facilities, recreation and sports programmes, FITPROFIT cards and other sports cards and discounts has been added, providing access to a number of facilities throughout Poland. Aid is also provided in the form of occasional in-kind assistance, as well as living and random aid, which can be received by people in a particularly difficult livelihood situation. Eligible persons may also use low interest rate loans for housing purposes.

Polityka stosowana przez PKP CARGO S.A. w odniesieniu do zagadnień pracowniczych – wykorzystanie środków



Employees and members of their families, as well as old age and disability pensioners are eligible for reduced travel services in the form of reduced tariffs in trains operated throughout the country. The cost of employees purchasing a discounted travel service for the second class is covered entirely by the employer. These benefits are offered pursuant to an Agreement of 27 November 2013 between ZPK and carriers operating passenger railway transport on discounted travel services, and the Company's internal regulations.

In 2021, entitlements to transport services at a reduced price were purchased for the following number of people: for employees – 11,237 entitlements; for family members of employees – 1,718 entitlements; for railway pensioners – 5,546 entitlements in package I and 4,803 entitlements in package II. PKP CARGO employees and their family members were issued 469 international tickets, which enable them to travel around Europe for a symbolic fee.

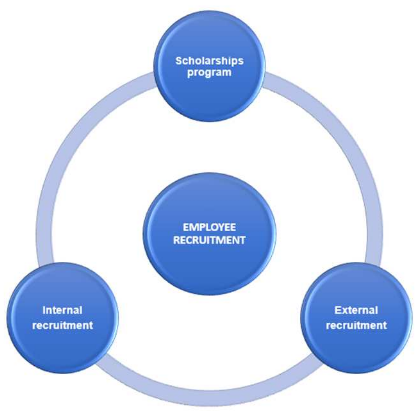
In 2021, PKP CARGO CONNECT Sp. z o.o. provided its employees with social benefits which encompassed subsidizing holidays, subsidizing stays in treatment, spas and rehabilitation centers for old age and disability pensioners, and subsidizing organized holidays for children and youth. Subsidizing school aid and financing material assistance is also possible. Employees may also receive hardship assistance, living expenses aid and a loan for housing needs. In 2021, the Company purchased discounted railway fares for its employees

PKP CARGO Group's policy related to employee issues

Recruitment of PKP CARGO S.A.employees

In 2021, internal and external recruitment processes were carried out at PKP CARGO, as in previous years. In view of the restrictions introduced to reduce the spread of the COVID-19 virus, the majority of recruitment processes moved online.
In 2021, due to the predominance of distance learning among secondary school and university students, the Professional Internship Programme and the Summer Internship Programme were suspended. In 2021, the Scholarship Programme was implemented with students who joined in 2019. In line with the assumptions, the Programme is aimed at students of a selected lower vocational school for the period of 3 years of schooling. PKP CARGO S.A. scholarship recipients who met the specified criteria were again awarded scholarships in 2021. Additionally, after they graduate and obtain professional qualifications, they may be offered a job in positions responsible for rolling stock operation and maintenance in the Company. This activity was aimed at supplying PKP CARGO S.A. staff with talented and promising graduates of technical secondary schools and industry secondary schools, who after graduation may be employed in positions related to the Company's core business.

PKP CARGO S.A.'s policy related to employee issues – employee recruitment



Adaptation program

In 2021, PKP CARGO continued the professional adaptation programme, adjusted to the needs and expectations of separate groups of positions functioning in the Company: administrative employees, managerial staff and for employees working in the Company's plants on non-administrative positions. The adaptation programme, due to restrictions aimed at reducing the risk of COVID-19 virus spread, was mostly carried out remotely (online). An optimally selected professional training program ensured that new employees were able to take up their duties quickly and effectively. A well designed adaptation program results in decreased risk of employee turnover. To improve personnel qualifications and competences related to their duties, periodic refresher training was held.

Training and development

PKP CARGO strives to become a learning organisation, to manage based on knowledge and experience and to apply various forms of professional development to support the achievement of business objectives. In 2021, managers improved their competences as part of MBA managerial postgraduate courses organised for employees working for railway companies. Training in the form of e-learning was continued and developed. In addition, a series of training courses developing soft skills and acquiring skills in the use of MS Office were continued in 2021. The training courses took place in face-to-face and remote formats.

In order to enhance the employees' skills and qualifications, courses, training courses were also organised on their own. Subsidiaries organised apprenticeships to reduce unemployment in the region and to prepare for the trade. The cooperation in the field of educational activities aimed at the development of vocational education (with a railway profile), initiated in 2017, was carried out in 2021 in the remote form. Also continued was the scholarship programme started in 2019, under which 6 students of the Railway Comprehensive School are paid a monthly scholarship for good results in their studies, with the commitment that after completing their studies they will take up employment at PKP CARGO SERVICE sp. z o.o., thus enriching its human resources.

PKP CARGO S.A.'s policy related to employee issues – training and development

Social activity and travel benefits at PKP CARGO S.A.

Decisions on granting aid and its amount are taken by social committees composed of representatives of employers and company trade unions.

Funds from the CSBF are intended mainly for subsidizing holidays, self-arranged countryside holidays, trips, camps, winter camps, "green schools", school and kindergarten trips, short-term recreation, and trekking trips. Leisure activities are available to employees, pensioners and their family members. The diversity of subsidies provided allows entitled individuals to benefit from the right for of leisure of their choice. In order to meet the expectations of employees, the possibility of subsidising children's stay at kindergartens and nurseries has been introduced. Employees can participate in sporting, recreational and cultural events and are able to identify with the company, integrate with co-workers and relax during their time off work. For the sake of employees' health and comfort, the possibility of using sports facilities, recreation and sports programmes, FITPROFIT cards and other sports cards and discounts has been added, providing access to a number of facilities all across Poland. Aid is also provided in the form of occasional in-kind assistance, as well as living and random aid, which can be received by people in a particularly difficult livelihood situation. Eligible persons may also use low interest rate loans for housing purposes. In 2021, in PKP CARGO S.A. a write-off was made for the benefit of 34,874 entitled individuals, including 15,427 employees and 19,447 pensioners. The following were used for the provision of social benefits:

- leisure – **44 % of** the funds,
- cultural and educational activities and sport and recreation **– 2 % of** the funds,
- aid in kind, assistance – **26 % of** funds,
- nursery, crèche – **1 % of** the funds,
- loans – **27% of** the funds.

PKP CARGO Group companies also pursue a very transparent policy with regard to employee rights in the context of social benefits. Employees or retired employees of (PKP CARGO CONNECT) have the opportunity to receive subsidies for their stays in sanatoriums and rehabilitation centres. School aid or in-kind assistance subsidies are also available. In 2021, PKP CARGO CONNECT purchased entitlements to travel cost reductions for the company's employees.

PKP CARGO S.A.'s policy related to employee issues – discounted travel services

Employees and members of their families, as well as old age and disability pensioners are eligible for reduced travel services in the form of reduced tariffs in trains operated throughout the country. The cost of employees purchasing a discounted travel service for the second class is covered entirely by the employer.

The rights to discount travel services is exercised on the basis of the Agreement on discount travel services of 27 November 2013 signed between the Association of Railway Employers and carriers operating passenger railway transport, and on the basis the Company's internal regulations.

The eligible persons who purchase discount transport services may for a token fee purchase international tickets that allow them to travel across Europe and selected countries in Asia.

PKP CARGO S.A.

In 2021 PKP CARGO S.A. purchased entitlements to travel cost reductions for transport services for the following number of people: for employees – 11,237 entitlements, for employees' family members – 1,718 entitlements, for railway pensioners – 5,546 entitlements in package I and 4,803 entitlements in package II. 469 international tickets were issued to employees and their family members, allowing them to travel around Europe for a symbolic fee

Support of education

PKP CARGO S.A. strives to become a learning organisation, a knowledge-based management
and experience and to apply various forms of professional development to support the achievement of business objectives. In 2021, managers improved their competences in the MBA managerial postgraduate courses organised for employees working in railway companies. Training in the form of e-learning was continued and developed.

In addition, a series of training courses developing soft skills and acquiring skills in the use of MS Office were continued in 2021. The training courses took place in face-to-face and remote formats.

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge– and experience-based management and various forms of professional development that would support the accomplishment of business goals. In 2021, executives upgraded their competences as part of the managerial MBA postgraduate courses organised for employees working in railway companies. Training in the form of e-learning was continued and developed. In addition, a series of training courses developing soft skills and acquiring skills in the use of MS Office were continued in 2021. The training courses took place in face-to-face and remote formats.

PKP CARGO Group companies also pursue employee development policies implemented through enhancement of qualifications and competencies (bachelor's, master's, postgraduate studies, trainings, learning foreign languages), which are specified, inter alia, in "Principles of Conducting Periodic Employee Appraisals" (PKP CARGO CONNECT). In addition, in an effort to have qualified staff, successive editions of scholarship programs have been conducted since 2019 – under which 6 students of the Railway Technical School are paid a monthly scholarship for good results in their studies, with the commitment that after completing their studies they will take up employment in PKP CARGO SERVICE sp. z o.o., thus enriching its human resources.

In 2021, the scholarship programme started in 2019 was also continued, under which 6 students of the Railway Technical School are paid a monthly scholarship for good results in their studies, with a commitment that after completing their studies they will take up employment in PKP CARGO SERVICE sp. z o.o. thus enriching its human resources.

PKP CARGO Group's policy related to natural environment

Compliance with the European Union Taxonomy

Taxonomy is a pillar of sustainable investing. In the subsidiaries of the PKP CARGO Group, both climate protection issues and pro-climate actions have been implemented for a long time. This is due to the basic pillar of PKP CARGO's business, which is rail freight transport. As a transport segment, it generates lower external costs compared to other modes of transport, related to environmental pollution, noise, landscape transformation.

Detailed information on compliance with the European Union taxonomy can be found in section 8.7. Information on environmental issues.

PKP CARGO S.A.

Businesses across the world have a growing awareness of their significant impact on the environment. Thanks to this, they can efficiently and effectively undertake such forms of activity which are conducive to, among others, the implementation of the Sustainable Development Goals defined by the UN, i.e. they implement business objectives while focusing on caring for the natural and social environment. To achieve sustainable development, three interconnected elements must be harmonized: economic growth, care for the development of the society and protection of the environment. In other words, one of the key areas of sustainable development is integrated and sustainable management of raw materials and ecosystems. The environmental policy adopted by PKP CARGO S.A. is an element of the "Policy of PKP CARGO S.A. on the Integrated Management System". It includes, inter alia, such elements as: environmental protection through promotion and implementation of an ecological form of transport and prevention of pollution, rational use of raw materials, energy and water, raising employees' awareness of their responsibility for the quality of the environment. The company aims to combine the professional pursuit of its business objectives with a responsible attitude towards the environment. PKP CARGO S.A.'s key activities undertaken in the area of environmental protection are:

- the implementation and maintenance of an environmental management system as part of an integrated management system
- the environmental protection control system is governed by internal procedures and monitored;
- environmental education – building of environmental awareness, responsible involvement of employees in sustainable development through training and educational materials;
- international cooperation – membership and participation in the teams of organisations working for sustainable transport such as the International Union of Railways (UIC), the Community of European Railways (CER) and Rail Freight Forward (a coalition of European rail freight companies);
- security of transport – training and oversight over carriage of hazardous goods;
- state-of-the-art rolling stock and innovation – purchase and modernization of locomotives and wagons, including from the viewpoint of emission levels and energy efficiency;
- modern maintenance and repair facilities, economical use of resources – repairs, modernisation;
- investments in terms of sealing processes related to air and land emissions and energy savings.

Due to the fact that rail transport is environmentally friendly and the very fact of transporting goods by rail instead of road contributes to mitigating climate change, PKP CARGO S.A. has not yet distinguished a separate climate policy in its operations. Seeing the development opportunities which the EU system, concerning sustainable development, brings to railway undertakings, which goes in the direction of promoting low-emission forms of transport, following the current expectations of the environment, PKP CARGO S.A. plans to implement the climate policy in 2022. The policy will set measurable targets and a time frame for achieving them, based on the Paris Agreement's goal of limiting global temperature rise to below 2˚C by 2100. At present, the management of GHG emissions at PKP CARGO S.A. takes place within the process of management of all emissions to air and covers Scope 1 and 2 of GHG emissions. A separate sub-process dedicated to GHG emissions management (broken down into 3 scopes) is planned for 2022 as part of emissions management.

Roles and responsibilities in environmental and climate protection

The Department of Energy and Maintenance in the Office of Rolling Stock and Technical Support is responsible for assessing environmental indicators. The Department's structure includes the Environmental and Green Deal Team and the Energy Management and Billing Team, among others. These teams are responsible for introducing a climate policy at PKP CARGO S.A., setting targets in this respect, developing solutions and recommendations leading to the implementation of these targets and monitoring the reduction of carbon footprint until the company achieves a climate-neutral status in 2050. Supervision of the implementation of environmental and climate protection issues is exercised by the Chief Operating Officer, who approves the set environmental and climate goals and priorities.

Results of the application of environmental and climate policy

The EU's sustainability scheme explicitly refers to the need for modal shift towards low-carbon forms of transport and for building the necessary infrastructure for clean mobility. As a significant contributor to climate protection, rail is considered a very suitable solution in this respect. This means that, despite the fact that climate protection issues have not yet been separately specified in PKP CARGO S.A.'s policy, pro-climate actions have been implemented by the Company for a long time. This is due to the basic pillar of PKP CARGO S.A.'s business, which is rail freight transport. Rail transport is environmentally friendly due to its low greenhouse gas emissions and low fuel and energy consumption in relation to the mass transported and, in accordance with the European Union's climate policy, is regarded as an important and desirable element in achieving the targets for reducing the carbon footprint of the entire transport sector. PKP CARGO S.A. is involved in the action plans of the Strategy for sustainable and intelligent mobility – European transport on the road to the future announced in the EC Communication in 2020, in particular in relation to the following initiatives and objectives specified in the document:

- MAIN INITIATIVE 1 – roll-out of zero-emission vehicles, renewable and low-emission fuels and related infrastructure,
- MAIN INITIATIVE 3 – More sustainable and healthier mobility between and within cities (further electrification of rail transport; where this is not cost-effective, increase the use of hydrogen)
- MAIN INITIATIVE 4 – greening freight transport (increasing the role of rail in transport: Intermediate target No. 7: compared to 2015, rail freight traffic will increase by 50% by 2030 and double by 2050)
- MAIN INITIATIVE 8 – Reinforcing the single market (including investments to finance the retrofitting of fleets across all modes of transport to ensure the deployment of low– and zero-emission technology options, inter alia through retrofitting and appropriate renewal schemes).

PKP CARGO carries out activities which are a permanent part of the Strategy for Sustainable and Smart Mobility:

Purchase of modern electric locomotives and modernisation of electric locomotives

PKP CARGO S.A. invests in the purchase of modern locomotives. The most modern part of our fleet is 39 multi-system locomotives (powered by DC or AC voltage), which can cross European country borders without stopping to allow change of the power system (which gives electricity savings). These include the modern six-axle electric Dragon (ET25) and Dragon 2 (ET26) locomotives equipped with a diesel commuter unit.

The number of electric locomotives which have not been modernised is gradually decreasing

We are implementing rolling stock solutions to optimise energy consumption, modernising electric locomotives by fitting modern electrical apparatus, and piloting selected locomotives on which DC electricity meters have been fitted.
PKP CARGO S.A. as an operator of railway freight transport carries out the vast majority of its freight transport by electric traction. Electric vehicles are environmentally friendly, generate no emissions at the point of use and locally do not cause smog.

Modernisation of diesel locomotives

PKP CARGO S.A. executes a contract under which Newag Group S.A. performs main repairs of level P5 combined with modernization of diesel locomotives SM48 series. As a result of the modernization which includes, among others, building a new modular technology bodywork, replacing the power generator, braking equipment and auxiliary machinery, the SM48 series will be upgraded to the ST48 series, and the intended use of the locomotives will be changed from shunting to line. Between 2019 and 2020 PESA Bydgoszcz. S.A. carried out level P5 repairs, which were combined with the modernisation of ST44 series diesel locomotives, including the replacement of an obsolete two-stroke engine with a four-stroke engine compliant with UICIIIA emission standards. The number of diesel locomotives in service that have not been modernised has constantly been decreasing. Modernised locomotives consume less fuel and thus emit less pollutants into the air compared to non-modernised locomotives.

Purchase and modernisation of freight wagons

PKP CARGO S.A. invests in modern wagons. As many as 3,804 of the wagons in our fleet are intermodal platforms. More such platforms are planned to be purchased in the upcoming years. The purchased platforms improve the efficiency of transport, permit the carriage of heavier loads compared to older wagons and are equipped with composite brake blocks. In total, we plan to spend almost PLN 572 million on platforms and locomotives, of which PLN 269 million will be co-financed by the EU.

Creation of efficient and innovative solutions that will enable the use of electricity produced from Renewable Energy Sources

During the Programme Council of the Centre for Railway Energy Efficiency on 29 October 2020, PKP CARGO and PKP Energetyka signed a letter of intent, in which they confirm cooperation in the creation of effective and innovative solutions that will enable PKP CARGO to use electricity produced from Renewable Energy Sources. Under the signed letter of intent, the companies undertake to exchange information necessary to plan and implement investment projects related to prosumer and renewable energy. PKP Energetyka, understanding the needs of railway customers, will actively support PKP CARGO in the implementation of energy projects. The first stage will be related to the fitting of prosumer installations, and the next steps of cooperation will be related to the launch of larger RES installations intended for PKP CARGO's own purposes. At present, the number of RES installations in use at the company is small, but it is gradually increasing.

The use of hydrogen as a fuel to power modern locomotives

In 2018, PKP CARGO and Jastrzębska Spółka Węglowa JSW, H. Cegielski-Fabryka Pojazdów Szynowych signed a letter of intent for joint innovative investment projects related to the commercial use of hydrogen fuel. The document envisaged, inter alia, cooperation on research, analysis and, in the future, the production of new types of hydrogen-powered wagons and shunting locomotives and their subsequent maintenance and operation. The project participants split their roles in the ensuing way:

- PKP CARGO S.A. – technical assumptions, trial operation of the locomotive,
- H. Cegielski – Railway Vehicles Factory – construction of locomotive,
- Jastrzębska Spółka Węglowa – construction of hydrogen refuelling infrastructure.

Work on this project continued as PKP CARGO S.A., PESA Bydgoszcz S.A. and Grupa Azoty S.A. signed the agreement on 23 September 2021, a letter of intent on cooperation for the implementation of hydrogen technologies in rail transport. The cooperation is to include, among other things, research and development projects aimed at developing optimal ways of using hydrogen to power rail vehicles and methods of hydrogen transportation and refuelling of rail vehicles. The joint project aims to create infrastructure related to the transmission, storage and refuelling of hydrogen fuels, the construction of hydrogen-powered locomotives used for shunting and line work.
PKP CARGO, in implementing its environmental policy, focuses on the development of hydrogen technologies in rail transport, as it is of great importance not only for the company, but also for the whole Polish economy in conjunction with the "European Green Deal", a programme implemented by the European Commission, whose aim is to reduce CO2 emissions in transport by 30% by 2030, whereas, by 2050, transport is to achieve climate neutrality.

Based on the experience of the project partners: Grupa Azoty S.A. is the largest producer of hydrogen in Poland and it develops technologies for the application of that commodity in fuel cells, while PESA Bydgoszcz S.A. was the first to develop a prototype hydrogen locomotive and, as a manufacturer, it focuses on developing a vehicle dedicated to freight transport; PKP CARGO company would be a tester of hydrogen-powered locomotive prototypes. The implementation of the hydrogen project on railways, with the support of the state, which perceives hydrogen as an alternative fuel in rail transport, has been enshrined in an official government document: "Polish Hydrogen Strategy to 2030 with an Outlook to 2040".

The project to introduce so-called Digital Automatic Coupling (DAC)

PKP CARGO is participating in the tasks of the European DAC Delivery Program working group, which aims to implement digital DAC automatic couplers (instead of hooks, screw couplers and buffers which are currently being used) in goods trains in Europe. The automatic coupler is supposed to automatically connect freight wagons, but also to bring electricity (110V) and a data bus (digitalization and automation of transports) to the wagons.

PKP CARGO S.A. perceives a number of potential benefits of introducing automatic couplings in Europe. The way in which they are introduced should aim to strengthen the competitiveness of rail freight by reducing the risks associated with the interoperability of rolling stock and its open operation in the various European countries. At present, no specific coupling solution has been selected for testing and implementation as yet.

Digitalisation

In 2021, PKP CARGO signed an agreement to implement the SAP Transportation Management System. The SAP TMS system, along with the SAP SD module, will be a single, complete platform for transport management and will support all areas of the transport process (contact with the customer, order management, demand planning for the carriage of bulk and intermodal cargo, automation of transport planning and scheduling). The system will ensure the tracking of shipments and contribute to better planning of the working time of the traction teams. All transport operations will be carried out in a single system, allowing access to data on a real-time basis. The application of SAP TMS should result in the improvement of operational effectiveness and cost reduction, which will translate into an increase in PKP CARGO's competitiveness in the freight and logistics services market.

The activities of the subsidiaries are also aimed at introducing environmentally friendly waste management by segregating, securing and transferring waste for further recycling as well as . In 2019, PKP CARGO SERVICE joined the Railway Energy Efficiency Centre (CEEK) Programme, a rail industry initiative to save energy. The exchange of experience within the CEEK is aimed at developing and implementing energy-efficient and at the same time pro-environmental solutions which serve all participants of the railway market.In turn, in PKP CARGOTABOR, apart from appointing the position of Chief Environmental Protection Specialist, the company has implemented numerous regulations in the discussed scope, including: procedure for scrap management, procedure for handling waste, conditions for sale of slag, conditions for sale of fallen wood.

PKP CARGO Group’s policy related to respecting human rights

Human rights, such as equality regardless of sex, prohibition of discrimination, freedom and personal inviolability, the right to privacy and protection of personal data and freedom of association and freedom of opinion, are a reference point for Polish law and form the grounds for the activities relating to the employees’ affairs also in the PKP CARGO Group. Human relations in PKP CARGO are based on openness, honesty and mutual trust. Employees work in teams and respect diversity. They take part in the creation of a safe working environment, which is conducive not only to professional development, but also to the raising of qualifications. Employees are respectful to one another. The Company ensures equal and fair access to employment and professional advancement. No forms of discrimination are allowed or accepted towards employees, customers and suppliers, neither due to age, gender, disability, race, religious denomination, sexual orientation, nationality, ethnic origin, nor due to political or trade union activities. In PKP CARGO, no forms of harassment or mobbing maltreatment are tolerated, neither physical nor psychological. It is not acceptable to abuse one's position by promoting relatives; nepotism is unacceptable. Subsidiaries also have a zero-tolerance policy on corruption, which is included for the sake of image, reputation and trust of customers, business partners and all stakeholders. The "Anti-Fraud Policies" applied in the companies are confirmed by the certificates and licences held, the results of internal and external audits carried out and the results of reporting activities carried out by the companies' controlling offices. PKP CARGO Group companies, apart from the "Code of Ethical Conduct (PKP CARGO CONNECT) or the "Rules of negotiation with external entities" (PKP CARGO INTERNATIONAL), have safeguards in the form of regulations concerning credit cards regulated in the document "Policy of Spending Money" (PKP CARGO CONNECT). Relevant provisions of the Code of Ethics are supplemented by "Rules for Receiving and Giving Gifts at PKP CARGO S.A." (Chapter II of the Anti-Corruption Policy). The purpose of this document is to set uniform standards for employees when offering and accepting gifts. The implementation and observance of the above rules is to ensure the elimination of situations in which accepting gifts could affect business decisions taken at PKP CARGO S.A.

The subsidiaries also promote interpersonal relationships that are based on openness, honesty and mutual trust. The internal bodies in place, e.g: The Compliance Committee (which conducts detailed analyses of internal procedures in order to eliminate the risk of human rights violations in the Company's day-to-day operations) or the Anti-Mobbing Committee , are an expression of the employer's proactive attitude in combating all kinds of pathologies in employee relations. In turn, the document "Principles of Behaviour and Conduct" indicates the policies applied in relation to respect for human rights.

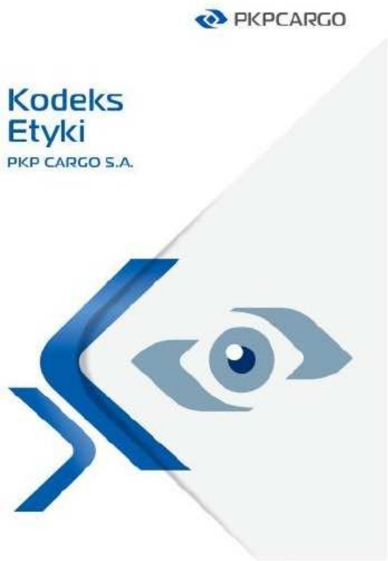
Anti-mobbing policy

In PKP CARGO S.A. internal regulations have been implemented, which constitute the basis for the implemented anti-mobbing policy. The Company's subsidiaries have Shop Stewards and Anti-Harassment Committees in place. In addition, the employer's obligation to counteract the phenomenon of mobbing is reflected in the work regulations of the Head Office and the Company's plants, fostering the protection of employees in this area. In accordance with the Company's policy, every employee has the opportunity to report any suspected bullying and to receive professional information and assistance from the Shop Steward in complete confidentiality. The role of the Anti-Mobbing Committee, on the other hand, is to deal with specific cases, after the Shop Steward has exhausted the procedure, as well as to recommend measures to prevent and reduce the phenomenon of mobbing. In implementing the anti-mobbing policy, PKP CARGO pays special attention to preventive measures. The subject of mobbing is signalled already during the adaptation training for newly employed workers by, among others, indicating the contact details of the employer's Shop Steward, elected by the staff. However, during in-service training, particular emphasis is placed on the professional preparation of members of Anti-Mobbing Committees, Shop Stewards and employees in managerial roles.

In the subsidiaries, the documents that support the anti-mobbing policy are mainly internal regulations, which include the principles of counteracting the phenomena of discrimination and anti-mobbing; the Code of Ethical Conduct and the Compliance and Anti-Mobbing Committee, which is an expression of the employer's proactive attitude in combating this type of pathology in employee relations, which are the phenomena of mobbing.

PKP CARGO Group’s policy related to preventing corruption and bribery

PKP CARGO S.A.



In November 2020, an updated Code of Ethics was implemented at PKP CARGO S.A., which is one of the basic elements supporting the process of building and developing the organisational culture at the Company.
It contains basic rules of conduct worked out by representatives of PKP CARGO S.A., with participation of its Employees and Customers, such as reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect, which should guide employees in their daily work

Another document (of November 2020), "PKP CARGO S.A.’s Anti-Corruption and Gift Policy", and the norms of conduct of a universal nature contained in it, have influenced the process of the organisational culture development at PKP CARGO S.A. In implementing "PKP CARGO S.A.'s Anti-Corruption and Gift Policy", the Company's Management Board has met market expectations and changes in the law in line with the "zero tolerance for corruption" principle. The rules contained in the Policy are binding for the Company’s employees, all individuals cooperating with it based civil-law agreements other individuals performing any activities on behalf of or for PKP CARGO S.A. The policy is communicated to clients so that they respect the Company's internal anti-corruption policies when dealing with its representatives. And all Employees are required to read and comply with the Anti-Corruption Policy in connection with the performance of their duties or the provision of services. Customers, Suppliers, and Business Partners can view the content of the Anti-Corruption Policy at *https://www.pkpcargo.com/pl/*. Moreover, the Company has a notification system in place to effectively prevent breaches, protect the Company's image and support operating risk management. Customers, Business Partners and individuals from outside the Company may report any irregularities by providing their name or anonymously via specially dedicated communication channels:
internet platform: https://cargo.liniaetyki.pl ; e-mail address *cargo@liniaetyki.pl* ; hotline: 22 290 69 13.
In turn, all employees may report any irregularities by stating their name or anonymously: directly to the Ethics, Anti-Fraud and Corruption Coordinator, in the following manner:

- via a dedicated e-mail address *sygnal@pkp-cargo.eu* (information for Employees is provided on the PKP CARGO S.A. intranet page in the Anti-Corruption Policy tab and in the Code of Ethics tab. Information for individuals from outside the Company is provided on the website),
- by traditional post, to the following address: Ethics, Anti-Fraud and Corruption Coordinator PKP CARGO S.A., 02-021 Warszawa, ul. Grójecka 17 – with a note: “personal” (Polish: “do rąk własnych”),
- by conveeying a memo to the Coordinator in person; or through specially dedicated communication channels:
- online platform *https://cargo.liniaetyki.pl*
- e-mail address: *cargo@liniaetyki.pl*
- hotline: 22 290 69 13.

In the event of a justified notification that an infringement of the Code of Ethics/Anticorruption Policy has occurred, an investigation is conducted. Such investigation is conducted by the Compliance Department based on the principles set out in the Code of Ethics as well as in the Anti-Corruption and Gift Policy. Each notification is placed in the Register of Notifications of Violations of the Anti-Corruption Policy at PKP CARGO S.A./Register of Notifications of Violations of the PKP CARGO S.A.'s Code of Ethics.". PKP CARGO respects the right of whistleblowers to remain anonymous and to safeguard their personal data and to protect them against any retaliatory actions. The principles PKP CARGO S.A. follows when considering signals of potential infringements are: feedback communication; the option to report by name or anonymously; reliability in investigating each signal. The reporting channels in place at PKP CARGO S.A. are in line with best whistleblowing practices and the requirements set out in the Act on Public Offering and the Conditions for Introducing Financial Instruments to the Organised Trading System and on Public Companies and Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.

PKP CARGO Group companies also have a policy in place on counteracting corruption and bribery through numerous regulations, management system procedures and adopted rules of conduct, which are implemented within the organisational structure of the companies and supported by e.g: "PKP CARGO SERVICE's Anti-Abuse Policy", "PKP CARGO SERVICE sp. z o.o.'s Code of Ethics" "Code of Ethical Conduct" (PKP CARGO CONNECT) or "Rules of Negotiations with External Entities" (PKP CARGO INTERNATIONAL). The companies also have in place safeguards in the form of credit card regulations and regulations on cash disbursement policy (PKP CARGOTOR) as well as internal control in the form of an internal control position established to detect and counteract potential and existing risks in the areas discussed (PKP CARGOTABOR).

10.1.4 Due diligence procedures

The PKP CARGO Group takes efforts on an ongoing basis to ensure that assigned tasks are effectively completed and legal provisions are complied with. The adopted internal regulations are regularly adjusted to current business needs and must be consistent with mandatory provisions of law. The application of best practices contributes to the improvement of business standards and the qualifications and competences of human capital.In addition, systematic risk assessments are carried out, including in relation to social, labor and human rights issues, allowing for the early detection of risks and the maximum limitation of their impact**.** Within the area of human resources management, the optimisation of processes is being implemented, ensuring their compliance with applicable standards and requirements and effective pursuit of objectives resulting from the strategy of PKP CARGO and covered by the system of internal audits within the Integrated Management System ("IMS"), , which was implemented by way of Resolution No. 167/2020 of the Management Board of PKP CARGO S.A. of 19 May 2020 on the organisation of certified management systems.

The Integrated Management System functioning in PKP CARGO Group is based on the requirements of the ISO family of standards and it covers:

- -PN-EN ISO 9001: 2015-10 – Quality Management;
- -PN-EN ISO 14001: 2015-9– Environmental Management;
- -PN-EN/IEC 27001:2017-06 – Information Security Management;
- -PN-ISO 45001:2018-06– Occupational Health and Safety Management.

The Company's Integrated Management System is overseen by, among others, internal audits, which are an effective and reliable tool providing input information for further improvement. This process enables an assessment of strengths and weaknesses of the management system, confirming the implementation and maintenance of these by PKP CARGO S.A. In turn, the internal system of control over trade in strategic goods is based on the PN_EN ISO 9001: 2015-10 standard and the criteria adopted for the internal control system.

Moreover, under the Integrated Management System, the Company's employees are expected to:

provide the highest quality of services,
be customer-oriented,
ensure care for and safety of the processed information,
observe the information protection rules,
respect the environmental protection rules,
respect the OHS rules,
be committed to the improvement of the IMS,
take regular training in the area of Information Security.

PKP CARGO S.A ensures the necessary means and resources to implement its integrated policy of quality, environment, OHS and information security. With the scope of their duties and in every job position, employees are obliged to follow the

Company's policy in respect of the IMS. The Information Security Management component forms an integral part of the Integrated Management System. The essential elements of the Integrated Management System are included in the 15th edition of the Integrated Management System Manual. Detailed descriptions of processes and procedures are included in the IMS Collection of Processes and Procedures, a document complementary to the 15th edition of the IMS Manual, as approved by the IMS Officer.

The basic system elements in the domain of information security are included in the Declaration on the Use of Information Safeguards. It corresponds to the list of safeguards contained in Annex A of ISO/IEC 27001 that pertain to defined assets in the information security area. Internal IMS audits are conducted within PKP CARGO S.A. as per the "Internal Audit Program of the Integrated Management System at PKP CARGO S.A." by internal auditors of the Integrated Management System authorized by Decision No. 3/2021 of the President of the PKP CARGO S.A. Management Board of 27 January 2021 for audit activities related to the Integrated Management System.

As a rail operator, PKP CARGO S.A. holds a safety certificate called Safety Management Systems ("SMS"), the purpose of which is to ensure supervision over all types of risk (including risk analysis and assessment). All elements of the SMS should be documented, specifying responsibilities in the organizational structures of the rail operator. It should show how the rail operator's management control the work of the system at every management level, what is the involvement of staff and management representatives at all levels, and how continual improvement of the Safety Management System is ensured. To ensure the operational continuity of the system, all these elements are subject to periodic external supervision audits. In 2021, after the External Audit and Supervision in the field of the Integrated Management System and the Internal Control System, a decision was made (by the Management Board of the National Center for Testing and Certification) to extend the validity of the certificate nos. JBSI-12/4/2022 and W-209/5/2020 held by the Company until 18 May 2023.

In its day-to-day business, PKP CARGO S.A. takes actions to ensure the safety of cargo transport operations and to mitigate the risk of events that might result in damage to the property entrusted to PKP CARGO S.A. for transport, using, without limitation, unmanned aerial vehicles which serve as an important tool of the Operational Team of the Security and Audit Department. The use of drones enables the following:

- monitoring the security status of sectors at risk of theft,
- verifying signals indicating the possibility of potentially dangerous situations and recording video from the air,
- inspecting trainsets to ensure that wagons are secured against being opened by unauthorized persons,
- collecting and providing information about problems occurring along routes.
- The tasks performed by drone operators are based on the applicable provisions of national aviation law and EU law, as confirmed by the required documents. In 2021, drone operators were subject to the provisions of Article 21(2) of Commission Regulation (EU) No. 2019/947.

In 2021, a Compliance Department was established in PKP CARGO S.A. Its duties include coordinating the compliance policy adopted by PKP CARGO S.A. and managing the areas of ethics and preventing corruption. The Department's staff includes the position of Compliance Officer, reporting directly to the President of the Company's Management Board with the powers to reporting to the Supervisory Board's Audit Committee, in accordance with the Best Practices of WSE Listed Companies. Within the structures of PKP CARGO S.A., the person employed in the Compliance Department in the position responsible for ensuring ethics and counteracting fraud and corruption, acts as the Ethics Officer and Coordinator for Counteracting Fraud and Corruption.

The Ethics Officer's job is to ensure compliance with the rules laid down in the Code of Ethics. The work of the Ethics Officer is supervised by the Compliance Officer. The job of the Ethics Officer includes, in particular, activities aimed at clarifying matters related to potential breaches of ethical standards adopted by the Company, receiving reports on breaches from employees, and assessing and verifying reported breaches based on the Code of Ethics and other internal regulations adopted by the Company. The persons supporting the Ethics Officer in the Company's units are Value Leaders who do not accept any reports of violation of the values set forth in the Code of Ethics. Their role is to support the Ethics Officer in promoting and improving awareness of the Code of Ethics. Moreover, the Value Leaders are required to explain to employees the methods of reporting breaches and collect their postulates aimed at updating the Code of Ethics.

10.1.5 Risks related to Group activities and management of these risks

Risk management is a coordinated process interlinked with and embedded in all activities and process in the Company, with the purpose of risk management and control. It supports the management in the decision process, making informed choices, setting priorities, setting quality levels, information security level, specific actions, as well as identification of potential alternative courses of action. On 7 April 2020, the PKP CARGO S.A. Management Board adopted a resolution on introducing the "Risk Management Policy in PKP CARGO S.A." Risk management supports the Company in its improvement, increasing its effectiveness in the implementation of tasks by using adequate control mechanisms, as well as collecting information on threats to the achievement of the planned objectives and tasks. An effective risk management process contributes to the Company's higher shareholder value. The risk management process at PKP CARGO S.A. covers the following steps:

1) risk assessment, which comprises the following steps: risk identification – analysis of the planned objectives, tasks, assets to be protected, processes in the Company, as well as the potential threats to its operations;
2) risk analysis – developing in-depth understanding of risk, its causes and consequences, and then defining the level of risk according to specified risk assessment criteria. Risk assessment is based on likelihood and potential consequences of the occurrence of a specified event on the performance of the Company's tasks and achievement of its objectives;
3) risk evaluation – comparing the results of the risk analysis with the risk criteria, to determine whether the risk level is acceptable. Result of the evaluation indicate actions to be taken in respect of this risk.
4) risk response – the following risk responses are available: risk acceptance, transfer, withdrawal or action.

Each occurring risk is validated and then, for selected risks at the Company level, key risk indicators (KRIs) are established, which may be preventive or detective in nature. Preventive KRIs are formulated based on risk sources, whereas detective ones are formulated around the effects of risk. They are assessed by the PKP CARGO S.A. Supervisory Board Audit Committee (SBAC), which examines the correctness and effectiveness of carrying out internal financial audits in the Company and monitors the effective operation of internal control, internal audit and risk management systems. The PKP CARGO Management Board is responsible for risk management on the basis of the adopted strategy of the PKP CARGO Group; it primarily defines the directions of development and makes decisions regarding risk handling plans, while the Director of the respective Unit/Department is responsible for risk management in the area falling under his or her responsibility. Depending on the comparison results obtained, actions are taken to either retain the status quo or reduce the risk level. PKP CARGO employees are obliged to comply with the provisions of the Policy within the scope of their authority. The "Risk management policy at PKP CARGO S.A." designates a Risk Leader, whose task is to coordinate all matters associated with risk management. Gathering and analysis of information and subsequent reporting to the Management Board and Supervisory Board Audit Committee. Risks identified as material are subject to special monitoring.

From the viewpoint of rail traffic safety, PKP CARGO S.A. operates based on relevant part A and part B safety certificates issued by the President of the Office of Rail Transport. The fundamental requirement for obtaining the certificates necessary to pursue an independent business activity was to implement the Safety Management System (SMS), which was satisfied in 2009. In 2019, the Company's Safety Certificate part A was renewed until 25 June 2024, and the Safety Certificate part B was renewed in 2020 until 24 April 2025. The SMS covers risks related to the pursued activity and provides for appropriate supervision and control measures in order to reduce them and ensure the appropriate safety level: the risk arisen from a direct activity, including occupational risk (related to the performed work) and technical risk (related to the rolling stock and technical resources used), the shared risk, which is a risk arisen from an interaction between the entities being part of the railway system (e.g. infrastructure administrators, other rail operators, entities in charge of maintenance), the risk of third parties, which are not directly involved in the operation of the railway system. Moreover, the processes and procedures serving the purpose of monitoring the effectiveness of the measures taken in the area of risk supervision and introducing the necessary changes are applied within the SMS. These changes apply to: technology and methods, operating procedures, rules and standards, organizational structure.

Material risks associated with the entity's operations (social issues, employee issues, human rights) include:

Risks in the area of environmental protection

Risk associated with environmental protection requirements.

Within PKP CARGO, business risks related to distinct environmental management processes are periodically assessed under the formally adopted "Risk management policy at PKP CARGO S.A." The level of environmental risk is evaluated in the context of water and sewage management, emissions into the air (including greenhouse gas emissions), waste management, protection against noise, removal of greenery and environmental damage. The consequences of a potential materialization of risks may include: legal non-compliance consisting of the absence of the required decisions authorizing the use of the environment or failure to comply with reporting obligations. This may result in legal and financial consequences of various magnitudes, depending on the regulations in question.

There is also a risk of environmental pollution due to excess emissions of substances. In the event of failure to take corrective actions, such decisions may be withdrawn or limited, and even an order may be issued to close the respective unit. Being fully aware of the risks and responsibilities involved, PKP CARGO S.A. regularly reviews environmental risks and, if required by the level of the respective risk, prepares management plans the implementation of which is periodically verified by the Risk Leader. This prevents potential breaches of the continuity of repair processes, which in turn might exert unfavorable consequences on the smooth conduct of the transportation process, which forms the basis of PKP CARGO S.A.'s business.

In 2021, no penalties were imposed on PKP CARO S.A. in the field of environmental protection and no decisions were revoked. Accordingly, it may be concluded that the environmental risk management process was conducted by the Company with proper care and diligence.

Resources

No PKP CARGO facilities are located within or in the immediate vicinity of areas characterized by a high degree of biodiversity or in wild natural habitats. PKP CARGO S.A. consumes natural capital such as fossil fuels, wood, air, water and solar energy. The environmental protection policy pursued in this respect is focused on management that leads to the minimization of emissions and the maximization of resource savings.

All risks of the overuse of resources are monitored by collecting and comparing information on the quantity of commodities used and energy efficiency indicators in each year. Corrective actions are taken depending on the outcomes of such comparisons. At the Company level, the water consumption volume is significant due to the number of locations and the high headcount. However, based on many years of observation, it may be concluded that this volume does not increase and does not exceed the prescribed standards. Accordingly, activities involving periodic meter readings and searching for possible leaks in the water supply process are sufficient. The combination of these activities with employee training on the importance of savings water makes the efficient water management a permanent element of the Company's work organization. Of greater significance for the Company, both in terms of costs and climate policy, is the monitoring of diesel fuel consumption. Due to the operation of approximately 700 diesel locomotives, the expenses incurred due to the purchases of this fuel are high for the Company, and its consumption generates significant direct emissions of carbon dioxide. The Company takes various steps to reduce the consumption of diesel fuel per unit of mass and route in order to generate financial savings and reduce unnecessary emissions to the environment. We regularly upgrade our rolling stock and modernize our locomotives, including by engine replacements, thereby significantly reducing fuel consumption. However, compliance with the assumed indicator of fuel consumption per unit of freight turnover does not depend solely on our direct actions. Rail line repairs and their consequences, such as reduced speeds and the need to make detours, may temporarily increase the value of this indicator.

Due to the climate policy pursued, we minimize the consumption of fossil fuels by reducing the number of operating coal-fired boilers year after year. Of great significance for us are also activities aimed at indirectly reducing the consumption of non-renewable resources. The Company's freight turnover performed by electric rolling stock constitutes on average 90% of the Company's aggregate freight turnover. PKP CARGO is committed to monitoring energy consumption in its electric traction system. Endeavors in this area indirectly reduce the consumption of natural resources by utility companies in the energy generation process. Changes in the methods applied to the consumption of natural capital will be directed towards reducing the depletion of non-renewable resources such as coal or diesel fuel and will be implemented by a greater use of renewable energy sources and hydrogen fuel. These changes will be introduced gradually, in keeping with the climate policy to be adopted in 2022.

Climate risks

Climate risk is a potentially adverse impact of climate change on PKP CARGO S.A. Physical climate risks include weather phenomena that are independent of PKP CARGO S.A. and may be acute (extreme events such as droughts, floods, fires, etc.) or chronic in nature (long-term changes in average temperatures, rising water levels, etc.). These phenomena may hinder or even prevent the conduct of transport activities. The risks of transitioning to a low-carbon and climate-resilient economy are referred to as transition risks.

Physical climate risks – risk group of financial significance

As regards events caused by weather phenomena, these entail a likelihood of destruction of the rolling stock, repair facilities and/or the occurrence of harmful effects for the environment, the removal of which, depending on the type and scale of the event, may be prolonged and very expensive.

Presented below are the Company's activities aimed at mitigating this risk.

<table>
<tr><th>Factor</th><th>Acute climate risk</th><th>Risk mitigation</th></tr>
<tr><td>heat waves</td><td>• operation of rolling stock: thermal expansion of tracks,
• possibility of derailment, reduced speeds,
• downtime in repairs – high temperatures in repair facilities, difficult working conditions for staff</td><td rowspan="4">• implementation of crisis management procedures resulting from the SMS manual, Instructions for traction vehicle drivers (in the event of frost, application of the "Regulations for working in winter conditions")
• messages with guidelines for Unit Rail Operations Command Centers regarding weather warnings
• risk diversification where possible: alternative routes, guarantee of traction power, monitoring of transport services, tracking of shipments, provision of additional traction vehicles, wagons and employees involved in the performance of transport services;
• investments in rolling stock upgrades and investments in auxiliary facilities (e.g. thermal modernization)
• cooperation at the interface between PKP CARGO S.A. and PKP PLK's infrastructures
• removal of trees posing a risk of damage to installations and vehicles in the event of extreme weather conditions;</td></tr>
<tr><td>frosts, snowfall</td><td>• possible malfunction of the rolling stock's brake system,
• wiper operation disturbed or impossible;
• in the event of ice, rime on the traction line – improper connection between the current collector and the traction line (electric locomotives),
• risk of network burnout and damage to the collector attachment,
• freezing of tracks on the route,
• derailments,
• reduced speeds,
• freezing of tracks on the route,
• freezing of rolling stock in unheated facilities,
• inability to conduct repairs,
• formation of snowdrifts on the tracks – preventing passage and causing delays,
• inability to run trains due to immobilized turnouts,
• damage to electronics (e.g. turnout controls)</td></tr>
<tr><td>fires</td><td>• risk of damage and immobilization of the vehicle; need to provide a different locomotive and delays in the performance of contracts;
• risk of damage to the customer's cargo,</td></tr>
<tr><td>rains, violent storms, floods</td><td>• risk of track washout and damage, which may cause derailments and damage to the rolling stock,
• risk of breakage of the traction network or loss of current in the substation,
• risk of flooding in the event of clogged rain drains, blocking access roads and obstructing pedestrian traffic
• risk of lightning strikes hitting the rolling stock, damage and immobilization of the rolling stock on the route,</td></tr>
</table>

strong winds	• risk of breakage of the traction network, • risk of damage to the rolling stock by falling trees or running into obstacles (fallen trees), • risk of damage to facilities and infrastructure, e.g. roofs torn off from sheds and structures, damage to sewage, rainwater, electricity or telecommunications systems by falling trees	
Factor	**Chronic climate risks**	**Risk mitigation**
changes in mean temperatures	high temperatures may cause a risk of shortened working time,	• development and deployment of an effective climate policy, • implementation of energy transition in the Company by increasing the share of consumption of electricity generated from renewable energy sources, independent energy generation from renewable energy sources, gradual elimination of heating sources for buildings and technical facilities based on the combustion of fossil fuels, • active search for technical and organizational solutions that minimize the impact of conducted operations, such as hydrogen locomotives

Adaptation to climate change

In 2022, physical climate risks will be assigned to specific geographic locations and linked to climate scenarios. The current analysis of the main locations covered by the Company's operations (Company's Head Office and units) is limited to risks associated with floods and does not reveal the presence of assets in particularly vulnerable areas for our most significant facilities. The next step will be to analyze the sensitivity of our properties to changes in temperature, precipitation and wind strength.

Transition risk resulting from the shift to a low-carbon economy – risk group of environmental and social significance.

Rail transport of goods generates almost 9 times lower CO_2 emissions than road freight transport. In turn, CO_2 emissions account for less than 3% of the emissions from all transport operations, although account for 17% of the land transport (according to CER Factsheet Climate 2018). Because the mere increase in the share of rail transport in the pool of all transport operations translates into an environmental effect of mitigating climate change (reduced emissions in the transport sector due to the shift from road transport to rail transport), measures aimed at reducing CO_2 emissions from rail vehicles should not be treated as the primary focus of rail operators. However, given the fact that the current social and environmental trends have focused on climate change as one of the biggest challenges of the present times, PKP CARGO S.A. must, due to environmental expectations, take into account the risks associated with the need to reduce its carbon footprint. This process will be planned in the near term (2022-2025) and will be of great significance for our medium-term and long-term activities. Our ultimate goal is to achieve total climate neutrality by 2050.

The risks associated with this transition are presented below:

	TRANSITION RISK	RISK MITIGATION
REGULATORY AND LEGAL	• risk of penalties in the event of an adverse impact on the climate, due to the tightening of the European Union climate policy and/or national environmental requirements, • increase in greenhouse gas emission prices (higher environmental fees, higher electricity prices); • absence of legal regulations requiring the use of rail transport over long distances (despite the small carbon footprint generated by rail transport), which means that the slowdown of the intense growth of freight transport by road may be limited,	• introduction and implementation of climate policy by PKP CARGO S.A., leading to reduced emissions, • regular assessment of compliance with legal requirements and updates of internal guidelines (procedures and instructions to ensure environmental protection), specialist training, ongoing access to current legal regulations, • participation in issuing opinions on legal acts and guidelines concerning rail operators, carried out, for instance, within the framework of cooperation with the Community of European Railway and Infrastructure Companies (CER) or the International Union of Railways (UIC).
TECHNOLOGICAL	• need to replace the technologies used currently with optional solutions characterized by lower emissions and/or higher energy efficiency and incur additional expenditures • need to replace outdated locomotives and wagons (very high costs of modernizing the transport and logistics systems), • need to install more fuel and electricity meters in locomotives to enable detailed analyses of traction energy and fuel consumption, • risk of unsuccessful investments in new technologies (e.g. hydrogen locomotives)	• adoption and pursuit of the climate policy by PKP CARGO S.A., which will ultimately enable greater energy independence of the repair facilities (gradual transition to own renewable energy sources, continuation of thermal upgrades of facilities) and reduction of emissions from rail transport, • cooperation with other entities in developing new technologies, for instance: letter of intent for joint innovative investment projects related to the commercial use of hydrogen fuel between PKP CARGO and JSW, H. Cegielski – FPS; letter of intent with PKP Energetyka on cooperation in creating effective and innovative solutions that will enable PKP CARGO S.A. to use electricity generated from renewable sources.
MARKET AND REPUTATIONAL	• risk of losing customers if the Company's operations are perceived as harmful to the climate or become unprofitable due to the increased cost of using high-emission energy or fuels; if revenues decline due to the loss of customers, potential consequences may include the loss of employees, investors, suppliers and shareholders, • increase in electricity prices making rail transport less cost-effective,	• PKP CARGO S.A.'s adoption and pursuit of climate policy will ultimately help reduce greenhouse gas emissions and enable the achievement of carbon neutrality by 2050, • dissemination of reliable information on performance indicators enabling an assessment of how the Company manages climate-related issues (e.g. operations and investments taking into account climate risk), the degree of preparation for the transition to a sustainable business model (adaptation of implemented policies, strategies and investment plans to the requirements of a low-emission economy), seizing opportunities related to climate change (subsidies, innovative technologies, etc.)

PKP CARGO S.A.'s rail and multimodal transport of cargo responds to stakeholders' expectations related to climate issues. According to the climate policy pursued by the European Union, rail transport has a chance to become a significant driver of the achievement of CO_2 reduction objectives.

Accordingly, there is a good chance that lending policies directed toward freight projects will be changed and that rail transport will be prioritized due to its contribution to the mitigation of climate change. Moreover, it is very likely that state aid will also be directed towards supporting rail transport initiatives in the coming years. This should make the visibility of rail operators on the transport market more prominent and their services relatively cheaper. Accordingly, the chances that manufacturers, suppliers or customers will choose rail operators more frequently for the transport of their cargo keep increasing.

Within the framework of the National Plan for Energy and Climate for 2021-2030 prepared by the Ministry of Energy, in line with the policy pursued by the EU, the development of energy-efficient and low-emission transport options will be supported.

This means the provision of aid for environmentally friendly transport projects and endeavors aimed at creating conditions conducive to shifting transport from roads to railways or inland waterways (in particular over distances greater than 300 km). The development of rail network management systems (European Rail Traffic Management System (ERMTS); TEN-T multimodal core network) will exert a favorable impact on the capacity and growth of information services. As a result, the transport of freight by rail will keep getting ever more attractive as a transport option offering the highest quality of services.

In turn, the European Green Deal provides an opportunity for the emergence of standardized – on a European scale – tools in the form of carbon dioxide calculators, enabling comparisons of emissions generated by various types of transport and guidelines for the eco-labeling of transported freight. This would provide significant assistance in educating and making informed consumer choices favoring low-emission mobility. All these opportunities should indirectly help strengthen PKP CARGO S.A.'s leading position in the freight transport market and continued expansion into foreign markets.

However, the most significant risk for PKP CARGO S.A.'s business would occur if it became necessary to increase the prices of proposed transport services due to the rising costs of energy purchases. Because the policies and programs aimed at supporting rail transport operators are still taking shape, the medium- and long-term perspectives are most significant for PKP CARGO S.A. We hope that, in the future, the Company's revenues reach a level enabling us to cover the costs of a seamless transition to a low-carbon economy. For us, 2022 is a year of preparing a strategy of conduct and adoption of goals for 2030 and 2040 (medium term) and defining actions aimed at their attainment. In the long term (by 2050), the goal is the achievement of complete climate neutrality.

In the case of PKP CARGO CONNECT Sp. z o.o., an elevated risk in the environmental protection area has been identified:
a) Threat: leakage of hazardous substances (e.g. consumable fluids) from vehicles on the Company's premises.
Consequences of the threat: possible degradation of the natural environment (hazardous waste), contamination of soil, contamination of surface waters and ground waters. The risk may potentially materialize, and the consequences would be serious.
Preventive measures have been implemented through ongoing checkups by vehicle operators.
b) Threat: leakage of hazardous substances as a result of a traffic accident.
Consequences of the threat: possible degradation of the natural environment (hazardous waste), contamination of soil, contamination of surface waters and ground waters.
The risk may potentially materialize, and the consequences would be serious.
Preventive measures have been implemented through ongoing checkups by vehicle users.
Ensuring compliance with road traffic regulations.
c) Threat: failure to fulfill statutory requirements in the area of environmental protection.
Consequences of the threat: legal and financial consequences, loss of the company's good image.
The risk may potentially materialize, and the consequences would be serious.
Preventive measures have been implemented through continuous monitoring of legislative and other developments in accordance with the procedure P02_Ś – Identification and access to legal and other requirements. In the context of environmental protection, PKP CARGO CONNECT sp. z o.o. keeps the "List of legal and other acts" containing current statutes, ordinances and permits associated with the use of the natural environment as well as notified installations.

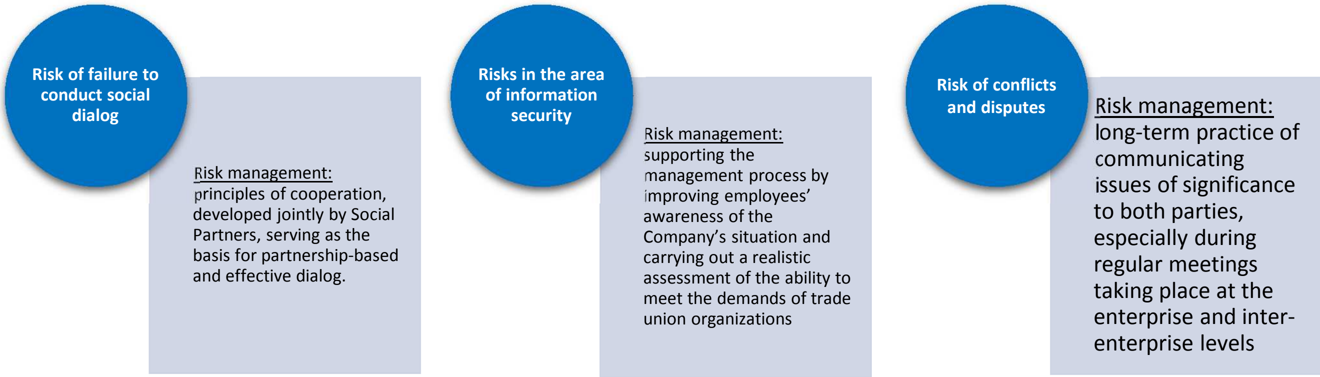
In 2021, PKP CARGO SERVICE Sp. z o.o. estimated a high likelihood of hazards in the following environmental aspects:

- waste – packaging of hazardous substances, paints, solvents and varnishes.
- For all the identified aspects, removal actions or actions to reduce their adverse environmental impact were planned, or else control actions – to prevent any uncontrolled environmental impacts – were planned. Among the risks associated with these threats, the following items were identified in the "Risk and opportunity estimation sheet on environmental management":
- increase in the volume of hazardous waste, improper storage and management,
- improper application, for instance, of paints or varnishes, absence of supervision over storage or improper storage,
- increased volume of waste, improper storage and release of pollutants into the environment.

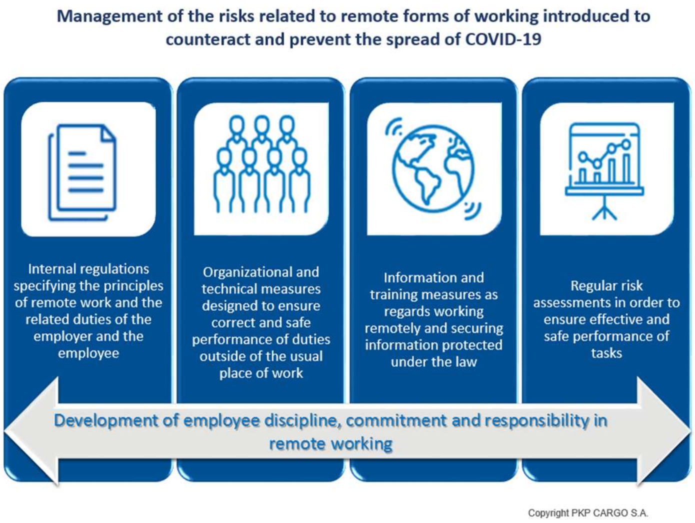
All identified threats are subject to continuous monitoring as part of the certified management systems and/or applicable internal regulations adopted by the Company. PKP CARGO SERVICE sp. z o.o. takes preventive and improvement actions in order to eliminate these threats completely or, if this is impossible, to limit their impact on its business and environment.

PKP CARGOTABOR has identified environmental risks related to the company's daily activities in the heavy industry area. Additional risks include paint shops and varnish shops as well as sales of scrap medal and waste. However, the company takes steps to eliminate or reduce risks and their impact on the natural environment.

Management of risks related to social dialog



Management of the risks related to employee issues, connected with remote forms of working introduced to counteract and prevent the spread of COVID-19



The shaping of discipline, commitment and responsibility in remote work among employees is pursued through: internal regulations defining the principles of remote work and related obligations of the employer and employees; organizational and technical activities aimed at the proper and safe performance of duties outside the place of their normal performance; information and training activities in the field of remote work and application of safeguards to legally protected information; regular risk assessments to ensure that tasks are carried out in an efficient and secure manner.

Management of risks related to mobbing

Risk management related to mobbing is carried out through: internal regulations defining the rules and procedures for counteracting mobbing; initiatives and actions in the legislative, organizational, training and information spheres; activities of Trustees and Anti-mobbing Committees in all units within the Company.

Corruption risk management

Risk management in PKP CARGO S.A. is based on the provisions of the "Risk Management Policy in PKP CARGO S.A." adopted by Resolution No. 214/2021 of the PKP CARGO S.A. Management Board of 6 July 2021 on the adoption of the "Risk Management Policy in PKP CARGO S.A." The policy is reviewed on an ongoing basis to make sure that it remains up to date and effective. Minimizing the risk of corruption takes place through introduction of the "Policy of handling corruption and gifts at PKP CARGO S.A., as well as through the introduction of the whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be both employees and persons/entities from outside the Company, but cooperating with it (customers, business partners, suppliers, etc.). The rules defined in the Policy cover both the Company's employees and all collaborators under civil-law agreements performing any kind of activities on behalf or for PKP CARGO S.A. The Policy is communicated to customers, so that they observe the internal anti-corruption rules of the Company in contacts with its representatives. All employees are obliged to familiarize themselves with the anti-corruption Policy and follow it in the performance of their professional duties or provision of services. Customers, suppliers, and business partners can acquaint themselves with the Anti-corruption Policy at: *https://www.pkpcargo.com/pl/*. PKP CARGO company has a reporting system in place that supports the company's operational risk management, through which customers, business partners and outsiders may report any irregularities by revealing their name or anonymously through dedicated communication channels.

In the event of a justified notification that a breach of the Code of Ethics/Anti-Corruption Policy has occurred, an investigation procedure is launched. The procedure is conducted by the Compliance Department based on the principles set forth in the Code of Ethics and the Anti-Corruption and Gift Policy. Each notification is entered in the Register of Notified Breaches of the PKP CARGO S.A. Anti-Corruption Policy/Register of Notified Breaches of the PKP CARGO S.A. Code of Ethics.
In the corruption prevention area, the following significant risks may be identified:

- reputational risk – related to the unfavorable perception of the image of PKP CARGO or other members of the PKP CARGO Group by customers, counterparties, investors, shareholders, regulators, the public, etc.;
- regulatory risk – related to the need to adapt the business to changing legislation – possibility of suffering financial or image losses as a result of the conduct of business out of compliance with the applicable laws or regulations;
- sanction risk – associated with adverse consequences in the form of financial penalties for failure to comply with the applicable laws.

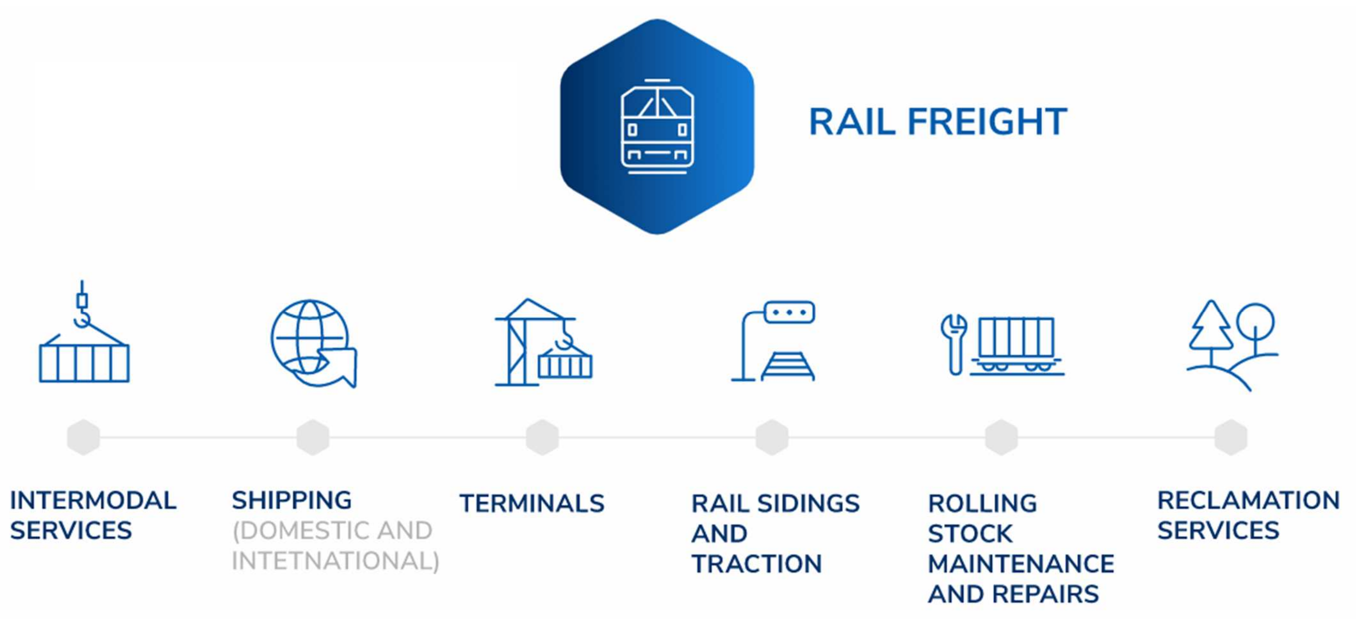
In PKP CARGO SERVICE Sp. z o.o., the subject matter of creation and rollout of the corruption risk management system is included in the "Abuse Prevention Policy of PKP CARGO SERVICE sp. z o.o." adopted with a view to counteracting and combating corruption-related breaches. This Policy is closely related to the "Code of Ethics of PKP CARGO SERVICE sp. z o.o." and constitutes the company's declaration that it runs its business in a transparent and responsible manner and in compliance with the highest ethical standards, heeding the principle of "zero tolerance for corruption". The "Abuse Prevention Policy" applies to all employees of the company and persons rendering any services for or on behalf of the company (contractors) and applies to all cases of abuse as well as situations of a suspected commission of an abuse by employees, contractors, advisory entities, clients and business partners. Any irregularities or doubts related to the implementation of these principles must be reported to the Ethics Committee. Because teamwork appears to guarantee a greater degree of transparency, especially at the Code implementation stage and in respect of such sensitive issues as reporting and investigating violations, the Ethics Committee will operate as a team. To enable the reporting of breaches (or questions, requests, etc.) provided for in the "Code of Ethics" and the "Abuse Prevention Policy" in a form alternative to traditional correspondence (sending letters to the Company's address), an additional e-mail communication channel has been created (e-mail address: *etyka@pkpcs.pl*), used by the Ethics Committee at PKP CARGO SERVICE sp. z o.o.).

10.2. Representation of PKP CARGO S.A.

The Representation of PKP CARGO S.A. on non-financial information for 2021 (hereinafter: the Representation), constitutes a standalone part of the Report on the PKP CARGO Group Activities (hereinafter: the Group, PKP CARGO Group) and presents non-financial information about the Company for the period from 1 January 2021 to 31 December 2021. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), the GRI guidelines (Global Reporting Initiative) and reflects the provisions of the Accounting Act of 29 September 1994.

10.2.1 Description of the business model

The PKP CARGO Group is the biggest rail freight operator in Poland and one of the biggest in the European Union.

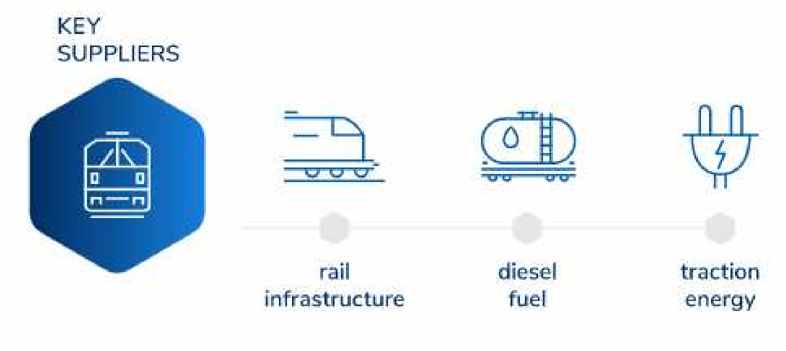


The Company's activity covers a wide range of services connected with rail freight transport. The PKP CARGO's revenue from rail transportation and freight forwarding services represents X% of revenue under contracts with the Company's customers. The services provided by the Group allow it to participate in the entire logistic value chain, including railway shipping, siding services, freight transport, transshipment and storage services and using the Group's terminals. The above services offer a natural competitive advantage in terms of customer acquisition and service. Intermodal services are the fastest developing area of the PKP CARGO Group's activities. The revenue generated by these services is expected to grow.

The Company employs highly qualified staff with extensive experience, who ensure the highest quality of services and form the foundation of the its operations.

BUSINESS MODEL

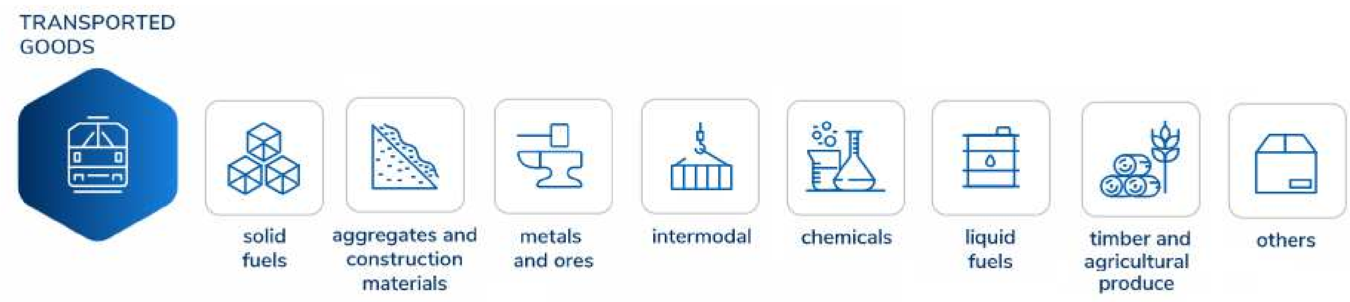
The business model of the PKP CARGO Group is based on performance of the main activity, i.e. rail freight, and complementing the offer with additional services. In order to carry out its operations seamlessly, the Group uses the available capital and allocates it in the most efficient way possible.



The Group's operations are also based on relations with the key suppliers of the PKP CARGO Group that are responsible for rail infrastructure, fuels and electricity. PKP PLK is responsible for the condition of the rail infrastructure used by the Group's rolling stock. The locomotives used by the Group are powered by diesel fuel and traction energy. Electricity is delivered by PKP Energetyka. All the factors listed above have an impact on the costs of the PKP CARGO Group's services.

The Group's key customers include steel mills, coking plants, power plants, mines, steel works and railway shipping companies. The PKP CARGO Group collaborates with the largest Polish and global groups, including the ArcelorMittal Group, the PKN Orlen Group, PGNiG, the Lafarge Group, the Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, the Enea Group, the PGE Group, the Tauron Group, Polska Grupa Górnicza and MM Kwidzyn (owned by Mayr-Melnhof Karton AG). The contracts with these business partners are regularly renewed, which confirms the high quality of the transport services provided by the PKP CARGO Group.

The primary categories of goods carried by PKP CARGO comprise:



10.2.2 Key non-financial effectiveness indicators connected with the operations of PKP CARGO S.A.

NATURAL ENVIRONMENT

Table 50 Electricity consumption by PKP CARGO S.A. in 2017-2021

Electricity	Energy consumed [MWh]				
	2021	2020	2019	2018	2017
Traction	523,374	483,762	579,000	673,043	616,394
Non-traction	19,769	19,778	21,382	21,850	22,436

Source: Proprietary material

Table 51 Air emissions by PKP CARGO S.A. in 2017-2021

Substance emission	Total emissions [t]				
	2021	2020	2019	2018	2017
Sulfur dioxide	289	373	850	4,369	1,159
Nitrogen dioxide	1,178	1,572	2,079	9,040	3,418
Carbon oxide	380	608	755	657	758
Carbon dioxide	465,009	481,820	505,618	624,717	527,792
Dust and soot	100	218	214	447	262
Total hydrocarbons	134	312	481	467	455
Other	39	51	27	46	35

Source: Proprietary material

Table 52 Waste produced by PKP CARGO S.A., by type and volume, in 2016-2020

Waste	Waste Code	Waste volume [t] in 2021		Waste volume [t] in 2020		Waste volume [t] in 2019		Waste volume [t] in 2018		Waste volume [t] in 2017	
		inventory at the end of									
		Preceding period	Reporting period	Preceding period	Reporting period	Preceding period	Reporting period	Preceding period	Reporting period	Preceding period	Reporting period
Slag, bottom ash, and boiler dust (excluding dust listed in 10 01 04)	10 01 01	22.4	10.3	18.0	22.4	49.4	18.0	63.0	49.4	162.3	63.0
Waste from turning and sawing of ferrous metals and their alloys	12 01 01	26.0	18.1	103.0	26.0	14.9	103.0	39.8	14.9	59.4	39.8
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	17.6	5.5	21.4	17.6	8.2	21.4	22.4	8.2	25.6	22.4
Worn-out clothes and cleaning cloth	15 02 02*	19.4	11.6	18.1	19.4	15.8	18.1	9.3	15.8	13.7	9.3
Ferrous metals (scrap)	16 01 17	2,988.6	1,189.3	5,890.3	2,988.6	3,387.7	5,890.3	3,360.8	3,387.7	1,588.5	3,360.8
Non-ferrous metals	16 01 18	52.3	7.0	49.1	52.3	47.7	49.1	14.4	47.7	9.5	14.4
Other waste, not listed elsewhere	16 01 99	34.1	181.7	17.2	34.1	3.5	17.2	32.5	3.5	3.9	32.5

Worn-out devices other than those mentioned in 160209 to 160213	16 02 14	5.7	18.6	19.4	5.7	27.0	19.4	10.0	27.0	3.7	10.0
Lead batteries	16 06 01*	1.6	9.8	9.1	1.6	10.4	9.1	7.4	10.4	18.4	7.4
Wood, glass and plastic waste containing or contaminated with hazardous substances	17 02 04*	11.1	5.2	9.8	11.1	15.4	9.8	8.0	15.4	8.0	8.0
Iron and steel	17 04 05	31.2	62.1	118.3	31.2	10.2	118.3	16.0	10.2	21.7	16.0
Wood	19 12 07	211.5	113.9	129.3	211.5	50.6	129.3	23.4	50.6	10.6	23.4
Other waste		169.9	89.7	157.9	169.9	126.8	157.9	33.5	126.8	154.4	33.6

Source: Proprietary material

Table 53 Expenditures on environment protection incurred by PKP CARGO S.A. in 2017-2021

Expenditures incurred for: [PLN thousand]	2021	2020	2019	2018	2017
Air protection, including:	**753**	**739**	**1,002**	**1,046**	**898**
Boiler plants	36	38	46	52	63
Technological processes	88	84	100	73	66
Vehicles and machinery	8	6	8	9	9
Locomotives	603	603	791	893	753
Steam engines	1	2	6	8	7
Other	17	6	50	11	0
Water protection, including:	**149**	**170**	**344**	**133**	**52**
Water intake	3	4	0	0	0
Sewage disposal	6	7	7	7	10
Disposal of rainwater and snowmelt	7	7	3	8	5
Other	133	152	334	118	37
Tree and shrub clearing	**17**	**7**	**11**	**32**	**5**
Protection of the earth's surface	**58**	**0**	**54**	**53**	**0**
Waste management	**1400**	**792**	**622**	**334**	**392**
Other costs of environmental protection	**371,556**	**335,015**	**422,482**	**176,103**	**138,042**

Source: Proprietary material

The category "Other costs of environmental protection" is a collective category, comprising capital expenditures and repair expenses related to environmental protection. Expenditures which are qualified here include expenses connected with reduction of emissions to air and noise. In 2021, the Company spent PLN 371.6 million for that category. The amount is accounted for by over 98% of investments in rolling stock, associated with the purchase of container platforms, modernization of locomotives and replacement of brake blocks in rail cars into composite ones. The remaining portion of the amount was spent on repairs of the infrastructure and facilities for rail transport, costs associated with putting water and sewage management in order, changing sources of heat, etc.

EMPLOYEE AREA

Table 54 Number of PKP CARGO S.A. employees in 2017-2021

Number of employees, including:	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017

	FTEs	persons	FTEs	persons	FTEs	persons	FTEs	persons	FTEs	FTEs
Women	**4,290**	**4,094**	**4,476**	**4,701**	**4,691**	**4,381**	**4,476**	**4,701**	**4,691**	**4,440**
Tertiary education	1,151	1,117	1,167	1,219	1,198	1,162	1,167	1,219	1,198	1,005
Secondary education	2,506	2,365	2,656	2,790	2,790	2,574	2,656	2,790	2,790	2,674
Primary and vocational education	633	612	652.8	692	703	645	652.8	692	703	761
Men	**11,061**	**10,634**	**11,710**	**12,439**	**12,602**	**11,390**	**11,710**	**12,439**	**12,602**	**13,259**
Tertiary education	1,562	1,521	1,605	1,681	1,648	1,583	1,605	1,681	1,648	1,484
Secondary education	5,430	5248	5,717	6,069	6,106	5,585	5,717	6,069	6,106	6,007
Primary and vocational education	4,069	3,865	4,388	4,689	4,848	4,222	4,388	4,689	4,848	5,767
Total	**15,351**	**14,728**	**16,186**	**17,140**	**17,293**	**15,771**	**16,186**	**17,140**	**17,293**	**17,698**

Source: Proprietary material

Table 55 Interns and new employees in PKP CARGO S.A. in 2017-2021

Description	2021	2020	2019	2018	2017
Number of started internships [units]	15	20	89	43	15
Number of accepted interns [persons]	0	0	7	9	0
Number of new employees [persons]	233	46	729	1,108	502
Number of new employees [FTEs]	232	41	725	1,106	502

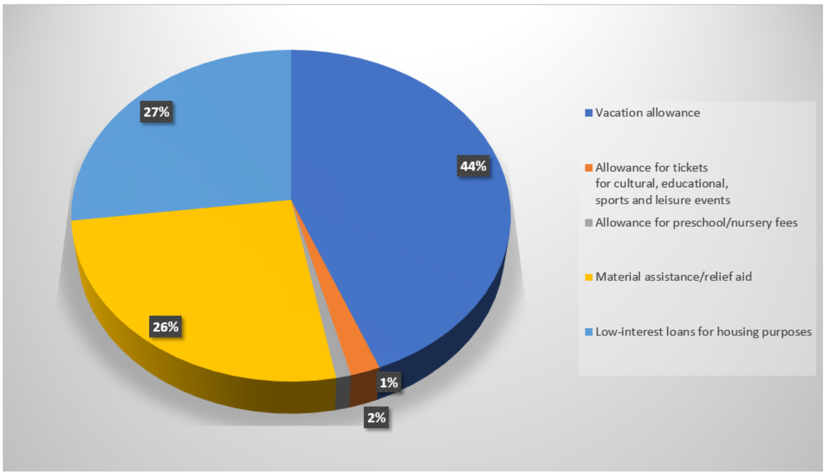
Source: Proprietary material

Table 56 Training courses delivered in PKP CARGO S.A. in 2017-2021

Description	2021	2020	2019	2018	2017
Number of training courses conducted [hours],	**42,122**	**30,436**	**64,438**	**49,608**	**53,888**
under the post-accident psychological support program	**5,240**	7,068	7,817	7,411	7,486
Number of conducted training courses per employee [hour/person]	**3**	**2**	**4**	**3**	**3**

Source: Proprietary material

Figure 34 Use of funds from the social benefit package at PKP CARGO S.A. in 2021



Source: Proprietary material

SOCIAL AREA

In its business strategy, PKP CARGO S.A. takes into account key components of sustainable development. The Company seeks solutions which, apart from focusing on achieving profit, will also take into consideration the impact of our activity on the environment and social development. Our key objective is to manage the transportation process efficiently and with respect for the highest standards of sustainable development in the economic, social and environmental aspect. Corporate social responsibility activities have been a constant part of the PKP CARGO S.A. long-term strategy, with their framework determined by the PKP CARGO S.A. CSR Policy, an internal regulation adopted by a resolution of the PKP CARGO S.A. Management Board of 7 May 2019, regularly updated and adjusted to the standards and corporate responsibility principles prevailing in the market environment.

The PKP CARGO S.A. CSR Policy is based on international standards for conducting business activity in accordance with the concept of socially responsible business: Global Reporting Initiative; ISO 26 000 certification regarding the following areas: organizational order; human rights; work relationships; protection of the natural environment; fair market practices; consumer relationships; social involvement.

In the area of activities promoting the environment, we count mainly on effective management of processes performed by PKP CARGO S.A. The Company's basic activity – rail freight transport – meets the expectations connected with climate protection. The greenhouse gas emission level in rail freight transport is nearly 9 times lower than in the case of road freight transport. The environmental protection control system is governed by internal procedures and monitored. Our activities in the above area are regulated, among others, by the framework of the implemented and maintained INTEGRATED MANAGEMENT SYSTEM – Certificate no. JBSI– 12 /4/2020 attesting the compliance with requirements of the standards: PN-EN ISO 9001:2015-10, PN-ISO 45001:2018-06, PN– EN ISO 14001:2015-9, PN-EN ISO/IEC -27001:2017-06, valid until 18 May 2023. The principles applied by PKP CARGO S.A. in its daily practice translate into minimizing the environmental impact of the Company's business.

PKP CARGO S.A. CSR / ESG and environmental activities are also consistent with the performance of Sustainable Development Goals defined by the United Nations resolution: Transforming our world: the 2030 Agenda for Sustainable Development. Pro-social and pro-environmental projects and long-term activities performed by the Company comply with, among others, the following Sustainable Development Goals:
Goal 3 – Good health and well-being; Goal 8 – Economic growth and decent work; Goal 4 – Quality education; Goal 13 – Climate action. Every year, our corporate social responsibility practices are distinguished as model ones in the Polish nationwide Best Practices Report of the Responsible Business Forum. With reference to 2021, once more, despite the pandemic, we increased

the number of best practices compared to the previous year. More information on the reported practices can be found here: FOB Report for 2020.Among the CSR projects carried out in 2021, particular emphasis should be placed on the following:

"POST-ACCIDENT PSYCHOLOGICAL SUPPORT"

Project for train crews and other employees directly involved in rail traffic and rail traffic safety as well as members of permanent rail commissions. The Post-Accident Psychological Support Program has been operated consistently since 2017. The aim of PWP is to increase safety in rail traffic by providing psychological support to Employees – both in connection with participation in rail accidents and also in difficult personal situations that may have an impact on employees' mental condition and level of concentration and, consequently, the safety of transport processes.
The area according to the ISO 26000 Standard: social involvement and local community development

The execution of the program is possible owing to the psychological support hotline (staffed with psychologists specialized in the rail sector support). The hotline is free for callers, guarantees confidentiality and no adverse consequences for the professional situation of employees, gratuitous appointments with psychologists, activities aimed at relieving stress and post-traumatic stress prevention, also in the form of compulsory periodical instructions and the Company's communication projects. Since 2020, the scope of the project has been expanded to include prevention aspects related to COVID-19.

The significance of the Post-Accident Psychological Support for the company may be evaluated primarily by assessing the availability of psychological support:

- the program is addressed to approx. 7,000 people altogether directly involved in rail traffic and rail traffic safety (including members of train crews and standing rail commissions). For years, people using the hotline have often been employees who participated in a rail accident involving a person (in many cases a fatality) and families of employees who died in rail accidents.
- employees may use specialist psychological consultations provided in as many as 14 offices all over Poland. prevention measures carried out in 2021 in the form of periodical Post-Accident Psychological Support newsletters, which are sent regularly to thousands of train drivers employed in the Company.

Looking at performance indicators of the Post-Accident Psychological Support project, one of the key indicators is the short response time of psychologists in the case of accidents as assistance is provided immediately. For years, people using the hotline have often been employees who participated in a rail accident involving a person (in many cases a fatality) and families of employees who died in rail accidents. The accessibility of psychologists cooperating on a regular basis with PKP CARGO S.A. allows for responding immediately in the case of an accident and focusing on the injured people. The Post-Accident Psychological Support builds awareness of the impact of psychological aspects on work safety.

The project has for years been contributing to building the safety culture in rail transport. It supports Employees in coping with stress, helps them maintain good psychophysical condition. For the performance of the PWP program, PKP CARGO S.A. received, among others, a distinction from the Office of Rail Transport in the second edition of the Safety Culture in Rail Transport Contest. The program is successively developed and reinforced with further activities in the area of mental health prevention, making it possible to reach a greater number of employees from the key target group of the project – those directly involved in the safety of rail traffic.

Table 57 Training for train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions

Position	Number of training hours in the year	2021	2020	2019	2018	2017
Operator of rail vehicles on rail sidings, traction vehicle driver, traction vehicle assistant driver	24	3,490	3,604	3,965	4,113	4,135

Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	12	14	22	24	18
Rail traffic controller	16	62	70	74	53	77
Control room employee	16	13	13	13	14	23
Train conductor	16	0	21	112	72	151
Rolling stock auditor	16	827	1,332	1,581	1,246	1,072
Shunting master	16	541	1,339	1,316	1,201	1,227
Switchman	16	253	615	673	622	706
Track supervisor	16	10	10	10	10	9
Points operator	16	32	50	51	56	68
Total	**160**	**5,240**	**7,068**	**7,817**	**7,411**	**7,486**

Source: Proprietary material

Since the outbreak of COVID-19 (in 2020), due to the probability of employees experiencing an elevated level of stress as a result of the announcement of a state of epidemic in Poland, a psychological support hotline was made available to all Company employees.

PKP CARGO as the patron of rail technology history

The area according to the ISO 26000 Standard: social involvement and local community development.
The PKP CARGO Group as Poland's largest rail freight carrier in Poland also fulfills the role of a patron of rail technology history. For 17 years, the Group has maintained historic rolling stock in an open-air museum in Chabówka (Małopolskie voivoidship). The Group has been co-funding, jointly with the local governments, the operations of 114-year-old Wolsztyn Railway Roundhouse, which has had the status of the Cultural Institution. In collaboration with non-profit organizations acting to protect historic rail monuments, PKP CARGO makes efforts to promote rail tourist traffic (educational program "Summer with Steam Locomotives"; since 2005, the company has been organizing "Parowozjada" – one of the largest outdoor events popularizing the history of railroads). Due to the long-term involvement in the area of historical inheritance, the Group connects the rail tradition with the future, becoming a significant component in the history of Polish rail transport. Among the primary indicators confirming the effectiveness of activities pursued in this area are the number of monuments of rail technology on display and the number of people interested in the project.

The Open-Air Museum in Chabówka – it features the largest Polish collection of historical rolling stock, including steam locomotives, diesel and electric engines, passenger and freight wagons. Some of the steam locomotives are maintained in operating condition. During the year, approx. 22,000 thousand people travel by vintage trains operated by the Open Air Museum, and the Open Air Museum itself was visited by 30,000 thousand people. Approximately 19 thousand people participate in the most spectacular events ("Summer with steam locomotives"; "Parowozjada") or in the "Małopolska Tourist Routes" program. During the pandemic, special events were replaced with virtual meetings organized under the slogan: "Virtually in steam with the Rolling Stock Open-Air Museum in Chabówka". The open-air museum continued its normal operation – scheduled repairs of the historic rolling stock were performed and, during the summer vacation period, vintage trains were available to tourists while observing pertinent sanitary requirements.

The main beneficiary of the project was national culture – the Company's policy in this area helped preserve treasures, invaluable on a European scale, of rail technology and products of technical thought of Polish and international rail engineers – unique testimonies of the steam era civilization, old technologies and conserved (many in working condition) manufacturing solutions and unique professional specialties. These benefits are immeasurable, because they are priceless. Polish cinematography also benefited tremendously from the execution of the project – historical rolling stock from Chabówka was loaned for movie sets such as "Schindler's List", "Edges of the Lord", "The Spring to Come" ("Przedwiośnie"), "Fame and Glory" ("Sława i Chwała"), "The Good Soldier Švejk" and "Katyń", "Piłsudski" by Michał Rosa in 2018, and the Wolsztyn Roundhouse loaned the steam locomotive for shooting of the movie "The Pianist". The project also contributes to the development of local communities, supports the historical education of children and youths, and backs institutions that care for the traditions of Polish technical thought.

"A Running-Friendly Company"

The area according to the ISO 26000 Standard: social involvement and local community development

As a "Running-Friendly Company", PKP CARGO S.A. has for many years been supporting these interests and promoting a healthy life style by integrating employees working in different locations in Poland and in various positions. The "Running-Friendly Company" initiative promotes a healthy life-work balance and supports employees in taking socially beneficial and charitable activities.

The "Running-Friendly Company" program has been built on the basis of three pillars: sports/integration (promotion of healthy lifestyles through the participation of PKP CARGO S.A. employees in various running initiatives, including marathons; half marathons organized in Poland and abroad)/charity: (by participating in running events, PKP CARGO employees raise funds for people in need. The Company has regularly supported various initiatives, including the national charitable Poland Business Run, and provided assistance to the Foundation's beneficiaries – people with motor disabilities); symbolic and historical aspects (commemorating significant events in the history of Poland by way of sports events).

The number of people participating in running projects proves that the initiative responds properly to the employees' interests. The Company's extensive structure enables the inclusion of employees from all PKP CARGO Group locations. On a permanent basis, over 200 employees from all over Poland are involved in the Running-Friendly Company initiative – both at the level of participation in running projects and in accompanying communication activities.

In 2021, despite the pandemic, we managed to expand the community of employees involved in our running projects. At the same time, the Company placed a great deal of emphasis on adjusting running activities to the restrictions related to the COVID-19 pandemic. The 2,000 km anniversary project for the 20th anniversary of PKP CARGO S.A. turned out to be a great success in this respect. Employees from all over Poland participated in the running competition. The project was organized in a form enabling individual participation of employees in their places of residence (reporting and tallying of distances by the participants themselves, for instance based on data from running apps). Employees ran a total of over 2,000 km over a time span of several weeks, promoting a healthy lifestyle and inspiring their friends and colleagues to get involved in sports activities. As a result of actions taken by PKP CARGO S.A., the existing group of regular runners was joined by some 30 more people from all companies of the PKP CARGO Group.

The implementation and development of the Running-Friendly Company program brings the following benefits: promotion of a healthy and active lifestyle; employee integration; promotion of the significance of helping other people; support for employees in their pursuit of charitable objectives; development of pro-social attitudes; possibility of promoting the Company as a socially responsible party in respect of family members of individuals involved in running events (runners, fans); the Company's charitable support for foundations involved in assistance activities for the benefit of people with motor disabilities; commemoration of significant historical events and anniversaries by participating in symbolic running initiatives; building a sense of community between employees from different parts of the country and various organizational units; building a positive image of the PKP CARGO Group as an employer – also in the eyes of young employees, families of current employees and people considering working for PKP CARGO S.A. in the future.

"Direction: Safety at Work" campaign

The "Direction: Safety at Work" campaign is addressed to thousands of PKP CARGO S.A. employees and aims to build a safe workplace culture, change awareness (through treating safety as a priority) and shape attitudes conducive to the safe performance of professional duties. The motto the campaign is: "I care about my safety at work, because I love coming back home", and its key objective is to reach out to some 7,000 employees who work in positions directly related to train traffic (including train engineers, shunting masters and inspectors). Activities completed to date as part of the project launched in 2019 have included a consistent information campaign for employees (posters, Intranet site, leaflets, promotional video, dedicated e-mail) and an expert conference for the rail sector.
In 2021, the campaign also included prevention activities in the area of mental health, stress and post-traumatic stress, which may affect the safety of transport processes, related to another CSR project (executed under the name of Post-Accident Psychological Support).

The following are some of the campaign effectiveness indicators:

- Number of people who received information materials: approx. 7,000 employees in positions of key significance for rail traffic safety.
- Involvement of the Company's social partners in promoting a safe workplace (joint declaration with the PKP CARGO Management Board); bringing tangible results – for instance, additional protocol no. 12 to the Collective Bargaining Agreement adopted in 2021, regarding safety issues applicable to train drivers and ensuring professional psychological care after a rail accident;
- In 2020-2021, due to the pandemic, the Company makes use of tablets to reach train drivers in their daily work as a new access channel to the campaign. The regular Post-Accident Psychological Support Newsletter is distributed via tablets (at least once per month, in a standardized form with the campaign logo).

Activities aimed at increasing work safety and building a culture of a safe workplace at PKP CARGO S.A. support the ongoing improvement by the Company of factors that are essential for the safety of operations. The campaign ensures that key messages aimed at increasing the degree of compliance with OHS standards reached the key target groups: some 7,000 staff directly responsible for the movement and safety of trains. Additional benefits of the project are: increased awareness of the role and significance of work safety among employees and a change in attitudes regarding compliance with health and safety regulations from "I must" to "I want"; building the internal conviction among employees that safety also depends on their own actions and must also be treated as a priority by them.

Social dialog

Within PKP CARGO, which acts as a group of employers, social dialog is conducted by:

- at the Company level – the President of the Management Board or a person designated thereby and the competent statutory bodies of supra-company trade unions operating at the level of PKP CARGO S.A. and company trade unions being a party to the CCBA;
- at the Company's Head Office level – a person designated by the President of the Management Board and the competent statutory bodies of company trade unions;
- at the Company's unit level – the Company's unit manager and the competent statutory bodies of company trade unions.

Seeking to ensure transparent principles of cooperation, PKP CARGO S.A. updates its internal regulations which define the rules of cooperation with social partners. The primary form of the dialog is regular meetings, taking place monthly at the plant level, and quarterly at the Company-wide level, devoted to the discussion of the matters of importance for both parties.

The Company's management supports a dialog based on the principle of equality of the parties and mutual trust, pursuit of compromise and respect for the law. At the same time, the Company's management promotes the idea of partnership, which it considers a natural evolution of social dialog in the conditions of market economy, globalization and increased competition as well as a factor conducive to sustainable business development, preservation of jobs and improvements in social matters. This dialog is conducted in a consistent and long-term manner, on the basis of the Good Principles of Social Dialog adopted by Social Partners in 2017, referring to the following universal values: accountability, honesty, respect, openness, discipline. Social communication, conducted on an ongoing basis by the PKP CARGO S.A. Management Board Member – Employee Representative contributes to the promotion of a partnership-based dialog and serves as a tool for building a modern partnership in management with the participation of the Social Party. PKP CARGO S.A. promotes partnership in social dialog on an ongoing basis. The Company's primary initiatives and communication channels include:

- Regular meetings of Company-Level Collective Bargaining Agreement signatories – regular quarterly meetings, and thematic meetings and consultations. In 2021, in order to continue to address the issues covered by the scope of social dialog, meetings with the representatives of the Social Partners were continued online despite the COVID-19 pandemic, in the form of remote teleconferences with the use of PKP CARGO S.A.'s videoconferencing systems or in a stationary form, in compliance with the sanitary requirements.
- Internal communication regarding aspects of social dialog in 2021 was conducted on an ongoing basis, on an as-needed basis. It included articles engaging the leaders of the largest trade unions. It was implemented through the Company's internal channels, such as the intranet site of the Management Board Member – Employee Representative, dedicated to social dialog, articles in the Company's newsletter, mailings, letters.

The important role of social dialog in PKP CARGO S.A. is validated by the fact that the initiatives in this area are a permanent element of the Company's activities pertaining to corporate social responsibility (CSR). Among the elements of the internal CSR

Policy are efforts to ensure an appropriate atmosphere of the partnership-based dialog. This approach is consistent with both PKP CARGO's Strategy and recognized legal and market standards, such as ISO 26000 in two key areas: "corporate governance" and "labor relations", The jointly developed standards, adapted to the Company's business needs, serve to increase the awareness of the role of an open and partnership-based attitude in searching for optimal solutions for both Partners involved in the dialog, to contribute to better efficiency of the Company's decision-making processes. The Report on Trade Unions and Social Dialog at PKP CARGO S.A. serves the purpose of monitoring social dialog events in the Company. It aims to regularly update the knowledge about trends and events related to social dialog within the Company.

The following were some of the most important social dialog events at PKP CARGO S.A. and subsidiaries of the PKP CARGO Group in 2021:

- Agreement in PKP CARGO S.A. of 27 August 2021,
- Additional Protocol No. 12 to the PKP CARGO S.A. Collective Bargaining Agreement,
- Social dialog at the level of PKP CARGO Group subsidiaries regarding wage increases, bonus payments and awards the occasion of the Railway Employee Day, amendments to the Collective Bargaining Agreement and consultations on organizational charts in the companies.

HUMAN RIGHTS

Freedom of association

Table 58 Trade unions in PKP CARGO S.A. in 2016-2027

Description	2021	2020	2019	2018	2017
Number of trade unions [organizations]	118	116	116	123	129
Number of employees who are members of trade unions [persons]	12,441	13,365	14,458	14,620	14,595
trade union membership percentage ratio	84.5%	84.7%	84.2%	84.0%	85.6%

Source: Proprietary material

Right to a safe working environment

The "Direction: Safety at Work" campaign is addressed to thousands of PKP CARGO S.A. employees and aims to build a safe workplace culture, change awareness (through treating safety as a priority) and shape attitudes conducive to the safe performance of professional duties. The motto the campaign is: "I care about my safety at work, because I love coming back home", and its key objective is to reach out to some 7,000 employees who work in positions directly related to train traffic (including train engineers, shunting masters and inspectors). Activities completed to date as part of the project launched in 2019 have included a consistent information campaign for employees (posters, Intranet site, leaflets, promotional video, dedicated e-mail) and an expert conference for the rail sector. In 2021, the campaign also included prevention activities in the area of mental health, stress and post-traumatic stress, which may affect the safety of transport processes, related to another CSR project (executed under the name of Post-Accident Psychological Support).

Table 59 Number of accidents and accident ratio in PKP CARGO S.A. in 2017-2021

Description	2021	2020	2019	2018	2017

Number of accidents at work [cases]	70	72	82	119	119
Accident ratio [‰]	4.6	4.5	4.7	6.9	6.9

Source: Proprietary material

PREVENTION OF CORRUPTION AND BRIBERY

In November 2020, PKP CARGO S.A. implemented the updated Code of Ethics, which is one of the fundamental pillars supporting the process of building and developing the organizational culture in the Company. The Code of Ethics sets out the fundamental rules of conduct developed by the representatives of PKP CARGO S.A., with the participation of its Employees and Clients, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect: these are the principles that employees should be guided by in their everyday work.

Another document (created in November 2020) is the "Anti-corruption and gift policy of PKP CARGO S.A.", and the standards of conduct contained therein are of a universal nature and affect the development of PKP CARGO S.A.'s organizational culture. By implementing the Policy, the Company's Management Board responded to market expectations and legal changes in the spirit of the "zero tolerance for corruption" principle. The rules defined in the Policy cover both the Company's employees as well as all collaborators under civil-law agreements performing any kind of activities on behalf or for PKP CARGO S.A. The Policy is communicated to customers, so that they observe the internal anti-corruption rules of the Company in contacts with its representatives.

All employees are obliged to familiarize themselves with the anti-corruption Policy and follow it in the performance of their professional duties or provision of services. Customers, suppliers, and business partners can acquaint themselves with the Anti-corruption Policy at: ***https://www.pkpcargo.com/pl/*.** Moreover, the Company has a reporting system in place to effectively prevent breaches, protect the Company's image and support operational risk management. Customers, business partners and outsiders may report any irregularities by revealing their name or anonymously through dedicated communication channels.

In the event of a justified notification that a breach of the Code of Ethics/Anti-Corruption Policy has occurred, an investigation procedure is launched. The procedure is conducted by the Compliance Department based on the principles set forth in the Code of Ethics and the Anti-Corruption and Gift Policy. Each notification is entered in the Register of Notified Breaches of the PKP CARGO S.A. Anti-Corruption Policy/Register of Notified Breaches of the PKP CARGO S.A. Code of Ethics. PKP CARGO S.A. respects the right of whistleblowers to remain anonymous and protect their personal data and keeps them safe from any retaliatory action.

The rules by which PKP CARGO S.A. is guided when examining notifications of potential breaches are: feedback; optional reporting of breaches anonymously or non-anonymously; reliability in investigating each notification. The notification channels made available by PKP CARGO S.A. comply with good whistleblowing practices and the requirements set forth in the Act on Public Offerings and the Terms and Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies and Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.

10.2.3 Applied policies and the results of their application

PKP CARGO S.A., as a key rail freight transport operator in Poland and one of the largest in Poland and the European Union, provides domestic and international transport of cargo and freight-related transport logistics services. The Integrated Management System ("IMS") has been adopted by Resolution No. 167/2022 of the PKP CARGO S.A. Management Board of 19 May 2020 on the organization of certified management systems at PKP CARGO S.A., with Attachment 1 forming the PKP CARGO S.A. Policy on the Integrated Management System. The Integrated Management System is based on the requirements of the following ISO standards: PN-EN ISO 9001: 2015-10 – quality management; PN EN ISO 14001: 2015-9 – environmental management; PN-EN/IEC 27001: 2017-06 – information security management; PN-ISO 45001: 2018-06 – occupational health and safety management, and the internal system of control over trade in strategic goods is based on the PN_EN ISO 9001: 2015-10 standard and the criteria adopted for the internal control system.

The system is geared towards continual improvement and adaptation of services to Client requirements. It commits the Company to a high quality of services and operation of safe processes. Moreover, the Integrated Management System requirements the Company's staff to focus on the following aspects: provide the highest quality services; customer orientation; care and security of processed information; compliance with information protection rules; compliance with environmental protection rules; compliance with health and safety rules; involvement in the improvement of the Integrated Management System; regular training in information security.
The fact that PKP CARGO has an Integrated Management System in place generates benefits for the whole market through: availability of simplified customs procedures (status of an Authorized Economic Operator – AEO) after obtaining an international ISO certificate; legal international trade in goods of strategic importance; favorable shaping of the company's image; increased degree of comfort for customer's employees and associates of the organization; increase in prestige and trust in the Company; increase in the Company's credibility and commitment to continuous improvement; guarantees of high-quality services; rapid growth of the Company; better organization of work, clear definition of tasks, competences and responsibilities of employees; efficient management of available resources; standardization of documentation – linking processes and procedures in a transparent manner.

An integral part of the Integrated Management System is the Information Security Management module forming a set of processes and procedures applied by PKP CARGO S.A., constituting a list of security features – Information Security Application Statement – pertaining to defined assets in the area of information security.

As a rail operator benefitting from access to railway infrastructure, PKP CARGO S.A. is covered by a security certificate. To obtain a safety certificate, rail carriers are required to develop a Safety Management System (SMS), which meets the requirements of national regulations and reflects the situation of a given operator. The implemented SMS ensures: highest security of services provided without sacrificing quality; safety of participants in the rail system (other carriers, infrastructure managers, subcontractors); cooperation with other carriers and rail infrastructure managers as part of the pursuit of shared safety objectives; appropriate level of safety indicators; safe work for employees and co-workers; compliance with legal standards and regulations in the field of rail safety; prevention of accidents at work and occupational diseases; constant improvement of occupational health and safety and continuous improvement of activities in this area; constant identification and minimization of technical and professional risks.

The purpose of the Safety Management System is also to ensure supervision over all types of risk associated with rail carrier's activities (with risk analysis and assessment), including maintenance services, the supply of materials and hiring of subcontractors. All elements of the SMS should be documented, and specify the relevant responsibilities within the organizational structure of the rail operator. It should show how the rail operator's management control the work of the system at every management level, what is the involvement of staff and management representatives at all levels, and how continual improvement of the Safety Management System is ensured.

Another system adopted by PKP CARGO S.A. the is the PKP CARGO freight wagon Maintenance Management System ("MMS") designed to ensure rail traffic safety through keeping the freight wagons for which PKP CARGO is responsible in good technical condition. The System is developed by, and applicable to, a given company which conducts its operations as part of the rail system. Having an MMS System in place and ensuring its proper implementation and operation is mandatory for all enterprises responsible for maintenance of freight wagons; it is the condition necessary for conducting operations in that area. The System is subject to oversight by the Office of Rail Transport. The basic scope of the System includes the area of maintaining the good technical condition of freight wagons as part of the main process as well as auxiliary processes that ensure correct operations, such as risk analysis, management of staff competences or collaboration with other enterprises.

PKP CARGO's holding of certified systems and conduct of operations in compliance with the applicable requirements of standards are not only commercial, but also administrative in nature. To ensure the operational continuity of the systems, the company subjects them to periodic external supervision audits. In 2021, after the External Audit and Supervision in the field of the Integrated Management System and the Internal Control System, a decision was made (by the Management Board of the National Center for Testing and Certification) to extend the validity of the certificate nos. JBSI-12/4/2022 and W-209/5/2020 held by the Company until 18 May 2023.

PKP CARGO S.A.'s policy related to social issues

PKP CARGO's management supports a dialog based on the principle of equality of the parties and mutual trust, pursuit of compromise and respect for the law. At the same time, the Company's management promotes the idea of partnership, which it considers a natural evolution of social dialog in the conditions of market economy, globalization and increased competition as well as a factor conducive to sustainable business development, preservation of jobs and improvements in social matters. This dialog is conducted in a consistent and long-term manner, on the basis of the Good Principles of Social Dialog adopted by Social Partners in 2017, referring to the following universal values: accountability, honesty, respect, openness, discipline.

The Company's long-term practice of promoting the idea of partnership was supplemented in 2021 by popularizing the idea of partnership-based dialog via various communication channels:

- regular meetings with the representatives of the Social Partners were continued online despite the COVID-19 pandemic, in the form of remote teleconferences with the use of PKP CARGO S.A.'s videoconferencing systems or in a stationary form, in compliance with the sanitary requirements,
- PKP CARGO intranet site,
- announcements/letters to employees,
- periodicals published by trade unions.

In PKP CARGO S.A., being a collection of employers, the social dialog is conducted by: at the Company level – the President of the Management Board or a person designated thereby and the competent statutory bodies of supra-company trade unions operating at the level of PKP CARGO S.A. and company trade unions being a party to the CCBA; at the Company's Head Office level – a person designated by the President of the Management Board and the competent statutory bodies of company trade unions; at the Company's unit level – the Company's unit manager and the competent statutory bodies of company trade unions.

Seeking to ensure transparent principles of cooperation, PKP CARGO S.A. updates its internal regulations which define the rules of cooperation with social partners. The primary form of the dialog is regular meetings, taking place monthly at the plant level, and quarterly at the Company-wide level, devoted to the discussion of the matters of importance for both parties. Social communication, conducted on an ongoing basis by the PKP CARGO S.A. Management Board Member – Employee Representative contributes to the promotion of a partnership-based dialog and serves as a tool for building a modern partnership in management with the participation of the Social Party. The PKP CARGO S.A. Management Board supports the development of social dialog through cooperation with trade unions not only in accordance with the principles set forth in generally applicable regulations but also as laid down in agreements defining mutual obligations of the parties to social dialog in the Company and in the Collective Bargaining Agreement.

The important role of social dialog in PKP CARGO S.A. is validated by the fact that the initiatives in this area are a permanent element of the Company's activities pertaining to corporate social responsibility (CSR). Among the elements of the internal CSR Policy are efforts to ensure an appropriate atmosphere of the partnership-based dialog. This approach is consistent with both PKP CARGO's Strategy and recognized legal and market standards, such as ISO 26000 in two key areas: "corporate governance" and "labor relations".

The jointly developed standards, adapted to the Company's business needs, serve to increase the awareness of the role of an open and partnership-based attitude in searching for optimal solutions for both Partners involved in the dialog, to contribute to better efficiency of the Company's decision-making processes. The Report on Trade Unions and Social Dialog at PKP CARGO S.A. serves the purpose of monitoring social dialog events in the Company. It aims to regularly update the knowledge about trends and events related to social dialog within the Company.

In 2021, the following were some of the most important social dialog events at PKP CARGO S.A.: Agreement in PKP CARGO S.A. of 27 August 2021; Additional Protocol No. 12 to the PKP CARGO S.A. Collective Bargaining Agreement; Social dialog at the level of PKP CARGO Group subsidiaries regarding wage increases, bonus payments and awards the occasion of the Railway Employee Day, amendments to the Collective Bargaining Agreement and consultations on organizational charts in the companies.

In 2021, the Social Partners were kept regularly advised about, among others, the situation of the Company and the safety rules to be followed at the workplace in the wake of the introduction in Poland of the state of epidemic. The jointly developed standards, adapted to the PKP CARGO S.A.'s business needs, serve to increase the awareness of the role of an open and partnership-based attitude in searching for optimal solutions for both Partners involved in the dialog, to contribute to better efficiency of the Company's decision-making processes.

PKP CARGO S.A.'s policy related to employee issues

Employee recruitment

In 2021, similar to 2020, internal and external recruitment processes were ongoing. In view of the restrictions introduced to reduce the spread of the COVID-19 virus, the majority of recruitment processes moved online. In 2021, the Vocational Internship Program and the Summer Internships Program were suspended, as students of secondary schools and universities studied remotely. In 2021, the scholarship program was implemented with the students who joined it in 2019. According to the assumptions, the program is addressed to students of selected first level secondary technical schools for a period of 3 years of schooling. The PKP CARGO S.A. scholarship holders who met specified criteria received the study scholarships again in 2021. Additionally, after they graduate and obtain professional qualifications, they may be offered a job in positions responsible for rolling stock operation and maintenance in the Company. The activity had the objective of supplying PKP CARGO S.A. staff with able and promising graduates of technical and vocational secondary schools who, upon completing their education, may be employed in positions related to the Company's core business.

Adaptation program

In 2021, the professional adaptation program was continued, adjusted to the needs and expectations of selected groups of positions in the Company: administrative employees, managerial staff and non-administrative employees. In view of the restrictions introduced to reduce the spread of the COVID-19 virus, the adaptation program moved predominantly online. An optimally selected professional training program ensured that new employees were able to take up their duties quickly and effectively. A well designed adaptation program results in decreased risk of employee turnover. To improve personnel qualifications and competences related to their duties, periodic refresher training was held.

Training and development

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge– and experience-based management and various forms of professional development that would support the accomplishment of business goals. In 2021, management staff improved their competences in post-graduate MBA studies organized for employees employed with railway companies. Training in the form of e-learning was continued and developed. Furthermore, in 2021 the series of training in soft competencies and MS Office skills were continued. The training courses took place in face-to-face and remote formats.

Social activity and travel benefits

The Company Social Benefits Fund (CSBF) has been created at PKP CARGO S.A., based on the rules following from generally applicable regulations and the Company's Collective Bargaining Agreement. The social activity is conducted separately by employers forming the Company on the basis of a given company's CSBF Regulations, taking into account the local needs and preferences of the staff. Within its capabilities, the CSBF satisfies the living, social and cultural needs of the Company's employees and former employees. In particular, use of CSBF funds is granted to employees, old age and disability pensioners and members of their families.
Employees and other eligible persona may take advantage of a wide-ranging package of social benefits: CSBF benefits are dependent on the so-called social criteria, or the personal, family and financial situation of eligible employees. Decisions on granting aid and its amount are taken by social committees consisting of the representatives of employers and company trade unions. Funds from the CSBF are intended mainly for subsidizing holidays, self-arranged countryside holidays, trips, camps, winter camps, "green schools", school and kindergarten trips, short-term recreation, and trekking trips. Persons eligible for the recreation include employees, their family members, and old age and disability pensioners. The variety of granted co-financing allows those eligible to choose the form of recreation suitable for them. Meeting the expectations of employees halfway, the possibility of co-financing the stay of children in kindergartens and nurseries has been introduced.

Employees can participate in sporting, recreational and cultural events and are able to identify with the company, integrate with co-workers and relax during their time off work. Caring about employee health and comfort, the ability to use sport facilities, sport and recreational programs, FITPROFIT cards and other sports cards and discounts that allow access to a number of facilities nationwide has been added. Aid is also provided in the form of occasional financial help and in-kind and hardship benefits, which can be obtained by persons in a particularly difficult life situation. Eligible persons may also use low interest rate loans for housing purposes.

In 2021, PKP CARGO S.A. made a CSBF charge for 34,874 eligible persons, including 15,427 employees and 19,447 old age and disability pensioners. The following was the allocation of social benefits: leisure – 44% of funds, cultural and educational activities, sports and recreational activities – 2% of funds, material assistance, allowances – 26% of funds, kindergartens, nurseries – 1% of funds, loans – 27% of funds.

Employees and members of their families, as well as old age and disability pensioners are eligible for reduced travel services in the form of reduced tariffs in trains operated throughout the country. The cost of employees purchasing a discounted travel service for the second class is covered entirely by the employer. These benefits are offered pursuant to an Agreement of 27 November 2013 between ZPK and carriers operating passenger railway transport on discounted travel services, and the Company's internal regulations.

In 2021, permits for discounted transport services were purchased for the following number of people: for employees – 11,237 permits; for family members of employees – 1,718 permits; for rail pensioners – 5,546 permits in bundle I and 4,803 permits in bundle II. Employees and their family members were issued 469 international tickets, which enabled them to travel around Europe for a nominal fee.

Support of education

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge– and experience-based management and various forms of professional development that would support the accomplishment of business goals. In 2021, management staff improved their competences in post-graduate MBA studies organized for employees employed with railway companies. Training in the form of e-learning was continued and developed. Furthermore, in 2021 the series of training in soft competencies and MS Office skills were continued. The training courses took place in face-to-face and remote formats.

PKP CARGO S.A.'s policy related to natural environment.

Businesses across the world have a growing awareness of their significant impact on the environment. Consequently, they can take efficient and effective measures conducive to, among others, achievement of the UN Sustainable Development Goals. The Goals implement business objectives, concurrently focusing on caring for the natural and social environments. To achieve sustainable development, three interconnected elements must be harmonized: economic growth, care for the development of the society and protection of the environment. In other words, one of the key areas of sustainable development is integrated and sustainable management of raw materials and ecosystems. The environmental policy adopted by PKP CARGO S.A. is a consistent feature of the PKP CARGO S.A. Policy on the Integrated Management System. It includes such elements as: protection of the natural environment through the promotion and implementation of eco-friendly forms of transport and prevention of pollution, reasonable consumption of commodities, energy and water, raising awareness of responsibility for the quality of the natural environment among employees. The Company seeks to combine the professional implementation of business objectives with a responsible attitude towards the natural environment.

Key actions taken by PKP CARGO S.A. in the area of environment protection:

- implementation and maintenance of the environmental management system as an element of the integrated management system – the environmental protection control system is governed by internal procedures and monitored.
- environmental education – building of environmental awareness, responsible involvement of employees in sustainable development through training and educational materials,
- international cooperation – membership and participation in teams of organizations working towards sustainable transport, such as the International Union of Railways (UIC), the Association of European Railways (CER) and Rail Freight Forward (a coalition of European companies operating in the rail freight industry),
- security of transport – training and oversight over carriage of hazardous goods;
- state-of-the-art rolling stock and innovation – purchase and modernization of locomotives and wagons, including from the viewpoint of emission levels and energy efficiency;
- state-of-the-art maintenance and repair infrastructure, efficient resources management – renovations, modernization,
- investment to safeguard low levels of emissions into the air and the earth's surface, as well as energy efficiency.

Because rail transport is environmentally friendly and the mere selection of freight transport by rail instead of by road contributes to the mitigation of climate change, so far PKP CARGO S.A. has not been conducting a separate climate policy as part of its business. Realizing the growth opportunities that may be tapped into by rail companies based on the EU taxonomy on sustainable development, which is aimed at promoting low-emission forms of transport, in line with the current expectations of its economic environment, PKP CARGO S.A. plans to adopt its own climate policy in 2022. The policy will set measurable goals and a timeframe for their attainment, based on the objectives of the Paris Agreement, which aims to limit the global temperature increase to below 2˚C by 2100. Currently, the management of greenhouse gas emissions at PKP CARGO S.A. is conducted within the framework of the management of all air emissions and covers the 1st and 2nd scope of GHG emissions. The separation of a sub-process dedicated to the management of greenhouse gas emissions (broken down into 3 scopes) from the overall emissions management is planned for 2022.

Roles and responsibilities in environmental and climate protection

The Division of Energy and Maintenance of Technical Support in the Rolling Stock and Technical Support Department is responsible for the assessment of environmental indicators. The structure of the Division includes, among others, the Environmental Protection and Green Deal Team and the Energy Management and Settlement Team. These teams are responsible for adopting a climate policy by PKP CARGO S.A., setting goals in this area, developing solutions and recommendations that will enable the attainment of these goals, and monitoring the reduction of the carbon footprint until the Company obtains the status of a climate-neutral enterprise in 2050. Supervision over the pursuit of environmental and climate protection matters is exercised by the Management Board Member in charge of Operations, who approves all goals and environmental and climate priorities.

Effects of applying the policy of environmental and climate protection

The EU taxonomy for sustainable development refers directly to the need to effect modal changes favoring low-emission forms of transport and the construction of the required infrastructure for clean mobility solutions. The rail industry, as a significant contributor to climate protection, is considered a very appropriate player in this respect. This means that despite the current absence of a separate area pertaining to climate protection matters in the PKP CARGO S.A. policies, pro-climate activities have been taken by the Company for years. This is due to the fundamental pillar of PKP CARGO S.A.'s business, which is rail freight transport. Rail transport is environmentally friendly due to low greenhouse gas emissions and low fuel and energy consumption in relation to the freight volume, and is consistent with the European Union's climate policy, where it is treated as a significant and desirable element in pursuing the goals of reducing the carbon footprint in the whole transport sector.

PKP CARGO S.A. is involved in the implementation of action plans of the Sustainable and Smart Mobility Strategy announced in 2020 in the European Commission's communication – European transport on track for the future, in particular in relation to the following initiatives and goals defined in the document: Flagship 1 – Boosting the uptake of zero-emission vehicles, renewable & low-carbon fuels and related infrastructure; Flagship 3 – Making interurban and urban mobility more sustainable and healthy (further electrification of rail transport; where it is not cost-effective, increase the use of hydrogen); Flagship 4 – Greening freight transport (increasing the role of rail in transport: Milestone 7: compared to 2015, rail freight traffic will increase by 50% by 2030 and double by 2050); Flagship 8 – Reinforcing the single market (including through investments to finance the modernization of fleets in all modes of transport to ensure the implementation of low-emission and zero-emission technology options, also through modernization and appropriate rehabilitation programs).

As part of the activities taken by PKP CARGO in line with the Sustainable and Smart Mobility Strategy, the following should be highlighted:

Purchase of modern electric locomotives and modernization of existing electric locomotives

PKP CARGO S.A. invests in the purchase of modern locomotives. The most modern part of our fleet is 39 multi-system locomotives (powered by DC or AC voltage), which can cross European country borders without stopping to allow change of the power system (which gives electricity savings). The Company also has modern six-axle electric Dragon (ET25) locomotives and 7 Dragon 2 (ET26) locomotives equipped with a combustion module. The number of electric locomotives awaiting modernization is gradually decreasing. We also implement rolling stock solutions for energy consumption optimization through modernization of electric locomotives by installing modern electrical equipment and we run pilot tests of selected locomotives on which DC electricity meters have been installed. PKP CARGO S.A. as an operator of rail freight transport carries the vast majority of its freight using the electric traction system. Electric vehicles are environmentally friendly, do not generate emissions at the place of use and do not cause local smog.

Modernization of diesel locomotives

PKP CARGO S.A. performs a contract under which Newag Group S.A. performs P5 level major repairs and at the same time modernization of SM48 diesel locomotives. As a result of the modernization which includes, among others, building a new modular technology bodywork, replacing the power generator, braking equipment and auxiliary machinery, the SM48 series will be upgraded to the ST48 series, and the intended use of the locomotives will be changed from shunting to line. In 2019-2020, PESA Bydgoszcz S.A. performed P5 repairs for PKP CARGO S.A., which were combined with modernization of 6 ST44 diesel locomotives, including replacement of an obsolete two-stroke combustion engine for a four-stroke one which meets the UICIIIA emission standards. The number of diesel locomotives in use awaiting modernization is constantly decreasing. After modernization, the locomotives consume less fuel and thus emit less pollutants into the air than the locomotives still awaiting modernization.

Purchase and modernization of freight wagons

PKP CARGO S.A. invests in modern wagons. In the Company's rail car fleet, as many as 3,804 wagons are intermodal platforms. More such platforms are planned to be purchased in the upcoming years. The purchased platforms improve the efficiency of transport, permit the carriage of heavier loads compared to older wagons and are equipped with composite brake blocks. In total, the Company plans to spend almost PLN 572 million on platforms and locomotives, of which PLN 269 million will be co-funded by the EU.

Creation of effective and innovative solutions that will enable the consumption of electricity generated from renewable energy sources

During the Program Council of the Rail Energy Efficiency Center held on 29 October 2020, PKP CARGO and PKP Energetyka signed a letter of intent in which the companies confirmed the establishment of cooperation in creating the most effective and innovative solutions that will enable PKP CARGO to use electricity generated from renewable energy sources. In the letter, the companies undertook to exchange information necessary to prepare a plan and execute investment projects related to prosumer and renewable energy. Understanding the needs of rail customers, PKP Energetyka will actively support PKP CARGO in the execution of energy projects. The first stage will be related to the adjustment of prosumer installations, and the next steps of cooperation will involve the launch of larger RES installations intended for PKP CARGO's own purposes.
Currently, the number of RES installations used by the company is small, yet it is gradually increasing.

Use of hydrogen as a fuel to power modern locomotives

In 2018, PKP CARGO and Jastrzębska Spółka Węglowa (JSW), H. Cegielski – Fabryka Pojazdów Szynowych signed a letter of intent for joint innovative investment projects focused on the commercial use of hydrogen fuel. The document provides, among others, for cooperation in research, analyses, and the future manufacturing of new types of rail cars and shunting locomotives with a hydrogen drive and their later maintenance and operation. The following division of roles is assumed among the project participants: PKP CARGO S.A. – technical assumptions, trial operation of the locomotive, H. Cegielski – Fabryka Pojazdów Szynowych – construction of the locomotive, Jastrzębska Spółka Węglowa – construction of hydrogen refueling infrastructure. A follow-up to the project was the signing by PKP CARGO S.A., PESA Bydgoszcz S.A. and Grupa Azoty S.A. of a letter of intent on 23 September 2021 regarding cooperation in the deployment of hydrogen technologies in rail transport. The cooperation is expected to include research and development projects aimed at developing optimal methods of hydrogen consumption to power rail vehicles, methods of hydrogen transport and refueling of rail vehicles. The joint project is aimed at the establishment of infrastructure for the transmission, storage and refueling of hydrogen-powered vehicles and the construction of hydrogen-powered locomotives used for shunting and line works.

In pursuit of its environmental policy, PKP CARGO focuses on the development of hydrogen technologies in rail transport, because they are of great significance not only for the company, but also for the whole Polish economy in the context of the European Green Deal implemented by the European Commission, which aims to reduce CO_2 emissions in transport by 30% by 2030, and to achieve full climate neutrality by 2050. Based on the experience of the project partners (Grupa Azoty S.A. is the largest producer of hydrogen in Poland and is working on technologies for using this commodity in fuel cells, and PESA Bydgoszcz S.A. was the first company to develop a prototype of a hydrogen locomotive and, as a manufacturer, focuses on preparing a vehicle dedicated to freight transport), PKP CARGO would play the role of a tester of hydrogen-powered prototype locomotives. The execution of the hydrogen project in the rail sector with the support of the Polish state, which sees hydrogen as an alternative fuel in rail transport, has been included in the official government document entitled "Polish hydrogen strategy until 2030 with an outlook until 2040".

Participation in the project of introduction in Europe of Digital Automatic Coupling

PKP CARGO participates actively in meetings of the task force involved in a project devoted to introducing automatic couplers designed to automatically connect freight wagons and bring electricity (110V) and a data bus to the wagons (digitalization and automation of transport services). PKP CARGO S.A. sees a number of potential benefits from introducing automatic couplers in Europe. The method of their deployment should be aimed at strengthening the competitiveness of rail freight, limiting the risks related to the interoperability of rolling stock and its unconstrained operation across Europe. To date, no specific coupling solution has been selected for testing and deployment.

Digitalization

In 2021, PKP CARGO signed a contract for the roll-out of the SAP Transportation Management System. The SAP TMS, along with the SAP SD module, will serve as a single, complete platform for transport management and will support all areas of the transport process (contact with the customer, order management, planning of transport needs for bulk and intermodal loads, automation of the planning and creation of timetables). The system will enable the tracking of shipments and contribute to better planning of the working time of traction teams. All operations related to transport operations will be performed in a single system, which will enable access to data in real time. The use of SAP TMS should improve operational efficiency and reduce costs, which will translate into an increase in the competitive position of PKP CARGO on the market of transport and logistics services.

PKP CARGO S.A.'s policy related to respecting human rights

Human rights, such as equality regardless of sex, prohibition of discrimination, freedom and personal inviolability, the right to privacy and protection of personal data and freedom of association and freedom of opinion, are a reference point for Polish law and form the grounds for the activities relating to the employees' affairs also in the PKP CARGO Group.

Code of Ethics

In PKP CARGO, relations are open, honest and based on mutual trust. Employees work in teams and respect diversity. They take part in the creation of a safe working environment, which is conducive not only to professional development, but also to the raising of qualifications. Employees are respectful to one another. The Company ensures equal and fair access to employment and professional advancement. No forms of discrimination are allowed or accepted towards employees, customers and suppliers, neither due to age, gender, disability, race, religious denomination, sexual orientation, nationality, ethnic origin, nor due to political or trade union activities. In PKP CARGO, no forms of harassment or mobbing maltreatment are tolerated, neither physical nor psychological. It is unacceptable to abuse one's position by favoritism in respect of relatives or nepotism.

In 2020, PKP CARGO S.A. implemented the updated Code of Ethics, which is one of the fundamental pillars supporting the process of building and developing the organizational culture in the Company. In turn, the "Anti-corruption and gift policy of PKP CARGO S.A." and the standards of conduct contained therein are of a universal nature. PKP CARGO has a reporting system in place to effectively prevent breaches, protect the Company's image and support operational risk management. Any irregularities may be reported accompanied by the sender's name or anonymously via specially dedicated communication channels: website: *https://cargo.liniaetyki.pl*; e-mail: *cargo@liniaetyki.pl*; hotline: 22 290 69 13. Employees may report any irregularities anonymously or non-anonymously:

a) directly to the Coordinator for Ethics, Counteracting Fraud and Corruption via e-mail: sygnal@pkp-cargo.eu; mail: Coordinator for Ethics, Counteracting Fraud and Corruption, PKP CARGO S.A., 02-021 Warsaw, ul. Grójecka 17 – with the words "to be delivered personally" marked on the envelope, or by handing over a memo directly to the Coordinator.

b) via specially dedicated communication channels: website: *https://cargo.liniaetyki.pl*; or e-mail: *cargo@liniaetyki.pl*.

Anti-mobbing policy

PKP CARGO S.A. has adopted internal regulations forming the basis of its anti-mobbing policy. The Company's employer units have appointed Trustees and Anti-mobbing Committees. Moreover, the employer's obligation to counteract mobbing is reflected in the work regulations of the Company's Head Office and units, thereby contributing to the protection of employees in this area. In accordance with the rules adopted by the Company, each employee may report suspected mobbing cases and obtain professional information and assistance from the Trustee, with a full guarantee of confidentiality. In turn, the role of the Anti-mobbing Committee is to examine specific cases after the procedure has been exhausted by the Trustee and to recommend actions aimed at preventing and curtailing any instances of mobbing.

In implementing the policy aimed at counteracting mobbing, the Company pays particular attention to preventive measures. Issues of mobbing are discussed in induction training foe newly hired employees, in particular by providing the contact details of the Trustee of a given employer organization, who is chosen by employees. In turn, during training activities held in the course of employment, special emphasis is put on the professional preparation of members of the Anti-mobbing Committees, Trustees and employees holding managerial positions.

PKP CARGO S.A.'s policy related to preventing corruption and bribery

In November 2020, PKP CARGO S.A. implemented the updated Code of Ethics, which is one of the fundamental pillars supporting the process of building and developing the organizational culture in the Company. The Code of Ethics sets out the fundamental rules of conduct developed by the representatives of PKP CARGO S.A., with the participation of its Employees and Clients, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect: these are the principles that employees should be guided by in their everyday work. Another document (created in November 2020) is the "Anti-corruption and gift policy of PKP CARGO S.A.", and the standards of conduct contained therein are of a universal nature and affect the development of PKP CARGO S.A.'s organizational culture. By implementing the Policy, the Company's Management Board responded to market expectations and legal changes in the spirit of the "zero tolerance for corruption" principle. The rules defined in the Policy cover both the Company's employees as well as all collaborators under civil-law agreements performing any kind of activities on behalf or for PKP CARGO S.A. A detailed description of measures taken to counteract corruption and bribery is presented in section 10.1.2.

10.2.4 Due diligence procedures

The PKP CARGO Group takes efforts on an ongoing basis to ensure that assigned tasks are effectively completed and legal provisions are complied with. The adopted internal regulations are regularly adjusted to current business needs and must be consistent with mandatory provisions of law. At the same time, the use of good practices contributes to improving the standards of conducted activities and increases the qualifications and competences of human resources. Systematic risk assessment, including in relation to social, employee and human rights issues, allow to identify threats early and keep their consequences down to a minimum.
The human resources management area is subject to a system of internal audits, part of the Integrated Management System, which allows to identify processes, ensure their compliance with assumed requirements, and implement improvements.
The Integrated Management System is overseen by, among others, internal audits, which are an effective and reliable tool providing input information for further improvement. It is a process ensuring an assessment of the strengths and weaknesses of the management systems in respect of quality, information security, environmental protection, as well as occupational health and safety, verifying compliance with the standards: PN-EN ISO 9001: 2015-10, PN-EN ISO/IEC 27001: 2017-06, PN-EN ISO 14001: 2015-9, PN-ISO 45001: 2018-06, the WSK criteria, as well as confirming their implementation and operation. IMS internal audits are conducted as per the "Internal Audit Program of the Integrated Management System at PKP CARGO S.A." adopted for a given calendar year.
Holding the IMS certificate and operating in keeping with the requirements of the standards guarantees high quality of services and underpins the prestige of the brand in the eyes of the clients, who value the reliability of the organization and its commitment for continual improvement. It is an important element of developing a positive image.
The IMS Certificate is not only of commercial importance, but administrative as well. Without it, the Company would not be able to engage into international freight transport of strategic importance (i.e. the so-called "dual-use goods or arms).
Pursuant to the ISO standards and the Act on trade in strategic goods, to maintain the IMS certificate, the Company is required to undergo regular External Oversight Audits. In 2020, after the External certification audit of the IMS and WSK systems, the Management Board of the Polish Center for Testing and Certification (PCBC S.A.) took the decision to renew the certificates held by the Company.

10.2.5 Risks related to the activity of PKP CARGO S.A. and management of these risks

On 7 April 2020, the PKP CARGO S.A. Management Board adopted a resolution on introducing the "Risk Management Policy in PKP CARGO S.A." Risk management is a coordinated process interlinked with and embedded in all activities and process in the Company, with the purpose of risk management and control. It supports the management in the decision process, making informed choices, setting priorities, setting quality levels, information security level, specific actions, as well as identification of potential alternative courses of action.

From the viewpoint of rail traffic safety, PKP CARGO S.A. operates based on relevant part A and part B safety certificates issued by the President of the Office of Rail Transport. The fundamental requirement for obtaining the certificates necessary to pursue an independent business activity was to implement the Safety Management System (SMS), which was satisfied in 2009. In 2019, the Company's Safety Certificate part A was renewed until 25 June 2024, and the Safety Certificate part B was renewed in 2020 until 24 April 2025. The SMS covers risks related to the pursued activity and provides for appropriate supervision and control measures in order to reduce them and ensure the appropriate safety level:

- the risk arisen from a direct activity, including occupational risk (related to the performed work) and technical risk (related to the rolling stock and technical resources used),
- the shared risk, which is a risk arisen from an interaction between the entities being part of the railway system (e.g. infrastructure administrators, other rail operators, entities in charge of maintenance),
- the risk of third parties, which are not directly involved in the operation of the railway system. Moreover, the processes and procedures serving the purpose of monitoring the effectiveness of the measures taken in the area of risk supervision and introducing the necessary changes are applied within the SMS. These changes apply to: technology and methods, operating procedures, rules and standards, organizational structure.

Material risks associated with the entity's operations (social issues, employee issues, human rights) include:

Risks in the area of environmental protection

Environment risks have been defined in the "PKP CARGO S.A. risk management policy" in the context of environmental processes such as managing emissions into air from technology processes and burning fuels in installations and equipment, managing equipment containing substances that deplete the ozone layer and fluorinated greenhouse gases, managing water and sewage, managing produced industrial and municipal waste, managing noise emissions to the environment, managing green areas and damage to the environment. Risk handling plans have been designed for environmental processes that require actions to be taken.

Risks related to social dialog

Risk of failure to conduct social dialog

Risk management: principles of cooperation, developed jointly by Social Partners, serving as the basis for partnership-based and effective dialog.

Risks in the area of information security

management: pporting the management process by improving employees' awareness of the Company's situation and carrying out a realistic assessment of the ability to meet the demands of trade union organizations

Risk of conflicts and disputes

Risk management: long-term practice of communicating issues of significance to both parties, especially during regular meetings taking place at the enterprise and inter-enterprise levels

Risk associated with a shortage of trained personnel

Actions are taken with a view to ensuring appropriate number of employees with required skills so as to support the proper pursuit of business objectives.

In 2021, the adaptation program, due to the restrictions imposed with a view to reducing the risk of spreading the COVID-19 virus, was carried out in a stationary form (to observe the applicable safety rules) or remotely (online) – in accordance with the needs and expectations of various groups of positions: administrative employees, non-administrative employees working in the Company's facilities and managerial staff. A carefully selected professional training program was aimed at ensuring that new employees are integrated into the organization and familiarized with their duties as soon as possible and to help them adapt to the working environment, which influenced the effectiveness of the performed works and minimized the risk of employee fluctuation. The rail transport industry, and in particular positions associated with rail transport safety, require an ongoing update of knowledge and acquisition of skills. In 2021, training took the form of e-learning to a much greater degree than in the previous years. The training platform enables a quick and safe distribution of knowledge to selected groups of participants and to any number of employees. Moreover, in 2021, a series of training events to develop competences in building relationships and team communication as well as develop skills in using MS Office was continued. These events took place in face-to-face and remote formats.

Risk related to the impossibility to attract the appropriate staff

As a result of identification of the risk of difficulties in attracting appropriate personnel to perform the Company's operating tasks and taking into account the current situation in the country related to COVID-19, only selected activities supporting the recruitment of new staff were continued in 2021. In 2021, the scholarship program was implemented with the students who joined it in 2019. According to the assumptions, the program is addressed to students of selected first level secondary technical schools for a period of 3 years of schooling. The PKP CARGO S.A. scholarship holders who met specified criteria received the study scholarships again in 2021. Additionally, after they graduate and obtain professional qualifications, they may be offered a job in positions responsible for rolling stock operation and maintenance in the Company. Due to the remote form of teaching among secondary school and university students, the vocational internship and the summer internship program were not implemented in 2021, similar to 2020.

Apart from the abovementioned actions for new employee attraction ongoing recruitment processes were carried out in accordance with the needs reported by the Company's business units. Employees had an opportunity to receive training from scratch in order to prepare themselves for working as a train driver, rolling stock auditor or switchman.

In summary, thanks to the Company's actions taken so far in order to manage this area the risk associated with shortage of trained personnel has been minimized.

Financial risks

In the years covered by this report, the Group was exposed to the following types of financial risk:

a) liquidity risk,

b) market risk, including:

 – FX risk;

 – interest rate risk;

c) credit risk.

Liquidity risk

The Group is exposed to liquidity risk ensuing from the ratio of current assets to net current liabilities (current liabilities less short-term provisions). The PKP CARGO Group has full capacity to settle its liabilities.

To ensure an additional source of funds required to secure its financial liquidity, the Group used external financing sources, such as a current account overdraft facility. Information on credit facilities undrawn as at 31 December 2021 is presented in Note 1.4 to the Consolidated Financial Statements for 2021. Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2021, 8 Group companies.

Market risk

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

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

FX risk

In 2021, the Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables with the maturity up to 1 month and payables expressed in foreign currencies are mostly short– and long-term liabilities on account of investment loan agreements with maturities over 5 years. The balance sheet valuation of receivables and some current and non-current liabilities long-term liabilities expressed in foreign currencies, settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates. Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions. For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. According to the Financial Risk Management Policy in effect in the Company, in 2021, the Group applied FX risk management transactions for the EUR/PLN currency pair for the free portion of the net exposure. In 2021, the Group hedged the surplus in EUR through forward transactions on the EUR/PLN pair at the levels and with transaction maturities determined in accordance with the procedures of the Financial Risk Management Policy. The Parent Company used hedge accounting for all EUR loans and Forward transactions. These transactions were effected by the Parent Company. Details are presented in Note 6.2. Consolidated Financial Statements.

Interest rate risk

The Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. In 2021, interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M. The interest rate risk in lease contracts is executed through revaluation of lease installments in one-month periods.
In 2021, interest on loan agreements were accrued according to the WIBOR 1M, WIBOR 3M and EURIBOR 3M reference rate plus the banks' margin. The interest rate risk in loan agreements was executed through revaluation of loan installments in monthly, quarterly and semi-annual periods.

Credit risk

The Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received. In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. As part of its internal policy, the Company makes application of the deferred term of payment conditional on acceptability of the counterparty's condition and positive history of cooperation.

Receivables from business partners are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered. In connection with the war in Ukraine and the sanctions imposed on Russia and Belarus, the PKP CARGO S.A. Group is intensifying the monitoring of the timeliness of receivables payment. If customers identified as economically connected through trade with business partners in Ukraine, Russia and Belarus fail to pay, the Company may suspend the use of deferred payment to mitigate the adverse effects of the customers' credit risk.

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from its customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is represented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through safeguards established in favor of the Group (in the form of bank/insurance guarantees, guarantee deposits, etc.).

Management of risks related to mobbing

Risk management related to mobbing issues is effected through:

- internal regulations governing the rules and procedures for counteracting mobbing;
- initiatives and activities in the legislative, organizational, training and information areas;
- activities of Trustees and Anti-mobbing Committees at all employers in the Company.

Corruption risk management

Risk management in PKP CARGO S.A. is based on the provisions of the "Risk Management Policy in PKP CARGO S.A." adopted by Resolution No. 214/2021 of the PKP CARGO S.A. Management Board of 6 July 2021 on the adoption of the "Risk Management Policy in PKP CARGO S.A." The policy is reviewed on an ongoing basis to make sure that it remains up to date and effective. Minimizing the risk of corruption takes place through introduction of the "Policy of handling corruption and gifts at PKP CARGO S.A., as well as through the introduction of the whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be both employees and persons/entities from outside the Company, but cooperating with it (customers, business partners, suppliers, etc.). The rules defined in the Policy cover both the Company's employees as well as all collaborators under civil-law agreements performing any kind of activities on behalf or for PKP CARGO S.A. The Policy is communicated to customers, so that they observe the internal anti-corruption rules of the Company in contacts with its representatives. All employees are obliged to familiarize themselves with the anti-corruption Policy and follow it in the performance of their professional duties or provision of services. Customers, suppliers, and business partners can acquaint themselves with the Anti-corruption Policy at: *https://www.pkpcargo.com/pl/*. In the corruption prevention area, the following significant risks may be identified:

- **reputational risk** – related to the unfavorable perception of the image of PKP CARGO or other members of the PKP CARGO Group by customers, counterparties, investors, shareholders, regulators, the public, etc.;
- **regulatory risk** – related to the need to adapt the business to changing legislation – possibility of suffering financial or image losses as a result of the conduct of business out of compliance with the applicable laws or regulations;
- **sanction risk** – associated with adverse consequences in the form of financial penalties for failure to comply with the applicable laws.

11. Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts.

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

This Management Board Report on the Activity of the PKP CARGO Group has been prepared by the PKP CARGO S.A. Management Board.

Management Board

Władysław Szczepkowski
acting President of the Management Board

Zenon Kozendra
Management Board Member

Marek Olkiewicz
Management Board Member

Warsaw, 30 March 2022

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