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Standalone Financial Statements

of PKP CARGO S.A. for the financial year ended 31 December 2022 prepared in accordance with IFRS EU

PKPCARGO

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2022	2021	
Revenues from contracts with customers	4,003.6	3,085.3	*Note 2.1*
Consumption of traction electricity and traction fuel	(686.5)	(500.1)	*Note 2.2*
Services of access to infrastructure	(550.6)	(521.0)	
Other services	(408.1)	(357.9)	*Note 2.2*
Employee benefits	(1,286.3)	(1,209.6)	*Note 2.2*
Other expenses	(214.9)	(171.3)	*Note 2.2*
Other operating revenue and (expenses)	(6.7)	19.7	*Note 2.3*
Operating profit without depreciation (EBITDA)	**850.5**	**345.1**	
Depreciation, amortization and impairment losses	(608.3)	(580.8)	*Note 2.2*
Profit / (loss) on operating activities (EBIT)	**242.2**	**(235.7)**	
Financial revenue and (expenses)	(115.3)	(32.7)	*Note 2.4*
Profit / (loss) before tax	**126.9**	**(268.4)**	
Income tax	(24.2)	45.1	*Note 3.1*
NET PROFIT / (LOSS)	**102.7**	**(223.3)**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	(6.8)	9.0	*Note 6.1*
Income tax	1.3	(1.7)	*Note 3.1*
Total other comprehensive income subject to reclassification in the financial result	**(5.5)**	**7.3**	
Actuarial profits / (losses) on post-employment benefits	16.5	86.3	*Note 5.11*
Income tax	(3.1)	(16.4)	*Note 3.1*
Total other comprehensive income not subject to reclassification in the financial result	**13.4**	**69.9**	
Total other comprehensive income	**7.9**	**77.2**	
TOTAL COMPREHENSIVE INCOME	**110.6**	**(146.1)**	
Earnings / (losses) per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic earnings / (losses) per share	**2.29**	**(4.99)**	
Diluted earnings / (losses) per share	**2.29**	**(4.99)**	

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

STATEMENT OF FINANCIAL POSITION

	31/12/2022	31/12/2021	
ASSETS			
Rolling stock	3,778.1	3,827.5	*Note 5.1*
Other property, plant and equipment	459.5	481.7	*Note 5.1*
Rights-of-use assets	653.1	666.9	*Note 5.2*
Investments in related parties	858.0	840.0	*Note 5.4*
Lease receivables	22.1	23.4	*Note 5.7*
Financial assets	4.9	4.9	*Note 5.8*
Other assets	36.6	28.1	*Note 5.9*
Deferred tax assets	135.7	158.7	*Note 3.1*
Total non-current assets	**5,948.0**	**6,031.2**	
Inventories	97.7	87.3	*Note 5.5*
Trade receivables	532.7	380.5	*Note 5.6*
Lease receivables	1.5	1.5	*Note 5.7*
Income tax receivables	-	1.7	
Other assets	112.9	69.3	*Note 5.9*
Cash and cash equivalents	55.2	141.0	*Note 4.3*
Total current assets	**800.0**	**681.3**	
Non-current assets classified as held for sale	0.1	14.9	*Note 5.3*
TOTAL ASSETS	**6,748.1**	**6,727.4**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	635.7	744.7	
Other items of equity	(54.4)	(62.3)	
Retained earnings / (Accumulated losses)	102.7	(109.0)	
Total equity	**2,923.3**	**2,812.7**	
Debt liabilities	1,519.6	1,872.2	*Note 4.1*
Investment liabilities	46.1	110.1	*Note 5.10*
Provisions for employee benefits	419.7	459.9	*Note 5.11*
Other provisions	0.5	0.7	*Note 5.12*
Total long-term liabilities	**1,985.9**	**2,442.9**	
Debt liabilities	598.8	393.9	*Note 4.1*
Trade liabilities	598.6	446.1	
Investment liabilities	197.9	297.7	*Note 5.10*
Provisions for employee benefits	125.5	99.9	*Note 5.11*
Other provisions	7.2	17.7	*Note 5.12*
Current tax liabilities	2.3	-	
Other financial liabilities	92.6	42.6	*Note 5.13*
Other liabilities	216.0	173.9	*Note 5.14*
Total short-term liabilities	**1,838.9**	**1,471.8**	
Total liabilities	**3,824.8**	**3,914.7**	
TOTAL EQUITY AND LIABILITIES	**6,748.1**	**6,727.4**	

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

STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity			Retained earnings / (Accumulated losses)	Total	
			Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Measurement of hedging instruments			
1/01/2022	**2,239.3**	**744.7**	**(12.9)**	**(22.7)**	**(26.7)**	**(109.0)**	**2,812.7**	
Net result for the financial year	-	-	-	-	-	102.7	**102.7**	
Other comprehensive income for the financial year (net)	-	-	-	13.4	(5.5)	-	**7.9**	
Total comprehensive income	-	-	-	13.4	(5.5)	102.7	**110.6**	
Other changes for the financial year	-	(109.0)	-	-	-	109.0	**-**	*Note 4.2*
31/12/2022	**2,239.3**	**635.7**	**(12.9)**	**(9.3)**	**(32.2)**	**102.7**	**2,923.3**	
1/01/2021	**2,239.3**	**744.7**	**(12.9)**	**(92.6)**	**(34.0)**	**114.3**	**2,958.8**	
Net result for the financial year	-	-	-	-	-	(223.3)	**(223.3)**	
Other comprehensive income for the financial year (net)	-	-	-	69.9	7.3	-	**77.2**	
Total comprehensive income	-	-	-	69.9	7.3	(223.3)	**(146.1)**	
31/12/2021	**2,239.3**	**744.7**	**(12.9)**	**(22.7)**	**(26.7)**	**(109.0)**	**2,812.7**	

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

CASH FLOW STATEMENT

	2022	2021	
Cash flows from operating activities			
Profit / (loss) before tax	**126.9**	**(268.4)**	
Adjustments			
Depreciation, amortization and impairment losses	608.3	580.8	*Note 2.2*
(Profits) / losses on the sale and liquidation of non-financial non-current assets	(11.9)	(23.7)	
(Profits) / losses on FX differences	7.1	4.1	
(Profits) / losses on interest, dividends	90.2	24.1	
Received / (paid) interest	0.8	0.7	
Received / (paid) income tax	0.9	(0.1)	
Movement in working capital	(23.3)	94.0	*Note 4.4*
Other adjustments	16.5	89.0	*Note 4.4*
Net cash from operating activities	**815.5**	**500.5**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(780.0)	(676.1)	
Proceeds from the sale of non-financial non-current assets	53.1	137.3	
Expenditures on the acquisition of related parties	(0.1)	(33.0)	
Proceeds from dividends received	25.5	9.2	
Other inflows from investing activities	2.6	3.7	
Net cash from investing activities	**(698.9)**	**(558.9)**	
Cash flows from financing activities			
Payments on lease liabilities	(76.1)	(66.0)	*Note 4.1*
Proceeds from bank loans and borrowings	141.4	275.2	*Note 4.1*
Repayment of bank loans and borrowings	(299.1)	(280.6)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(94.3)	(33.3)	*Note 4.1*
Grants received	82.5	83.3	
Inflow / (outflow) as part of cash pool	46.4	44.3	
Other outflows from financing activities	(3.2)	(4.0)	
Net cash from financing activities	**(202.4)**	**18.9**	
Net increase / (decrease) in cash and cash equivalents	(85.8)	(39.5)	
Cash and cash equivalents at the beginning of the reporting period	141.0	180.5	*Note 4.3*
Cash and cash equivalents at the end of the reporting period, including:	**55.2**	**141.0**	*Note 4.3*
Restricted cash	*27.2*	*42.8*	*Note 4.3*

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

NOTES TO THE STANDALONE FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Company's business

Information about the Company

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

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

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

The Company's financial year is the calendar year.

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

The composition of the Company's management and supervisory bodies and the Company's shareholding structure as at 31 December 2022 are presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2022 in **Chapters 8.11** and **8.4**, respectively.

Information about the Group

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

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

Additional information about subsidiaries, associates and interests in joint ventures is presented in **Note 5.4** to these Standalone Financial Statements.

The duration of individual Group companies is unlimited.

1.2 Basis for preparation of the financial statements

These Standalone Financial Statements have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect in 2022.

On the basis of the financial forecasts approved in the Company, these Standalone Financial Statements for the year ended 31 December 2022 have been prepared on the assumption that the Company will continue to be a going concern in the foreseeable future. As at the preparation date of these Standalone Financial Statements, there are no material circumstances indicating any substantial doubt about the Company's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

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

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

1.2 Basis for preparation of the financial statements (cont.)

Note	Title	Amount recognized in the Standalone Financial Statements 2022	2021	Accounting Policy	Significant estimates and judgments
2.1	Revenues from contracts with customers	4,003.6	3,085.3	X	X
2.2	Operating expenses	(3,754.7)	(3,340.7)		
2.3	Other operating revenue and (expenses)	(6.7)	19.7		
2.4	Financial revenue and (expenses)	(115.3)	(32.7)		
3.1	Income tax	(24.2)	45.1	X	X
5.1	Rolling stock	3,778.1	3,827.5	X	X
5.1	Other property, plant and equipment	459.5	481.7	X	X
5.2	Rights-of-use assets	653.1	666.9	X	X
5.4	Investments in related parties	858.0	840.0	X	X
3.1	Deferred tax assets	135.7	158.7	X	X
5.5	Inventories	97.7	87.3	X	
5.6	Trade receivables	532.7	380.5	X	X
5.7	Lease receivables	23.6	24.9	X	
	Income tax receivables	-	1.7		
5.8	Financial assets	4.9	4.9	X	
5.9	Other assets	149.5	97.4	X	
4.3	Cash and cash equivalents	55.2	141.0	X	
5.3	Non-current assets classified as held for sale	0.1	14.9	X	
4.2	Equity	2,923.3	2,812.7	X	
4.1	Debt liabilities	2,118.4	2,266.1	X	X
	Trade liabilities	598.6	446.1		
5.10	Investment liabilities	244.0	407.8	X	
5.11	Provisions for employee benefits	545.2	559.8	X	X
5.12	Other provisions	7.7	18.4	X	
	Current tax liabilities	2.3	-		
5.13	Other financial liabilities	92.6	42.6	X	
5.14	Other liabilities	216.0	173.9	X	
7.3	Contingent liabilities	199.2	172.9	X	X

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

As at 31 December 2022 and 31 December 2021, for the needs of valuation of the line items of the statement of financial position expressed in currencies other than PLN, the Company used the following exchange rates:

Currency	31/12/2022	31/12/2021
EUR	4.6899	4.5994

These Standalone Financial Statements were approved for publication by the Management Board on 4 April 2023.

1.3 Applied International Financial Reporting Standards platform

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

When approving the Standalone Financial Statements the Company applied the following amendments of the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

Standard / Interpretation	Effective date
Amendments to IFRS 3 "Business combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	1 January 2022
Annual Improvements to IFRS 2018-2020 Cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022

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

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

1.3 Applied International Financial Reporting Standards platform (cont.)

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

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

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

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

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

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

1.4 Liquidity position of the Company and liquidity risk management

The Company is exposed to liquidity risk following from the ratio of current assets to current liabilities. In order to minimize the possibility of disruption in cash flows and the risk of losing liquidity, in 2022, the Company undertook measures aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the medium term. Additionally, a cash pooling system is in place in the PKP CARGO Group which comprises, as at 31 December 2022, 8 Group companies. The cash pool, independently of the cash collected by particular participants, is associated with a flexible lines of credit in the form of a current account overdraft facility. Information on the financing sources available as at 31 December 2022 is presented in **Note 4.1** to these Standalone Financial Statements.

As at 31 December 2022 there was no need to reclassify loan liabilities. Details are presented in **Note 4.1**.

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

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

31/12/2022	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	287.9	398.7	1,208.1	560.2	**2,454.9**	**2,118.4**
Trade liabilities	598.4	0.2	-	-	**598.6**	**598.6**
Investment liabilities	150.2	48.8	46.6	-	**245.6**	**244.0**
Cash pool	92.6	-	-	-	**92.6**	**92.6**
Total	**1,129.1**	**447.7**	**1,254.7**	**560.2**	**3,391.7**	**3,053.6**

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

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

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

Age structure of trade liabilities and investment liabilities

	31/12/2022			31/12/2021		
	Trade liabilities	Investment liabilities	Total	Trade liabilities	Investment liabilities	Total
Non-overdue liabilities	338.1	232.4	570.5	259.2	354.9	614.1
Overdue liabilities						
to 30 days	126.2	6.2	132.4	130.4	45.9	176.3
31 - 90 days	128.4	5.4	133.8	54.3	7.0	61.3
91-180 days	3.3	-	3.3	1.3	-	1.3
181 - 365 days	2.0	-	2.0	0.1	-	0.1
over 365 days	0.6	-	0.6	0.8	-	0.8
Total	**598.6**	**244.0**	**842.6**	**446.1**	**407.8**	**853.9**

Age analysis of trade receivables

	31/12/2022			31/12/2021		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	489.0	(0.8)	488.2	345.5	(0.8)	344.7
Overdue receivables						
to 30 days	15.7	(0.1)	15.6	20.4	(0.1)	20.3
31 - 90 days	12.1	(0.8)	11.3	6.9	(0.6)	6.3
91-180 days	3.7	(1.7)	2.0	5.1	(2.1)	3.0
181 - 365 days	3.7	(0.4)	3.3	0.7	(0.3)	0.4
over 365 days	36.6	(24.3)	12.3	35.9	(30.1)	5.8
Total	**560.8**	**(28.1)**	**532.7**	**414.5**	**(34.0)**	**380.5**

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

2.1 Revenues from contracts with customers

Accounting policy applied

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

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

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

Revenue from sales of materials is recognized in the statement of profit or loss and other comprehensive income when the customer obtains control over the asset in question. The moment of the transfer of control is the same as the moment when the significant risk and benefits resulting from their ownership were transferred. In the case of commission contracts, revenue is not recognized at the time of delivery to the intermediary but when the asset is transferred to the end customer.

The Company does not apply payment terms or advance payments exceeding 12 months, hence the contracts do not contain a significant financing component.

Variable remuneration

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

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

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

Assets from contracts with customers

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

Liabilities from contracts with customers

The Company recognizes in its statement of financial position a contract liability constituting the Company's obligation to transfer goods or services to the customer in return for which the Company has obtained remuneration (or the amount of remuneration is due) from the customer. The Company recognizes a contract liability chiefly in connection with remuneration received in advance for services that have not yet been provided by the Company. As at 31 December 2022 and 31 December 2021 the Company had no material liabilities under contracts with customers.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

- from the degree of progress of transport services, which are measured based on the estimated level of freight volume the transportation of which has not been completed as at the balance sheet date and the average obtainable price,
- from the freight volume that has already been delivered to the destination but has not yet been collected by the customer. The measurement takes into account the actual freight volume and the average obtainable price,
- from rents for wagons owned by the Company which are used by foreign rail transport companies in the course of transport services rendered outside Poland. This item is measured based on the quantity of wagons outside Poland (data obtained from IT systems) and prices resulting from agreements and contracts with foreign rail freight companies.

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

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

2.1 Revenues from contracts with customers (cont.)

Structure of revenues from contracts with customers

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

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

2022	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	195.4	337.7	1,311.5	1,927.4	**3,772.0**
Revenue from siding and traction services	-	40.4	0.7	12.9	**54.0**
Revenue from sales of materials	-	12.9	-	89.0	**101.9**
Other revenues	-	50.2	6.2	19.3	**75.7**
Total	**195.4**	**441.2**	**1,318.4**	**2,048.6**	**4,003.6**
Revenue recognition date					
At a point of time	-	12.9	-	89.0	**101.9**
Over a period	195.4	428.3	1,318.4	1,959.6	**3,901.7**
Total	**195.4**	**441.2**	**1,318.4**	**2,048.6**	**4,003.6**

2021	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	266.1	266.0	801.0	1,593.6	**2,926.7**
Revenue from siding and traction services	-	41.9	0.5	21.5	**63.9**
Revenue from sales of materials	-	0.7	0.1	43.4	**44.2**
Other revenues	-	34.4	4.9	11.2	**50.5**
Total	**266.1**	**343.0**	**806.5**	**1,669.7**	**3,085.3**
Revenue recognition date					
At a point of time	-	0.7	0.1	43.4	**44.2**
Over a period	266.1	342.3	806.4	1,626.3	**3,041.1**
Total	**266.1**	**343.0**	**806.5**	**1,669.7**	**3,085.3**

Geography

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

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the financial year ended 31 December 2022 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.

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

	2022	2021
Poland	3,567.6	2,673.4
Germany	227.8	218.0
Czech Republic	101.5	102.8
Slovakia	30.2	25.5
Other countries	76.5	65.6
Total	**4,003.6**	**3,085.3**

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

2.1 Revenues from contracts with customers (cont.)

Information on key customers

In the financial year ended 31 December 2021, as well as in the financial year ended 31 December 2022, no sales to any group represented more than 10% of total revenues from contracts with customers.

Assets from contracts with customers

	2022	2021
As at the beginning of the reporting period	**28.2**	**20.0**
Recognition of revenue before the sales document is issued	32.9	27.9
Reclassification to receivables	(28.2)	(19.7)
As at the end of the reporting period	**32.9**	**28.2**

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	2022	2021
Consumption of traction fuel	(161.5)	(108.7)
Consumption of traction electricity	(525.0)	(391.4)
Total	**(686.5)**	**(500.1)**

Other services

	2022	2021
Repair and maintenance services for non-current assets	(109.8)	(98.7)
Rent and fees for the use of property and rolling stock	(80.3)	(53.3)
Transport services	(106.9)	(92.4)
Telecommunications services	(3.8)	(3.8)
Legal, consulting and similar services	(4.8)	(5.7)
IT services	(43.0)	(40.7)
Transshipment services	(4.7)	(8.4)
Traction and shunting services, train drivers	(45.7)	(45.6)
Other services	(9.1)	(9.3)
Total	**(408.1)**	**(357.9)**

Employee benefits

	2022	2021
Payroll	(982.5)	(958.3)
Social security expenses	(191.8)	(186.5)
Expenses for contributions to the Company Social Benefits Fund	(27.3)	(27.0)
Other employee benefits during employment	(27.0)	(27.9)
Post-employment benefits	(4.8)	(3.7)
Movement in provisions for employee benefits	(52.9)	(6.2)
Total	**(1,286.3)**	**(1,209.6)**

Other expenses

	2022	2021
Consumption of non-traction fuel	(9.6)	(6.2)
Consumption of electricity, gas and water	(37.6)	(28.3)
Consumption of materials	(49.2)	(41.5)
Taxes and charges	(32.0)	(30.9)
Cost of materials sold	(50.1)	(28.9)
Business trips	(23.2)	(21.2)
Other	(13.2)	(14.3)
Total	**(214.9)**	**(171.3)**

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

2.2 Operating expenses (cont.)

Depreciation, amortization and impairment losses

	2022	2021
Depreciation of rolling stock	(509.8)	(463.5)
Depreciation of other property, plant and equipment	(28.1)	(31.9)
Depreciation of rights-of-use assets	(67.5)	(65.3)
Amortization of intangible assets	(6.6)	(7.8)
(Recognized) / reversed impairment losses:		
Rolling stock	4.0	(17.7)
Other property, plant and equipment	(0.3)	1.4
Non-current assets classified as held for sale	-	4.0
Total	**(608.3)**	**(580.8)**

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	2022	2021
Profit on sales of non-financial non-current assets	15.2	21.8
Reversed impairment losses on trade receivables	1.8	5.4
Penalties and compensations	11.7	9.0
Interest on trade and other receivables	2.3	1.8
Net result on FX differences on trade receivables and trade liabilities	1.9	-
Grants	4.7	0.5
Other	3.6	3.2
Total other operating revenue	**41.2**	**41.7**
Recognized impairment losses on trade receivables	(2.4)	(4.3)
Penalties and compensations	(12.0)	(7.0)
Interest on trade and other liabilities	(20.5)	(2.0)
Costs of liquidation of non-current and current assets	(9.0)	(5.1)
Recognized other provisions	(1.5)	(1.7)
Other	(2.5)	(1.9)
Total other operating expenses	**(47.9)**	**(22.0)**
Other operating revenue and (expenses)	**(6.7)**	**19.7**

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2022	2021
Interest income	2.0	1.2
Dividend income	25.8	15.8
Net result on FX differences	-	0.4
Other	0.3	0.4
Total financial revenue	**28.1**	**17.8**
Interest expenses	(117.5)	(40.2)
Settlement of the discount on provisions for employee benefits	(24.1)	(9.1)
Net result on FX differences	(0.2)	-
Other	(1.6)	(1.2)
Total financial expenses	**(143.4)**	**(50.5)**
Financial revenue and (expenses)	**(115.3)**	**(32.7)**

3. Explanatory notes on taxation

3.1 Income tax

Accounting policy applied

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

Deferred income tax is recognized with respect to temporary differences between the tax value of an asset or liability and the corresponding carrying amount. Deferred tax liabilities are recognized with respect to taxable temporary differences. Deferred tax assets are recognized with reference to deductible temporary differences up to the amount of the Company's likely future taxable income sufficient to settle such temporary differences.

The value of the deferred tax assets is reviewed at each balance sheet date in terms of prospects of generation of future tax profits required to settle it.

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The Company recognizes a deferred tax asset based on the assumption that taxable income would be recorded in the future, allowing the Company to use the asset. As at 31 December 2022, the Company recognized deferred tax assets on the tax loss incurred in 2021 and 2020 and from 1 April to 31 December 2016.

In 2016, the Company generated a tax loss of PLN 141.0 million. At the stage of planning to join the Tax Group, the Company applied for a tax ruling concerning the impact of the Tax Group on the period to settle the loss incurred in 2016 (i.e. before the Tax Group was established). In the tax ruling of 4 October 2016 ref. no. 1462-IPPB5.4510.860.2016.1.RS, the Director of the State Tax Chamber sided with the Company and stated that the term of the Tax Group is not included in the term intended for the settlement of a loss incurred by the Company prior to the establishment of the Tax Group. This meant in practice that the term of operation of the Tax Group suspended the period given to settle the tax loss, for the duration of the Tax Group. The same position was also presented by administrative court, as well as the General Interpretation no. DD6.8202.4.2021 of the Minister of Finance, Funds and Regional Policy issued on 19 October 2021. In 2017-2019, the Company functioned within the Tax Group. After the end of the Tax Group's term, the Company incurred a tax loss in 2020 and 2021. Given the above, by posting taxable income during 2022, the Company decided to settle 50% of the 2016 taxable loss, i.e. PLN 70.5 million. Accordingly, the Company did not pay due CIT advances for the individual months of 2022 (because the 2016 loss reduced the taxable income, on which advances would have had to be paid). The Company planned to settle the remaining 50% of the 2016 tax loss against the 2023 taxable income; accordingly as at 31 December 2022 it recognized a deferred tax asset on this loss in the amount of PLN 13.4 million. As of 1 January 2022, the provisions on tax groups in the CIT Act have been relaxed and two new rules for loss settlements in tax groups have been introduced, which are directly related to each other:
- on the one hand, companies that are part of a tax group can settle within them losses incurred before the tax group was formed,
- at the same time, the regulations stipulated clearly that such loss may be settled by the company itself after the tax group is dissolved (but since the Company had the right to settle it also within the tax group, the 5-year term for loss settlement will include the duration of the tax group).

No transitional provisions have been adopted for the new regulation, which raised concern after the law came into force.

In October 2022, the parliament adopted transitional provisions specifying that the above changes apply to losses incurred after 31 December 2021. However, in the final text of the law (with relevant changes introduced by the Senate), the transitional provision has been completely changed and specifies that the new rules will also apply to losses incurred before 1 January 2022. This wording of the regulation gives rise to the risk associated with the Company's approach of settling the 2016 loss against advances due for 2022. After analyzing all available scenarios, in order to minimize the risk of potential tax arrears and fines being levied under the Fiscal Penal Code, a decision was made to pay the income tax advance in the amount resulting from the settled 2016 loss in the amount of PLN 13.4 million and then file a tax return for 2022 showing an overpayment resulting from the recognition of the 2016 loss available for settlement. The Company's Management Board believes that the new tax regulations governing tax losses incurred before 2022, which came into force on 1 January 2023, violate a number of principles derived from the Constitution of the Republic of Poland, including the principle of the protection of vested rights and the principle of non-retroactivity of laws. Considering the scale of the violations and the past case law of administrative courts and the Constitutional Tribunal, in cases referring to changes in laws that deprived taxpayers of certain rights, the Company's Management Board believes that it is more likely than not that a positive decision will be reached in any potential administrative court proceedings. Accordingly, the settlement of the 2016 loss did not charge the financial result for the year ended 31 December 2022.

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

3.1 Income tax (cont.)

Income tax recognized in profit / loss

	2022	2021
Current income tax		
Current tax charge	(2.9)	(0.1)
Adjustments recognized in the current year relating to tax from previous years	(0.1)	-
Deferred tax		
Deferred income tax of the reporting period	(21.2)	45.2
Income tax recognized in profit / loss	**(24.2)**	**45.1**

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

Deferred income tax recognized in other comprehensive income

	2022	2021
Deferred tax on the measurement of hedging instruments	1.3	(1.7)
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	(3.1)	(16.4)
Deferred income tax recognized in other comprehensive income	**(1.8)**	**(18.1)**

Reconciliation of the effective tax rate

	2022	2021
Profit (loss) before tax	**126.9**	**(268.4)**
Income tax expense at 19%	(24.1)	51.0
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Dividend	4.9	3.0
Reversal of non-tax provisions and impairment losses	1.9	-
Other	1.0	0.2
Tax effect of non-deductible expenses arising from tax regulations, including:		
PFRON disability fund	(4.1)	(4.0)
Recognition of non-tax provisions and impairment losses	-	(2.3)
Permanent differences in expenses related with property, plant and equipment	(0.5)	(0.9)
Representation expenses	(0.3)	(0.4)
Penalties and compensations	(1.8)	(0.9)
Value added tax and other public law liabilities	(0.2)	(0.1)
Other	(0.9)	(0.5)
Adjustments disclosed in the current year relating to tax from previous years	**(0.1)**	**-**
Income tax recognized in profit / loss	**(24.2)**	**45.1**
Effective tax rate	**19.1%**	**16.8%**

The corporate income tax rate effective in Poland in the years 2021-2022 amounted to 19%.

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

3.1 Income tax (cont.)

Table of movements in deferred tax

2022	1/01/2022	Recognized in profit or loss	Recognized in other comprehensive income	31/12/2022
Temporary differences relating to deferred tax (liabilities) / assets:				
Non-financial non-current assets	**(53.8)**	31.7	-	**(22.1)**
Rights-of-use assets and lease liabilities	**5.1**	(1.7)	-	**3.4**
Other provisions and liabilities	**13.7**	4.7	-	**18.4**
Inventories	**(8.9)**	(0.8)	-	**(9.7)**
Trade receivables	**(6.6)**	(2.7)	-	**(9.3)**
Provisions for employee benefits	**106.4**	0.3	(3.1)	**103.6**
Other	**17.6**	(9.2)	1.3	**9.7**
Unused tax losses	**85.2**	(43.5)	-	**41.7**
Total	**158.7**	**(21.2)**	**(1.8)**	**135.7**

2021	1/01/2021	Recognized in profit or loss	Recognized in other comprehensive income	31/12/2021
Temporary differences relating to deferred tax (liabilities) / assets:				
Non-financial non-current assets	**(83.8)**	30.0	-	**(53.8)**
Rights-of-use assets and lease liabilities	**6.1**	(1.0)	-	**5.1**
Other provisions and liabilities	**9.0**	4.7	-	**13.7**
Inventories	**(10.2)**	1.3	-	**(8.9)**
Trade receivables	**(5.1)**	(1.5)	-	**(6.6)**
Provisions for employee benefits	**133.0**	(10.2)	(16.4)	**106.4**
Other	**15.7**	3.6	(1.7)	**17.6**
Unused tax losses	**66.9**	18.3	-	**85.2**
Total	**131.6**	**45.2**	**(18.1)**	**158.7**

4. Explanatory notes on debt and equity management

4.1 Reconciliation of debt liabilities

Accounting policy applied

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

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

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

The current value of future lease payments is calculated using the interest rate applicable to the lease. If the interest rate applicable to a lease cannot be determined easily, the Company applies the lessee's incremental borrowing rate for the lease in question.

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

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

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

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option;
- leases for which the underlying asset is of low value. The Company defines assets of low value as those whose value, when new, does not exceed PLN 25 thousand.

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

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

- a reference rate appropriate for the currency in question; and
- credit risk premium, which is based on the banks' credit margins and takes into account the contract term.

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

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

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

The Company's debt liabilities consist of the following two main categories: bank loans and borrowings and leases. Loan agreements were signed mainly to finance current activity, finance and refinance the investment plan and acquisitions. Liabilities contracted under the signed loan agreements are repaid in PLN and EUR.
Lease agreements are signed in PLN, CZK and EUR and pertain mainly to property and rolling stock.
As at 31 December 2022 and 31 December 2021 the Company did not have any assets securing repayment of its liabilities.

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

4.1 Reconciliation of debt liabilities (cont.)

Items in foreign currencies

31/12/2022	In the functional currency - PLN	In foreign currency EUR	Total
Bank loans and borrowings	841.5	615.0	**1,456.5**
Leases	636.4	25.5	**661.9**
Total	**1,477.9**	**640.5**	**2,118.4**

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

Reconciliation of debt liabilities

2022	Bank loans and borrowings	Leases	Total
1/01/2022	**1,585.6**	**680.5**	**2,266.1**
New liabilities contracted	141.4	15.4	**156.8**
Modifications of agreements	-	30.7	**30.7**
Leaseback	-	15.8	**15.8**
Transaction costs	1.5	-	**1.5**
Accrual of interest	80.4	30.4	**110.8**
Payments under debt, including:			
Repayments of the principal	(299.1)	(76.1)	**(375.2)**
Interest paid	(66.0)	(28.3)	**(94.3)**
Transaction costs	(1.1)	-	**(1.1)**
Set off	-	(1.6)	**(1.6)**
Other	-	(5.1)	**(5.1)**
FX differences recognized in the result	13.8	0.2	**14.0**
31/12/2022	**1,456.5**	**661.9**	**2,118.4**
Long-term	958.1	561.5	**1,519.6**
Short-term	498.4	100.4	**598.8**
Total	**1,456.5**	**661.9**	**2,118.4**

2021	Bank loans and borrowings	Leases	Total
1/01/2021	**1,592.4**	**658.9**	**2,251.3**
New liabilities contracted	275.2	4.0	**279.2**
Modifications of agreements	-	26.1	**26.1**
Leaseback	-	84.8	**84.8**
Transaction costs	1.2	-	**1.2**
Accrual of interest	13.9	22.3	**36.2**
Payments under debt, including:			
Repayments of the principal	(280.6)	(66.0)	**(346.6)**
Interest paid	(13.5)	(19.8)	**(33.3)**
Transaction costs	(1.3)	-	**(1.3)**
Other	-	(29.2)	**(29.2)**
FX differences recognized in the result	(1.7)	(0.6)	**(2.3)**
31/12/2021	**1,585.6**	**680.5**	**2,266.1**
Long-term	1,287.2	585.0	**1,872.2**
Short-term	298.4	95.5	**393.9**
Total	**1,585.6**	**680.5**	**2,266.1**

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

4.1 Reconciliation of debt liabilities (cont.)

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

	Presentation in the statement of profit or loss and other comprehensive income	2022	2021
Revenues from operating leases	Revenues from contracts with customers	58.4	33.8
Costs of short-term leases	Other services	(18.8)	(19.5)

Terms and conditions of loan agreements

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

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

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

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

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

As at 31 December 2022, the covenants defined in loan agreements were satisfied and therefore under IAS 1 non-current loan liabilities did not have to be reclassified to the current part.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2022	31/12/2021
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/03/2023	PLN	58.7	100.0
Overdraft	Bank Polska Kasa Opieki S.A. [1]	24/052023	PLN	100.0	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A. [2]	27/06/2023	PLN	-	-
Overdraft	Bank Gospodarstwa Krajowego[3]	20/10/2023	PLN	100.0	100.0
Leasing facility	PKO Leasing S.A. [4]	18/06/2023	PLN	-	15.2
Leasing facility	PEKAO Leasing Sp. z o.o. [5]	9/10/2023	PLN	92.2	-
Leasing facility	PKO Leasing S.A. [6]	31/12/2023	PLN	200.0	-
TOTAL				**550.9**	**315.2**

[1] On 23 May 2022, the Company executed an annex to the overdraft facility agreement extending the availability period of the facility until 24 May 2023.

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

[3] On 19 September 2022, the Company executed an annex to the overdraft facility agreement extending the availability period of the facility until 20 October 2023.

[4] The availability of the leasing facility was extended automatically for another 12 months, i.e. until 18 June 2023 in connection with the fulfillment of obligations arising under the contract. As at 31 December 2022, the limit has been fully used in connection with the lease agreement signed on 27 September 2022.

[5] On 10 October 2022, the Company signed a master leasing agreement with PEKAO LEASING Sp. z o.o. up to the total value of leased assets not exceeding PLN 93 million. The loan is available for 12 months.

[6] On 8 November 2022, the Company signed a master leasing agreement with PKO Leasing S.A. up to the total value of leased assets not exceeding PLN 200 million. The limit is available until 31 December 2023.

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

4.2 Equity and capital management policy

Accounting policy applied

The share capital in the standalone financial statements is shown in the amount stated in the Articles of Association.

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

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

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

Share capital

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

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

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

In the financial year ended 31 December 2022 and 31 December 2021, no changes in the share capital of the Company took place.

Movement in supplementary capital and retained earnings

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

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

The Management Board of the Company proposes to allocate the entire net profit for the year 2022 reported in these Standalone Financial Statements to the supplementary capital.

Equity management

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

Total debt ratio

	31/12/2022	31/12/2021
Total liabilities	3,824.8	3,914.7
Total balance sheet	6,748.1	6,727.4
Total debt ratio*	57%	58%

* As described in detail in **Note 4.1**, in order to verify covenants under loan agreements as at 31 December 2022, the total debt ratio was calculated based on the data presented in the Consolidated Financial Statements of the PKP CARGO Group and adjusted for the impact of IFRS 16; it was to 54% as at 31 December 2022 and 56% as at 31 December 2021.

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

4.3 Cash and cash equivalents

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

Structure of cash and cash equivalents

	31/12/2022	31/12/2021
Cash on hand and on bank accounts	41.2	71.0
Bank deposits up to 3 months	-	70.0
Other cash	14.0	-
Total	**55.2**	**141.0**
including restricted cash	*27.2*	*42.8*

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

4.4 Notes to the cash flow statement

Movement in working capital

2022	Movement in statement of financial position	Movement in tax settlements	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(10.4)	-	47.0	-	**36.6**
Trade receivables	(152.2)	-	(0.8)	0.4	**(152.6)**
Other assets	(50.4)	(1.7)	11.1	-	**(41.0)**
Provisions	(25.3)	-	-	-	**(25.3)**
Trade liabilities	152.5	-	-	-	**152.5**
Investment liabilities	(163.8)	-	146.3	-	**(17.5)**
Other liabilities	44.4	(2.4)	(18.0)	-	**24.0**
Total working capital	**(205.2)**	**(4.1)**	**185.6**	**0.4**	**(23.3)**

2021	Movement in statement of financial position	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	7.7	18.0	-	**25.7**
Trade receivables	(14.0)	(0.6)	0.4	**(14.2)**
Other assets	(18.2)	2.1	0.2	**(15.9)**
Provisions	(134.6)	-	-	**(134.6)**
Trade liabilities	230.5	1.8	(1.6)	**230.7**
Investment liabilities	123.5	(90.8)	-	**32.7**
Other liabilities	(67.6)	39.6	(2.4)	**(30.4)**
Total working capital	**127.3**	**(29.9)**	**(3.4)**	**94.0**

Other adjustments

	2022	2021
Actuarial profits / (losses) on post-employment benefits recognized in other comprehensive income	16.5	86.3
Measurement of hedging instruments	-	2.7
Other adjustments in the cash flow statement	**16.5**	**89.0**

4.4 Notes to the cash flow statement (cont.)

Non-financial transactions

In the financial years ended 31 December 2022 and 31 December 2021, major non-financial transactions concerning investing and financial activity which were not reflected in the cash flow statement were as follows:

- Setting off mutual settlements

The Company set off trade receivables with liabilities arising from the purchase of non-financial non-current assets. The total amount of set offs in 2022 amounted to PLN 0.8 million, whereas in 2021 it was PLN 1.1 million. Additionally, during 2022 the Company set off receivables from sales of fixed assets against lease liabilities of PLN 1.6 million.

- Liquidation of rolling stock

When it is decided to liquidate a rolling stock component, its residual value is posted in the item of inventories. In 2022, the residual value of non-current assets reclassified to inventories amounted to PLN 47.1 million, whereas in 2021 it was PLN 18.0 million.

5. Explanatory notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Accounting policy applied

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

The Company presents perpetual usufruct rights that are exempted from payments as property, plant and equipment.

Fixed assets under construction are presented in the statement of financial position at the production cost reduced by recognized impairment losses.

An item of property, plant and equipment is removed from the statement of financial position at the moment of sale or when no economic benefits are expected from its use. When it is decided to derecognize an item of property, plant and equipment, its book value is recognized in the profit or loss of the period in which the decision was taken, except for rolling stock items, whose residual values, when it is decided to derecognize them, are posted in the item of inventories.

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

Repairs and periodic inspections of rolling stock

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

Upon completion of a level 4 and 5 modernization or repair, reinstatements to operation are issued indicating the period of possible operation of the rolling stock component until the next P4 or P5 level repair indicated in the repair cycle specified in the Maintenance System Documentation (DSU). An asset may be operated over the entire period provided also that a P3 inspection is carried out halfway through the cycle. If no repair / inspection at levels P3, P4 and P5 is carried out, the rolling stock asset loses its operational capacity and cannot be used in rail transport. The Company considers periodic repairs and inspections at levels P3, P4 and P5 as the condition for continuous use of rolling stock asset item and at the moment of performing such a repair, if the criteria for its recognition are satisfied, the costs of the repair is recognized in the carrying amount of the rolling stock asset and are depreciated in the period specified in the reinstatement.

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

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

Accounting policy applied

Residual value of rolling stock

The residual value of rolling stock is measured based on prices of scrap of specific classes, less cost to sell. The residual value of rolling stock is not depreciated but is subject to periodic verification at the end of each financial year. The Company changes the residual value if it has a material impact on the Company's financial statements.

Depreciation of property, plant and equipment

The Company uses straight-line depreciation. The value of property, plant and equipment subject to depreciation is distributed equally over the useful life. The initial value of an asset subject to depreciation is determined after deducting its residual value.

Freehold land and rights of perpetual usufruct of land are not depreciated.

The estimated useful lives and residual values are verified at the end of each reporting period (with a prospective application of any changes in estimates).

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

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

Impairment of property, plant and equipment

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

The recoverable amount is measured as the higher of the following two values: fair value less cost of disposal or value in use. The value in use is defined as the present value of estimated future cash flows discounted using a discount rate before tax. If the recoverable amount of a cash-generating unit or individual asset is lower than its carrying amount, the latter is reduced to the recoverable amount. An impairment loss is recognized in the line item "depreciation, amortization and impairment losses".

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

The Company estimates the economic useful lives of individual items of property, plant and equipment and on this basis determines the depreciation rates for these items. The estimates are based on the expected economic useful lives of the assets. Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation charges and the net carrying amount of specific items of property, plant and equipment in future periods. The verification of the useful lives of property, plant and equipment conducted as at 31 December 2022 and 31 December 2021 did not reveal the need to correct the previously applied depreciation rates.

Residual value of the rolling stock

As at 31 December 2022, the Company carried out a review of the residual value of its rolling stock based on a valuation performed by an independent appraiser. The price of scrap is an important factor affecting the measurement of residual value. Due to the recent fall in scrap metal prices, the residual value of rolling stock, as determined by an expert appraiser, has been reduced compared to the previous valuation. Accordingly, the Company decided to reduce the residual value of its rolling stock, but this change did not have a material impact on the amount of impairment loss for rolling stock. The residual value update will increase the amounts of depreciation charges recognized in subsequent reporting periods.

Impairment of non-current assets

In accordance with IAS 36, the Company assesses at the end of each reporting period whether there is any objective evidence of impairment of non-current assets.
As at 31 December 2022, the main indications of the possible impairment of assets included: the market value of Company's net assets, which remained persistently below their carrying amount and an increase in market rates of return from investment affecting the discount rates used in impairment tests. According to IAS 36, recoverable amount is measured at the higher of: fair value less cost to sell, or value in use.

The risk of impairment was identified at the level of components of rolling stock and properties. The recoverable amount of these assets was determined based on their fair value less cost to sell. The fair value was determined on the basis of valuations prepared by independent appraisers.
The fair value of rolling stock was determined using the cost method with elements of the comparative method. The market value of rolling stock was estimated based on the replacement cost, while taking into account, among other things, the loss in value due to physical, functional and external (economic) factors. The replacement cost is the cost as at the valuation date that would have to be incurred in order to receive a new technical asset, which is identical or has similar parameters. Other factors considered in the valuation process included:
- production year,
- number and types of repairs accompanied by modernizations,
- number of kilometers traveled,
- costs of individual repairs,
- date of most recent repairs,
- whether the design is contemporary,
- prices and availability of new units.

The appraisers used their knowledge of locomotive and rail car prices on the primary and secondary markets, for domestic and international companies. They also utilized, among others, the price catalogs of machinery and equipment of railway vehicles of a given type.
The fair value of the appraised properties was determined using a mixed approach with elements of comparative, income-based or replacement valuation methods. Land was measured using a comparative method and the building placed on such land with an income or cost method, depending on the type of property.
In order to determine the recoverable amount, the cost to sell of the measured assets were disregarded, as they were deemed insignificant.

Based on the valuations, as at 31 December 2022:
a) the surplus of fair value over the carrying amount of all rolling stock components was about 40%. The analysis at the level of individual asset items resulted in the reversal of an impairment loss in the amount of PLN 4.0 million;
b) no impairment of the appraised properties was identified.
The fair value of the remaining assets of the Company not subject to valuation did not differ materially from their carrying amounts.

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

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

Change in the balance of property, plant and equipment

2022	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2022	**6,381.3**	**587.7**	**205.7**	**27.5**	**25.1**	**25.6**	**871.6**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	494.9	**494.9**
Purchase of new assets / modernization	-	-	-	-	-	120.0	**120.0**
Purchase of leased items	-	-	2.7	0.8	-	-	**3.5**
Settlement of fixed assets under construction	603.6	2.4	2.2	-	0.3	(608.5)	**(603.6)**
Grant for non-current assets	(80.3)	-	-	-	-	-	**-**
Sales (including leaseback)	(17.6)	(6.5)	-	(0.8)	-	-	**(7.3)**
Liquidation	(343.4)	(0.3)	(0.5)	-	-	(2.0)	**(2.8)**
Reclassified to assets held for sale	(8.1)	-	-	-	-	-	**-**
Other	(0.6)	-	0.1	-	-	-	**0.1**
31/12/2022	**6,534.9**	**583.3**	**210.2**	**27.5**	**25.4**	**30.0**	**876.4**
Accumulated depreciation							
1/01/2022	**(2,478.4)**	**(165.1)**	**(172.0)**	**(27.2)**	**(23.2)**	**-**	**(387.5)**
Increases / (decreases):							
Depreciation	(509.8)	(17.2)	(9.9)	(0.2)	(0.8)	-	**(28.1)**
Purchase of leased items	-	-	(1.7)	(0.5)	-	-	**(2.2)**
Sales (including leaseback)	3.9	-	-	0.8	-	-	**0.8**
Liquidation	291.6	0.3	0.5	-	-	-	**0.8**
Reclassified to assets held for sale	5.6	-	-	-	-	-	**-**
Other	0.8	-	-	-	-	-	**-**
31/12/2022	**(2,686.3)**	**(182.0)**	**(183.1)**	**(27.1)**	**(24.0)**	**-**	**(416.2)**
Accumulated impairment							
1/01/2022	**(75.4)**	**-**	**-**	**-**	**-**	**(2.4)**	**(2.4)**
Increases / (decreases):							
Recognition	-	-	-	-	-	(0.3)	**(0.3)**
Derecognition, including:	4.0	-	-	-	-	-	**-**
effect of fair value measurement	4.0	-	-	-	-	-	**-**
Utilization	0.9	-	-	-	-	2.0	**2.0**
31/12/2022	**(70.5)**	**-**	**-**	**-**	**-**	**(0.7)**	**(0.7)**
Net value							
1/01/2022	**3,827.5**	**422.6**	**33.7**	**0.3**	**1.9**	**23.2**	**481.7**
31/12/2022	**3,778.1**	**401.3**	**27.1**	**0.4**	**1.4**	**29.3**	**459.5**

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

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

2021	Rolling stock	Other property, plant and equipment					Total
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	
Gross value							
1/01/2021	**6,254.9**	**565.8**	**219.7**	**28.7**	**25.1**	**20.2**	**859.5**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	447.7	**447.7**
Purchase of new assets / modernization	-	-	-	-	-	309.2	**309.2**
Settlement of fixed assets under construction	715.4	28.7	5.5	-	0.7	(750.3)	**(715.4)**
Grant for non-current assets	(82.3)	-	-	-	-	-	**-**
Sales (including leaseback)	(98.6)	(0.3)	-	(1.1)	-	-	**(1.4)**
Liquidation	(276.9)	(3.1)	(19.5)	(0.1)	(0.7)	(0.7)	**(24.1)**
Reclassified to assets held for sale	(133.1)	-	-	-	-	-	**-**
Other	1.9	(3.4)	-	-	-	(0.5)	**(3.9)**
31/12/2021	**6,381.3**	**587.7**	**205.7**	**27.5**	**25.1**	**25.6**	**871.6**
Accumulated depreciation							
1/01/2021	**(2,370.5)**	**(150.1)**	**(179.1)**	**(28.1)**	**(22.9)**	**-**	**(380.2)**
Increases / (decreases):							
Depreciation	(463.5)	(18.3)	(12.3)	(0.3)	(1.0)	-	**(31.9)**
Sales (including leaseback)	9.8	0.3	-	1.1	-	-	**1.4**
Liquidation	256.8	3.0	19.4	0.1	0.7	-	**23.2**
Reclassified to assets held for sale	90.1	-	-	-	-	-	**-**
Other	(1.1)	-	-	-	-	-	**-**
31/12/2021	**(2,478.4)**	**(165.1)**	**(172.0)**	**(27.2)**	**(23.2)**	**-**	**(387.5)**
Accumulated impairment							
1/12/2021	**(75.2)**	**(1.5)**	**(0.1)**	**-**	**-**	**(3.0)**	**(4.6)**
Increases / (decreases):							
Recognition, including:	(17.7)	-	-	-	-	(0.1)	**(0.1)**
effect of fair value measurement	(12.4)	-	-	-	-	-	**-**
Reversal	-	1.5	-	-	-	-	**1.5**
Utilization	6.0	-	0.1	-	-	0.7	**0.8**
Reclassified to assets held for sale	11.7	-	-	-	-	-	**-**
Other	(0.2)	-	-	-	-	-	**-**
31/12/2021	**(75.4)**	**-**	**-**	**-**	**-**	**(2.4)**	**(2.4)**
Net value							
1/01/2021	**3,809.2**	**414.2**	**40.5**	**0.6**	**2.2**	**17.2**	**474.7**
31/12/2021	**3,827.5**	**422.6**	**33.7**	**0.3**	**1.9**	**23.2**	**481.7**

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

5.2 Rights-of-use assets

Accounting policy applied

Rights-of-use assets are initially measured at cost, which includes the lease liability in the current value of lease payments outstanding at such date, all lease payments paid up until the start date, minus all lease incentives received, all initial direct costs incurred by the Company as the lessee and estimated costs to be incurred in connection with the disassembly and removal of the underlying asset and the renovation of the place in which it was located.
The rights-of-use asset item is also used by the Company to present the perpetual usufruct right to land, used by the Company in return for valuable consideration. Perpetual usufruct rights to land for which the Company does not pay any fees due to the exemption applicable to it by operation of law do not fulfill the definition of a lease and thus are presented by the Company as part of other property, plant and equipment.
After initial recognition, the Company measures the right-of-use asset at cost less any accumulated amortization charges and total impairment losses, adjusted for any remeasurement of the lease liability.
In the case of expenditures on repairs and periodic reviews of right-of-use assets, the Company applies IAS 16, i.e. presents assets related to repairs and their periodic reviews in the same item of the statement of financial position, i.e. in the rights-of-use assets item.

Useful lives of rights-of-use assets

The Company uses straight-line depreciation. The value of a right-of-use asset is distributed systematically over its useful life.
The useful lives of right-of-use assets in leases were as follows:

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Useful lives of rights-of-use assets

The Company estimates the economic useful lives of individual items of rights-of-use assets and on this basis determines the depreciation rates for these items. If the lease transfers ownership of the underlying asset to the Company before the end of the lease term or if the Company expects to exercise its purchase option, the Company will amortize right-of-use asset from the commencement date to the end of the useful life of the asset. Otherwise, the Company amortizes right-of-use asset until the earlier of: the end of the useful life of the asset or the end of the lease term. Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation charges and the carrying amount of specific items of rights-of-use assets. The verification of the useful lives of rights-of-use assets conducted as at 31 December 2022 and 31 December 2021 did not reveal the need to correct the previously applied depreciation rates.

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

5.2 Rights-of-use assets (cont.)

Movement in rights-of-use assets

2022	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2022	**243.8**	**577.6**	**11.5**	**7.8**	**0.7**	**841.4**
Increases / (decreases):						
New leases	-	14.6	0.8	-	-	**15.4**
Modifications of agreements	-	28.6	-	1.9	-	**30.5**
Sale and leaseback	13.6	-	-	-	-	**13.6**
Return of leased items	(0.3)	(16.3)	-	-	(0.1)	**(16.7)**
Purchase of leased items	-	-	(2.7)	(0.8)	-	**(3.5)**
31/12/2022	**257.1**	**604.5**	**9.6**	**8.9**	**0.6**	**880.7**
Accumulated depreciation						
1/01/2022	**(48.0)**	**(116.6)**	**(3.5)**	**(6.0)**	**(0.4)**	**(174.5)**
Increases / (decreases):						
Depreciation	(21.1)	(42.1)	(2.1)	(2.1)	(0.1)	**(67.5)**
Return of leased items	0.3	12.6	-	-	-	**12.9**
Purchase of leased items	-	-	1.7	0.5	-	**2.2**
Other	(0.7)	-	-	-	-	**(0.7)**
31/12/2022	**(69.5)**	**(146.1)**	**(3.9)**	**(7.6)**	**(0.5)**	**(227.6)**
Net value						
1/01/2022	**195.8**	**461.0**	**8.0**	**1.8**	**0.3**	**666.9**
31/12/2022	**187.6**	**458.4**	**5.7**	**1.3**	**0.1**	**653.1**

2021	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2021	**171.6**	**583.2**	**8.7**	**7.9**	**0.7**	**772.1**
Increases / (decreases):						
New leases	-	1.2	2.8	-	-	**4.0**
Modifications of agreements	-	25.5	-	-	-	**25.5**
Sale and leaseback	84.8	-	-	-	-	**84.8**
Return of leased items	(12.6)	(35.8)	-	(0.1)	-	**(48.5)**
Other	-	3.5	-	-	-	**3.5**
31/12/2021	**243.8**	**577.6**	**11.5**	**7.8**	**0.7**	**841.4**
Accumulated depreciation						
1/01/2021	**(41.7)**	**(83.0)**	**(1.7)**	**(3.9)**	**(0.3)**	**(130.6)**
Increases / (decreases):						
Depreciation	(18.3)	(42.9)	(1.8)	(2.2)	(0.1)	**(65.3)**
Return of leased items	12.6	10.0	-	0.1	-	**22.7**
Other	(0.6)	(0.7)	-	-	-	**(1.3)**
31/12/2021	**(48.0)**	**(116.6)**	**(3.5)**	**(6.0)**	**(0.4)**	**(174.5)**
Net value						
1/01/2021	**129.9**	**500.2**	**7.0**	**4.0**	**0.4**	**641.5**
31/12/2021	**195.8**	**461.0**	**8.0**	**1.8**	**0.3**	**666.9**

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

5.3 Non-current assets classified as held for sale

Accounting policy applied

The Company classifies non-current assets (or disposal group) as held for sale if the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale is highly probable. A sale is highly likely if Company managers of an appropriate level are determined to implement the plan to sell an asset and an active program of finding a buyer and complete the plan has been launched.

The Company measures a non-current asset classified as held for sale at the lower of: its carrying amount, or the fair value less cost to sell. Any difference between carrying amount and fair value (if lower) is accounted for by the Company as an impairment losses.

Changes in assets classified as held for sale

	2022	2021
As at the beginning of the reporting period	**14.9**	**12.7**
Increases / (decreases):		
Reclassified from property, plant and equipment	2.5	31.3
Sales	(17.1)	(32.4)
Derecognition of impairment loss	-	4.0
Other	(0.2)	(0.7)
As at the end of the reporting period	**0.1**	**14.9**

5.4 Investments in related parties

Accounting policy applied
Investments in related parties are recognized at the purchase price less impairment losses. The value of shares and stock taken up in return for a contribution in kind is presented at the book value of the contribution in kind made by the Company.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at each balance sheet date, the Company analyzes whether or not objective grounds exist that might imply an impairment loss on investments in related parties. If such grounds exist then the Company is required to determine the recoverable amount of the assets showing signs of impairment.

As at 31 December 2022, the Company has identified indications of potential impairment of its investment in PKP CARGOTABOR Sp. z o.o., due to an increase in market rates of return on investments, which affected the discount rates used for impairment testing, and in PKP CARGO INTERNATIONAL a.s. due to its financial results being lower than expected. In connection with the above indications, impairment tests were carried out for cash-generating units, which were identified for each of the tested companies separately. The recoverable amount of the analyzed assets was determined on the basis of their estimated value in use using the net discounted cash flows method.

PKP CARGOTABOR Sp. z o.o.

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

- discounted cash flows were developed on the basis of detailed financial projections for the period from 2023 to 2027,
- in the period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 9.3% in nominal terms,
- in the whole period covered by the detailed projection, capital expenditures will reach the level of 1.7% of annual operating revenue in nominal terms,
- the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 11.9% in nominal terms,
- after the detailed projection period, the growth of future cash flows was assumed at 0.0% in nominal terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the tested assets owned by PKP CARGOTABOR Sp. z o.o., as at 31 December 2022 the Company recognized no impairment loss for shares in PKP CARGOTABOR Sp. z o.o.

PKP CARGO INTERNATIONAL a.s.

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

- the cash-generating unit was considered to be all owned by the PKP CARGO INTERNATIONAL Group, used mainly to service customers on the Czech rail market,
- discounted cash flows were developed on the basis of detailed financial projections for the period from 2023 to 2032; in the opinion of the Company's Management Board, it is reasonable to adopt financial projections for more than five years because the property, plant and equipment used by PKP CARGO INTERNATIONAL a.s. have a considerably longer period of economic life.
- in the detailed projection period of 2023-2032, the compound annual growth rate (CAGR) of operating revenue will be at 1.6% in real terms,
- the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 5.9% in real terms,
- after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the assets tested as at 31 December 2022, the Company recognized no impairment loss for the shares in PKP CARGO International a.s.

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

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

5.4 Investments in related parties (cont.)

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

Name	Type	Registered office	% of shares held		Value of shares held	
			31/12/2022	31/12/2021	31/12/2022	31/12/2021
Centralny Terminal Multimodalny Sp. z o.o. 1)	subsidiary	Warsaw	100%	99.8%	1.5	1.5
PKP CARGO SERVICE Sp. z o.o.	subsidiary	Warsaw	100%	100%	15.4	15.4
PKP CARGO TERMINALE Sp. z o.o. 2)	subsidiary	Żurawica	100%	100%	69.1	51.1
PKP CARGOTABOR Sp. z o.o. 3)	subsidiary	Warsaw	100%	100%	117.7	117.7
CARGOTOR Sp. z o.o.	subsidiary	Warsaw	100%	100%	20.2	20.2
PKP CARGOTABOR USŁUGI Sp. z o.o. 4)	subsidiary	Warsaw	100%	100%	10.1	10.1
PKP Linia Chełmska Szerokotorowa Sp. z o.o.	subsidiary	Chełm	100%	100%	0.1	-
ONECARGO CONNECT Sp. z o.o.	subsidiary	Warsaw	100%	100%	-	-
COSCO Shipping Lines (POLAND) Sp. z o.o.	associate	Gdynia	20%	20%	1.1	1.1
PKP CARGO CONNECT Sp. z o.o.	subsidiary	Warsaw	100%	100%	123.2	123.2
Transgaz S.A.	indirect subsidiary	Zalesie near Małaszewicze	64%	64%		
Cargosped Terminal Braniewo Sp. z o.o.	indirect subsidiary	Braniewo	100%	100%		
PKP CARGO CONNECT GmbH	indirect subsidiary	Hamburg	100%	100%		
Terminale Przeładunkowe Sławków Medyka Sp. z o.o.	interests in joint ventures	Sławków	50%	50%		
PKP CARGO INTERNATIONAL a.s.	subsidiary	Ostrava	100%	100%	499.7	499.7
PKP CARGO INTERNATIONAL HU Zrt.	indirect subsidiary	Budapest	100%	100%		
AWT ROSCO a.s.	indirect subsidiary	Ostrava	100%	100%		
AWT Čechofracht a.s.	indirect subsidiary	Ostrava	100%	100%		
AWT Rekultivace a.s.	indirect subsidiary	Petřvald	100%	100%		
DEPOS Horni Sucha a.s.	associate	Horní Suchá	20.6%	20.6%		
PKP CARGO INTERNATIONAL SK a.s.	indirect subsidiary	Bratislava	100%	100%		
AWT DLT s.r.o.	indirect subsidiary	Kladno	100%	100%		
PKP CARGO INTERNATIONAL SI d.o.o.	indirect subsidiary	Grčarevec	80%	80%		
TOTAL					**858.0**	**840.0**

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

2) On 23 December 2022, the share capital of PKP CARGO TERMINALE Sp. z o.o. was increased through creation of new shares, which were covered by a cash contribution made by the Company in the amount of PLN 18.0 million.

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

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

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

5.5 Inventories

Accounting policy applied

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

Structure of inventories

	31/12/2022	31/12/2021
Strategic inventories	23.7	24.0
Rolling stock during liquidation	42.5	31.0
Other inventories	33.2	34.1
Impairment losses	(1.7)	(1.8)
Net inventories	**97.7**	**87.3**

List of changes in impairment losses for inventories

	2022	2021
As at the beginning of the reporting period	**(1.8)**	**(1.3)**
Recognition	(1.3)	(1.2)
Utilization	1.4	0.7
As at the end of the reporting period	**(1.7)**	**(1.8)**

5.6 Trade receivables

Accounting policy applied

Trade receivables are treated as financial instruments and measured at amortized cost in accordance with the business model applied by the Company, the purpose of which is to obtain contractual cash flows constituting the sole repayment of the nominal value and interest on specific dates.
The Company applies a simplified approach, as permitted by IFRS 9, and measures its impairment losses in the amount equal to credit losses expected throughout the lifetime of trade receivables.
The probability of incurred credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges.
For this purpose, the indicators of default by counterparties for each aging range were estimated, in accordance with the table breaking down the aging structure of trade receivables.
Impairment losses are calculated by taking into account the rates of default and the amount of unpaid receivables as at the balance sheet date for each interval in the aging structure.
Moreover, the Company recognizes impairment losses for an individual basis in cases where an objective proof exists that the Company will be unable to recover the amounts due.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The calculation and measurement of impairment losses for trade receivables and assets arising from contracts with customers is an area that requires estimation. Expected credit losses are calculated on the basis of an individual assessment of the recoverability of a given receivable and taking into account the model applied by the Company to estimate its counterparty default ratio. Impairment losses determined on a case by case basis require judgment of whether the receivable in question will be repaid by the counterparty, taking into account the established security and settlements made, if any. Such judgment is made by the Company's debt collection unit. The model of estimation of the counterparty default ratio applied by the Company is based on a simplified impairment losses matrix for each aging range based on the expected credit losses throughout the lifetime of the receivables. The estimation of the expected credit losses is based on a method that makes use of expected counterparty default ratios calculated on the basis of historical data for the years 2019-2022 obtained from financial and accounting systems. The war in Ukraine had no material impact on the level of expected credit losses. The reconciliation of impairment losses for receivables is presented in the tables below.

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

5.6 Trade receivables (cont.)

Structure of trade receivables

	31/12/2022	31/12/2021
Trade receivables	560.8	414.5
Impairment loss for receivables	(28.1)	(34.0)
Total	**532.7**	**380.5**
Current assets	532.7	380.5
Total	**532.7**	**380.5**

Reconciliation of impairment losses for trade receivables

	Lifetime expected credit losses					
	2022			2021		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	**(0.9)**	**(33.1)**	**(34.0)**	**(1.2)**	**(39.1)**	**(40.3)**
Recognition	-	(2.4)	**(2.4)**	-	(4.3)	**(4.3)**
Reversal	-	1.8	**1.8**	0.3	5.1	**5.4**
Utilization	-	6.4	**6.4**	-	5.0	**5.0**
FX differences	-	0.1	**0.1**	-	0.2	**0.2**
As at the end of the reporting period	**(0.9)**	**(27.2)**	**(28.1)**	**(0.9)**	**(33.1)**	**(34.0)**

Movement in the carrying amount of gross trade receivables

	2022			2021		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	**381.4**	**33.1**	**414.5**	**367.7**	**39.1**	**406.8**
Recognized	4,770.2	-	**4,770.2**	3,677.2	-	**3,677.2**
Interest accrued	2.0	-	**2.0**	1.6	0.1	**1.7**
Written off	-	(6.4)	**(6.4)**	-	(5.0)	**(5.0)**
Repaid	(4,617.8)	(1.8)	**(4,619.6)**	(3,659.2)	(5.1)	**(3,664.3)**
Transferred	(2.4)	2.4	**-**	(4.2)	4.2	**-**
FX differences	0.2	(0.1)	**0.1**	(1.7)	(0.2)	**(1.9)**
As at the end of the reporting period	**533.6**	**27.2**	**560.8**	**381.4**	**33.1**	**414.5**

5.7 Lease receivables

Accounting policy applied

Assets held under a finance lease are recognized in the statement of financial position as lease receivables at an amount equal to the net investment in the lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned financial revenue. Financial revenue from finance leases is recognized in subsequent periods at a fixed rate of return on the net investment in the lease.

Assets subject to operating leases are recognized in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the profit or loss of the current period on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

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

5.7 Lease receivables (cont.)

Reconciliation of lease receivables

	2022	2021
As at the beginning of the reporting period	**24.9**	**27.2**
Modifications of agreements	0.2	0.6
Accrual of interest	1.1	1.1
Repayment of receivables, including:		
Principal received	(1.5)	(2.5)
Interest received	(1.1)	(1.2)
Other changes	-	(0.3)
As at the end of the reporting period	**23.6**	**24.9**

Lease receivables

31/12/2022	Undiscounted lease payments	Unearned finance income	Present value of minimum payments
Up to 1 year	2.4	(0.9)	1.5
From 1 year to 5 years	10.4	(3.2)	7.2
Over 5 years	17.1	(2.2)	14.9
Total	**29.9**	**(6.3)**	**23.6**
Non-current receivables	27.5	(5.4)	22.1
Current receivables	2.4	(0.9)	1.5
Total	**29.9**	**(6.3)**	**23.6**

31/12/2021	Undiscounted lease payments	Unearned finance income	Present value of minimum payments
Up to 1 year	2.5	(1.0)	1.5
From 1 year to 5 years	10.2	(3.5)	6.7
Over 5 years	19.6	(2.9)	16.7
Total	**32.3**	**(7.4)**	**24.9**
Non-current receivables	29.8	(6.4)	23.4
Current receivables	2.5	(1.0)	1.5
Total	**32.3**	**(7.4)**	**24.9**

5.8 Financial assets

Accounting policy applied

The accounting policy pertaining to financial instruments is described in **Note 6** to these Standalone Financial Statements.

Structure of financial assets

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

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

5.9 Other assets

Accounting policy applied

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

Structure of other assets

	31/12/2022	31/12/2021
Non-financial assets		
Costs settled over time		
Prepayments for purchase of electricity	73.1	32.2
Insurance	2.6	4.6
IT services	3.3	10.2
Other costs settled over time	0.3	1.3
Prepayments for purchase of non-financial non-current assets	16.0	5.4
Other	0.2	-
Other receivables		
VAT settlements	22.6	12.3
Receivables on account of transfer of receivables	4.1	5.3
Other	10.3	3.8
Intangible assets		
Licenses	11.4	17.6
Intangible assets under development	5.6	4.7
Total	**149.5**	**97.4**
Non-current assets	36.6	28.1
Current assets	112.9	69.3
Total	**149.5**	**97.4**

5.10 Investment liabilities

Accounting policy applied

Investment liabilities include obligations related to the purchase of non-financial non-current assets. Initially, they are carried at fair value adjusted for transaction costs and subsequently at amortized cost. This applies to liabilities with maturity of over 1 year for which the liability value corresponds to the amount that would be paid in a single cash transaction. The difference between this amount and the total payments is recognized as interest expense over the period of commercial credit. Liabilities with a maturity of up to 1 year are measured in the amount payable, because they do not contain a significant financing component.

Structure of investment liabilities

	31/12/2022	31/12/2021
Investment liabilities related to rolling stock	240.2	393.5
Investment liabilities related to real properties	1.0	8.5
Other	2.8	5.8
Total	**244.0**	**407.8**
Long-term liabilities	46.1	110.1
Short-term liabilities	197.9	297.7
Total	**244.0**	**407.8**

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

5.11 Provisions for employee benefits

Accounting policy applied

The Company provides its employees with long-term benefits during their employment (jubilee awards) as well as post-employment benefits (retirement and disability severance pays, transportation allowances and benefits from the Company Social Benefits Fund for retirement and disability pensioners, post-mortem benefits). Jubilee awards are paid out to the employees after working for specified number of years. Retirement and disability severance pays are paid out as lump sum when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The Company is establishing provisions for future liabilities arising out of the foregoing virtues to assign the costs to the respective periods.
In its statement of financial position, the Company recognizes the foregoing benefits at the current value of the liability as at the date ending the reporting period.
The amount of long-term benefits during the employment period and post-employment benefits is calculated by an independent actuarial firm using the projected individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. Current employment cost reflects the increase in the defined benefit obligation resulting from employee service in the current period and is recognized in profit and loss as employee benefits, except when it is recognized as the cost of manufacturing an asset. The costs of past employment are recognized directly in financial result. Net interest cost is calculated by applying a discount rate to the net value of the defined benefit obligation and presented in financial expenses. Actuarial earnings and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

	Valuation as at [%]	
	31 /12/2022	31 /12/2021
Discount rate	6.8	3.5
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards		
2023	13.9	2.5
2024	4.1	2.5
2025	3.4	2.5
from 2026	2.5	2.5
Assumed growth of the price of transportation benefits	3.5	2.5
Assumed average annual growth of the base for calculation of provisions on account of charge for the Company Social Benefits Fund	5.2	4.0
Weighted average employee mobility ratio	up to 2.9	up to 2.5

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

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

5.11 Provisions for employee benefits (cont.)

Sensitivity analysis of provisions for employee benefits

	31/12/2022	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	214.8	(2.7)	2.8	2.9	(2.9)	(2.2)	2.2
Retirement and disability severance pays	189.8	(2.2)	2.3	2.4	(2.4)	(1.4)	1.4
Post-mortem benefits	5.2	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	84.1	(2.6)	2.7	2.5	(2.4)	(0.2)	0.3
Transportation benefits	19.1	(0.6)	0.6	0.6	(0.5)	(0.1)	0.1
Total	**513.0**	**(8.2)**	**8.5**	**8.5**	**(8.3)**	**(4.0)**	**4.1**

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

Movement in provisions for employee benefits

	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2022	**178.3**	**115.2**	**22.2**	**4.9**	**219.3**	**19.9**	**559.8**
Current service cost	5.4	1.4	0.3	0.2	8.8	-	**16.1**
Interest expenses	7.8	4.9	0.9	0.2	10.3	-	**24.1**
Actuarial (profits)/ losses recognized in other comprehensive income	18.6	(32.2)	(3.5)	0.6	-	-	**(16.5)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	24.5	-	**24.5**
Recognition of provisions	-	-	-	-	-	12.3	**12.3**
Benefits paid out	(20.3)	(5.2)	(0.8)	(0.7)	(48.1)	-	**(75.1)**
31/12/2022	**189.8**	**84.1**	**19.1**	**5.2**	**214.8**	**32.2**	**545.2**
Long-term provisions	146.7	78.8	18.0	4.2	172.0	-	**419.7**
Short-term provisions	43.1	5.3	1.1	1.0	42.8	32.2	**125.5**
Total	**189.8**	**84.1**	**19.1**	**5.2**	**214.8**	**32.2**	**545.2**

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

5.11 Provisions for employee benefits (cont.)

	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2021	**208.4**	**165.2**	**37.3**	**5.5**	**267.3**	**16.1**	**699.8**
Current service cost	7.2	3.1	0.7	0.3	12.0	-	**23.3**
Interest expenses	2.6	2.3	0.5	0.1	3.6	-	**9.1**
Actuarial (profits)/ losses recognized in other comprehensive income	(20.4)	(50.4)	(15.5)	-	-	-	**(86.3)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	(20.9)	-	**(20.9)**
Recognition of provisions	-	-	-	-	-	3.8	**3.8**
Benefits paid out	(19.5)	(5.0)	(0.8)	(1.0)	(42.7)	-	**(69.0)**
31/12/2021	**178.3**	**115.2**	**22.2**	**4.9**	**219.3**	**19.9**	**559.8**
Long-term provisions	146.2	109.8	21.3	4.1	178.5	-	**459.9**
Short-term provisions	32.1	5.4	0.9	0.8	40.8	19.9	**99.9**
Total	**178.3**	**115.2**	**22.2**	**4.9**	**219.3**	**19.9**	**559.8**

Items recognized in the result in reference to employee benefits programs

	31/12/2022	31/12/2021
Employee benefits	(52.9)	(6.2)
Financial expenses	(24.1)	(9.1)
Total recognized in the result before tax	**(77.0)**	**(15.3)**

Actuarial (profits) / losses

2022	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses / (profits) – post-employment benefits				
Retirement and disability severance pays	(2.4)	(9.1)	30.1	**18.6**
Company Social Benefits Fund	(3.4)	(23.8)	(5.0)	**(32.2)**
Transportation benefits	(0.6)	(4.8)	1.9	**(3.5)**
Post-mortem benefits	0.2	(0.2)	0.6	**0.6**
Actuarial losses / (profits) – other long-term benefits				
Jubilee awards	(3.3)	(10.2)	38.0	**24.5**
Total	**(9.5)**	**(48.1)**	**65.6**	**8.0**

2021	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses / (profits) – post-employment benefits				
Retirement and disability severance pays	(2.2)	(26.2)	8.0	**(20.4)**
Company Social Benefits Fund	(14.5)	(39.9)	4.0	**(50.4)**
Transportation benefits	(2.5)	(7.6)	(5.4)	**(15.5)**
Post-mortem benefits	0.4	(0.9)	0.5	-
Actuarial losses / (profits) – other long-term benefits				
Jubilee awards	(2.5)	(32.4)	14.0	**(20.9)**
Total	**(21.3)**	**(107.0)**	**21.1**	**(107.2)**

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

5.11 Provisions for employee benefits (cont.)

Analysis of maturities of paid out employee benefits

31/12/2022	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	43.1	5.3	1.1	1.0	42.8	32.2	**125.5**
1 to 5 years	86.0	19.8	4.4	2.4	103.2	-	**215.8**
over 5 years	60.7	59.0	13.6	1.8	68.8	-	**203.9**
Total	**189.8**	**84.1**	**19.1**	**5.2**	**214.8**	**32.2**	**545.2**

31/12/2021	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	32.1	5.4	0.9	0.8	40.8	19.9	**99.9**
1 to 5 years	72.9	21.6	3.9	2.1	94.3	-	**194.8**
over 5 years	73.3	88.2	17.4	2.0	84.2	-	**265.1**
Total	**178.3**	**115.2**	**22.2**	**4.9**	**219.3**	**19.9**	**559.8**

5.12 Other provisions

Accounting policy applied

Provisions are established when the Company has an existing obligation, either legal or constructive, as a result of past events and when it is probable that an outflow of cash will be required to fulfill the obligation and a reliable estimate can be made of the amount of the obligation. The recognized provision amount reflects the best estimate of the amount required to settle the present liability at the balance sheet date, taking into account the risks and uncertainties associated with the obligation. If a provision is measured using the method of estimated cash flows required to settle the present liability then its carrying amount corresponds to the present value of those cash flows (if the time value of money effect is material). If some or all of the economic benefits required to settle a provision is likely to be recovered from a third party, this amount receivable is recognized as an asset if the probability of recovery is sufficiently high and the amount can be measured reliably.

Where the determination of whether a present obligation exists is unclear, for example in the case of a lawsuit, the Company recognizes provisions for such events if it concludes that, taking into account all available evidence, the existence of the obligation at the balance sheet date is more likely than not. If a present obligation is more likely not to exist at the balance sheet date then the Company discloses information about a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Structure of other provisions

2022	Other provisions	Total
1/01/2022	**18.4**	**18.4**
Recognition	1.5	1.5
Reversal	(11.8)	(11.8)
Utilization	(0.4)	(0.4)
31/12/2022	**7.7**	**7.7**
Long-term provisions	0.5	0.5
Short-term provisions	7.2	7.2
Total	**7.7**	**7.7**

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

5.12 Other provisions (cont.)

2021	Other provisions	Total
1/01/2021	**13.0**	**13.0**
Recognition	13.1	**13.1**
Reversal	(1.0)	**(1.0)**
Utilization	(6.7)	**(6.7)**
31/12/2021	**18.4**	**18.4**
Long-term provisions	0.7	**0.7**
Short-term provisions	17.7	**17.7**
Total	**18.4**	**18.4**

Other provisions

This line item mostly includes the provisions established for disputed claims, litigation and contractual penalties, which are more likely than not to result in an outflow of cash in order to satisfy the claim.

The decrease in provisions in 2022 was mainly due to the release of provisions for penalties arising from commercial contracts signed, following a change in the assessment of the risk of these penalties materializing.

According to the Company's Management Board, the amount of other provisions as at 31 December 2022, and as at 31 December 2021, represents the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation.

5.13 Other financial liabilities

Accounting policy applied

The accounting policy pertaining to financial instruments is described in **Note 6** to these Standalone Financial Statements.

Structure of other financial liabilities

	31/12/2022	31/12/2021
Cash pool	92.6	42.6
Total	**92.6**	**42.6**
Short-term liabilities	92.6	42.6
Total	**92.6**	**42.6**

5.14 Other liabilities

Accounting policy applied

Liabilities are the Company's present obligation resulting from future events, whose fulfillment will, according to expectations, cause the outflow from the entity of the means entailing economic benefits.
Other liabilities include predominantly public law settlements and payroll liabilities which are carried at the amount due.

Structure of other liabilities

	31/12/2022	31/12/2021
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	23.8	17.9
Liabilities on the purchase of shares [1)]	18.0	-
Public law liabilities	87.0	83.1
Settlements with employees	74.1	68.7
Other settlements	2.2	4.2
VAT settlements	10.9	-
Total	**216.0**	**173.9**
Short-term liabilities	216.0	173.9
Total	**216.0**	**173.9**

[1)] This item represents a liability related to the subscription to new shares in connection with the increase of the share capital of PKP CARGO TERMINALE Sp. z o.o., as described in **Note 5.4** of these Standalone Financial Statements. The liability on this account was settled in January 2023.

6. Financial instruments and principles of financial risk management

Accounting policy applied

The Company recognizes a financial asset or a financial liability in its statement of financial position when the Company becomes bound by the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. After initial recognition, financial assets of a debt nature are classified as measured:
a) at amortized cost,
b) at fair value through other comprehensive income,
c) at fair value through profit or loss.

Such classification is based on:
a) the entity's business model for managing financial assets,
b) the contractual cash flow characteristics of the financial asset, i.e. whether the contractual cash flows are 'solely payments of principal and interest' ("SPPI"). The nature and the purpose of financial assets are determined at the moment of initial recognition.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met:
a) the financial asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows;
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In this category, the Company classifies mainly:
a) trade receivables,
b) bank deposits over 3 months,
c) cash and cash equivalents.

As at 31 December 2022 and 31 December 2021, the Company did not have any financial assets of a debt nature measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Investments in equity instruments

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

Financial liabilities

The Company classifies all financial liabilities as subsequently measured at amortized cost, except for:
a) financial liabilities at fair value through profit or loss;
b) liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies,
c) financial guarantee contracts,
d) commitments to provide a loan at a below-market interest rate;
e) contingent consideration recognized by the acquiring company in a business combination to which IFRS 3 applies.

All financial liabilities held by the Company were classified as measured at amortized cost. Additionally, for other financial assets and financial liabilities, the Company presents FX forward derivatives. These instruments are used to hedge future cash flows. Upon provision of the hedge, the Company defines the hedging relationship. The effective portion of profits or losses related to a hedging instrument is recognized in other comprehensive income.
The non-effective portion of profits or losses related to the hedging instrument is recognized in the period's profit or loss unless its value is immaterial. Profits/losses related to the measurement of hedging instruments and recognized in other comprehensive income are recognized in profit or loss at the moment the hedged item affects the financial result.
The Company derecognizes a financial asset when, and only when, the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and all related risks and rewards of ownership of the financial asset to another entity.

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

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	31/12/2022	31/12/2021
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.8*	4.9	4.9
Financial assets measured at amortized cost			
Trade receivables	*Note 5.6*	532.7	380.5
Cash and cash equivalents	*Note 4.3*	55.2	141.0
Receivables from transfer of receivables	*Note 5.9*	4.1	5.3
Financial assets excluded from the scope of IFRS 9	*Note 5.7*	23.6	24.9
Total		**620.5**	**556.5**

Financial liabilities by categories and classes	Note	31/12/2022	31/12/2021
Hedging financial instruments			
Bank loans and borrowings	*Note 4.1*	609.2	693.8
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	847.4	891.8
Trade liabilities		598.6	446.1
Investment liabilities	*Note 5.10*	244.0	407.8
Cash pool	*Note 5.13*	92.6	42.6
Liabilities on the purchase of shares	*Note 5.14*	18.0	-
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	661.9	680.5
Total		**3,071.7**	**3,162.6**

Impairment losses for trade receivables are presented in **Note 5.6** to these Standalone Financial Statements.

Hedge accounting

In the period from 1 January 2022 to 31 December 2022, the Company applied hedge accounting to its cash flows. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly likely cash flow denominated in EUR.

As at 31 December 2022, the following hedging instruments were established:

- investment loans denominated in EUR. The hedged cash flows will be realized until January 2035. As at 31 December 2022, the nominal amount of the hedging instrument was EUR 129.9 million, which is an equivalent of PLN 609.2 million.

Fair value hierarchy

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

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

Measurement methods for financial instruments measured at fair value

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

b) Other financial instruments
For the category of financial instruments that are not carried at fair value as at the balance sheet date, the Company does not disclose fair value because as at 31 December 2022 and 31 December 2021 fair value was not materially different from the value presented in the statement of financial position.
In the financial year ended 31 December 2022 and 31 December 2021, there were no transfers between levels 2 and 3 of the fair value hierarchy.

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

6.1 Financial instruments (cont.)

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

2022	Hedging financial instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Total financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(7.0)	3.1	1.1	(100.2)	(30.4)	**(133.4)**
FX differences	-	1.9	-	(0.1)	(0.2)	**1.6**
Impairment losses / revaluation	-	(0.6)	-	-	-	**(0.6)**
Transaction costs related to loans	-	-	-	(1.5)	-	**(1.5)**
Effect of settlement of cash flow hedge accounting	(7.0)	-	-	-	-	**(7.0)**
Profit / (loss) before tax	**(14.0)**	**4.4**	**1.1**	**(101.8)**	**(30.6)**	**(140.9)**
Revaluation	(6.8)	-	-	-	-	**(6.8)**
Other comprehensive income	**(6.8)**	**-**	**-**	**-**	-	**(6.8)**

In the financial year ended 31 December 2022, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (7.0) million. The change in the measurement of hedging financial instruments includes a change in the measurement of bank loans in the amount of PLN (6.8) million, recognized as part of the hedge accounting applied by the Company.

2021	Hedging financial instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Total financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(1.8)	1.2	1.1	(17.3)	(22.3)	**(39.1)**
FX differences	-	(0.9)	-	0.6	0.6	**0.3**
Impairment losses / revaluation	-	1.1	-	-	-	**1.1**
Transaction costs related to loans	-	-	-	(1.2)	-	**(1.2)**
Effect of settlement of cash flow hedge accounting	(6.0)	-	-	-	-	**(6.0)**
Profit / (loss) before tax	**(7.8)**	**1.4**	**1.1**	**(17.9)**	**(21.7)**	**(44.9)**
Revaluation	9.0	-	-	-	-	**9.0**
Other comprehensive income	**9.0**	**-**	**-**	**-**	-	**9.0**

In the financial year ended 31 December 2021, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (6.0) million. The change in the measurement of hedging financial instruments included a change in the measurement of derivatives in the amount of PLN 2.7 million and bank loans in the amount of PLN 6.3 million, recognized as part of the hedge accounting applied by the Company.

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

6.1 Financial instruments (cont.)

Offsetting financial assets

31/12/2022	Gross value of recognized financial assets	Gross value of recognized financial liabilities offset in the statement of financial position	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	532.7	-	532.7	(0.7)	532.0
Total	**532.7**	**-**	**532.7**	**(0.7)**	**532.0**

31/12/2021	Gross value of recognized financial assets	Gross value of recognized financial liabilities offset in the statement of financial position	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	380.5	-	380.5	(1.0)	379.5
Total	**380.5**	**-**	**380.5**	**(1.0)**	**379.5**

Offsetting financial liabilities

31/12/2022	Gross value of recognized financial liabilities	Gross value of recognized assets offset in the statement of financial position	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	598.6	-	598.6	-	598.6
Cash pool	104.5	(11.9)	92.6	-	92.6
Total	**703.1**	**(11.9)**	**691.2**	**-**	**691.2**

31/12/2021	Gross value of recognized financial liabilities	Gross value of recognized assets offset in the statement of financial position	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	446.1	-	446.1	-	446.1
Cash pool	61.3	(18.7)	42.6	-	42.6
Total	**507.4**	**(18.7)**	**488.7**	**-**	**488.7**

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

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

6.2 Objectives and principles of financial risk management

Objectives and principles of financial risk management

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

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

Market risk

The Company is exposed to market risks associated with changes of the exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short and medium term. The Company manages market risks following from the aforementioned factors on the basis of internal procedures which define the rules of measurement of individual exposures, parameters and time horizon.
The principles of market risk management are implemented through assigned organizational units under the supervision of the Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments.

According to the Financial Risk Management Policy prevailing in the Company, in 2022, the Company used FX risk management transactions for the EUR/PLN currency pair.

Foreign exchange risk management

As at 31 December 2022, the Company was exposed to foreign exchange risk concerning for the most part trade receivables and debt liabilities denominated in EUR.

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

In a long-term perspective, the valuation risk matches the risk of change of cash flows, therefore the Company's cash flows are subject to hedging operations.
For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds from contracts with customers in EUR are partly hedged by expenditures in the same currency. The FX risk management transactions used by the Company are aimed at hedging the net free position exposed to change of the value in PLN. In 2022, the Company did not enter into any new forward foreign exchange transactions.

Items in foreign currencies

31/12/2022	Total value of items in PLN	EUR/PLN	
		in a foreign currency	in PLN
ASSETS			
Current assets			
Trade receivables	63.3	13.5	63.3
Cash and cash equivalents	15.3	3.3	15.3
Total	**78.6**	**16.8**	**78.6**
EQUITY AND LIABILITIES			
Long-term liabilities			
Debt liabilities	528.2	112.6	528.2
Short-term liabilities			
Debt liabilities	112.3	24.0	112.3
Trade liabilities	12.6	2.7	12.6
Total	**653.1**	**139.3**	**653.1**
Net currency item	**(574.5)**	**(122.5)**	**(574.5)**

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

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

31/12/2021	Total value of items in PLN	EUR/PLN	
		in a foreign currency	in PLN
ASSETS			
Current assets			
Trade receivables	47.6	10.3	47.6
Other assets	5.4	1.2	5.4
Cash and cash equivalents	14.9	3.2	14.9
Total	**67.9**	**14.7**	**67.9**
EQUITY AND LIABILITIES			
Long-term liabilities			
Debt liabilities	608.7	132.3	608.7
Short-term liabilities			
Debt liabilities	114.1	24.8	114.1
Trade liabilities	27.5	5.9	27.5
Investment liabilities	5.6	1.2	5.6
Other financial liabilities – FX forward contracts [1]	-	0.2	-
Other liabilities	3.1	0.7	3.1
Total	**759.0**	**165.1**	**759.0**
Net currency item	**(691.1)**	**(150.4)**	**(691.1)**

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

Sensitivity to FX risk

The Company is exposed to the foreign exchange risk regarding the currency pair EUR/PLN in connection with its operating and financing activities. Deviations in exchange rates were calculated based on the average daily volatility of exchange rates in the period under analysis. The sensitivity of financial instruments to foreign exchange risk has been calculated as the difference between the original carrying amount of the financial instruments and their potential value while assuming changes in foreign exchange rates. The tables below present the Company's exposure to the foreign exchange risk in 2022 and 2021.

31/12/2022	Value of the item in PLN	EUR/PLN					
		impact on the profit or loss		impact on other comprehensive income		impact on equity	
		+2%	-2%	+2%	-2%	+2%	-2%
ASSETS							
Current assets							
Trade receivables	63.3	1.3	(1.3)	-	-	1.3	(1.3)
Cash and cash equivalents	15.3	0.3	(0.3)	-	-	0.3	(0.3)
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	528.2	(0.3)	0.3	(10.3)	10.3	(10.6)	10.6
Short-term liabilities							
Debt liabilities	112.3	(0.2)	0.2	(2.0)	2.0	(2.2)	2.2
Trade liabilities	12.6	(0.3)	0.3	-	-	(0.3)	0.3
Total gross effect		**0.8**	**(0.8)**	**(12.3)**	**12.3**	**(11.5)**	**11.5**

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

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

31/12/2021	Value of the item in PLN	EUR/PLN					
		impact on the profit or loss		impact on other comprehensive income		impact on equity	
		+2%	-2%	+2%	-2%	+2%	-2%
ASSETS							
Current assets							
Trade receivables	47.6	1.0	(1.0)	-	-	1.0	(1.0)
Other assets	5.4	0.1	(0.1)	-	-	0.1	(0.1)
Cash and cash equivalents	14.9	0.3	(0.3)	-	-	0.3	(0.3)
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	608.7	(0.2)	0.2	(11.9)	11.9	(12.1)	12.1
Short-term liabilities							
Debt liabilities	114.1	(0.4)	0.4	(1.9)	1.9	(2.3)	2.3
Trade liabilities	27.5	(0.6)	0.6	-	-	(0.6)	0.6
Investment liabilities	5.6	(0.1)	0.1	-	-	(0.1)	0.1
Other liabilities	3.1	(0.1)	0.1	-	-	(0.1)	0.1
Total gross effect		**-**	**-**	**(13.8)**	**13.8**	**(13.8)**	**13.8**

Interest rate risk management

As at 31 December 2022, the Company was exposed to the risk of volatility of cash flows due to interest rate (floating rate) under bank loan agreements and lease agreements. Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. In 2022, the reference rate for lease contracts denominated in PLN was WIBOR 1M.

Interest on investment loan agreements accrued at the WIBOR 1M and 3M as well as EURIBOR 3M reference rates plus the banks' margins.

Interest rate risk in investment loan and leasing agreements is executed through revaluation of installments in monthly and quarterly periods, depending on the agreement.

As at 31 December 2022, the Company had no bank deposits. In future periods, if bank deposits are concluded, the cash position may be exposed to interest rate risk as a result of changes in interest rates on deposits.

In 2022, the Company did not use derivative instruments to hedge the interest rate risk.

Financial instruments by interest rate type

As at 31 December 2022 and 31 December 2021, financial assets were interest-bearing at a fixed interest rate.

	31/12/2022	31/12/2021
Lease receivables	23.6	24.9
Receivables on account of transfer of receivables	4.1	5.3
Cash and cash equivalents	55.2	141.0
Total	**82.9**	**171.2**

Financial liabilities	31/12/2022			31/12/2021		
	Interest rate		Total	Interest rate		Total
	fixed interest rate	variable interest rate		fixed interest rate	variable interest rate	
Debt liabilities	599.3	1,519.1	**2,118.4**	625.5	1,640.6	**2,266.1**
Investment liabilities	121.0	-	**121.0**	178.7	-	**178.7**
Cash pool	92.6	-	**92.6**	42.6	-	**42.6**
Total	**812.9**	**1,519.1**	**2,332.0**	**846.8**	**1,640.6**	**2,487.4**

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

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

Interest rate fluctuation sensitivity

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

31/12/2022	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the profit or loss and equity		impact on the profit or loss and equity	
		+ 450 bps	- 450 bps	+ 250 bps	- 250 bps
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,007.4	(31.2)	31.2	(12.8)	12.8
Short-term liabilities					
Debt liabilities	495.3	(19.9)	19.9	(2.5)	2.5
Total gross effect		**(51.1)**	**51.1**	**(15.3)**	**15.3**

31/12/2021	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the profit or loss and equity		impact on the profit or loss and equity	
		+ 150 bps	- 150 bps	+ 25 bps	- 25 bps
EQUITY AND LIABILITIES					
Non-current liabilities					
Debt liabilities	1,336.6	(12.4)	12.4	(1.3)	1.3
Short-term liabilities					
Debt liabilities	302.8	(3.4)	3.4	(0.2)	0.2
Total gross effect		**(15.8)**	**15.8**	**(1.5)**	**1.5**

Credit risk management

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

	31/12/2022	31/12/2021
Trade receivables	532.7	380.5
Lease receivables	23.6	24.9
Cash and cash equivalents	55.2	141.0
Receivables on account of transfer of receivables	4.1	5.3
Total	**615.6**	**551.7**

Conducting its commercial activity, the Company sells services to business entities with a deferred payment date, which may lead to the risk that receivables from counterparties for services provided may not be received. To minimize the credit risk, the Company manages the risk through a prevailing client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. 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 millions of PLN) (translation of a document originally issued in Polish)

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

Structure of trade receivables in terms of entity types

	31/12/2022	31/12/2021
Group of entities related to the biggest external counterparty	4.7%	14.8%
PKP Group related parties	12.4%	13.0%
State Treasury related parties	42.4%	29.0%
Other entities	40.5%	43.2%
Total	**100.0%**	**100.0%**

In order to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from their customers in the form of, among others: bank/insurance guarantees, assignment of contracts and promissory notes. As at 31 December 2022, 6.0% of trade receivables were secured.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Company invests free cash operate in the financial sector. These include domestic banks, foreign banks and branches of foreign banks with a high creditworthiness.

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

Bank	Credit rating agency	Rating	31/12/2022
Bank A	Fitch Ratings	A-	65.3%
Bank B	Moody's Investor Service Ltd	A2	30.5%
Bank C	Moody's Investor Service Ltd	A2	4.2%
Total			**100.0%**

7. Other notes

7.1 Related party transactions

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

In the financial years ended 31 December 2022 and 31 December 2021, the State Treasury was the Company's upper level parent entity. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Company's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Standalone Financial Statements, the Management Board has disclosed transactions with material related parties identified as such according to the best knowledge of the Management Board.

In the financial year ended 31 December 2022 and 31 December 2021, no individual transactions were identified between the Company and other parties related to the State Treasury which would be material due to a non-standard scope or amount. In the periods covered by these Standalone Financial Statements, the Company's most important clients among other parties related to the State Treasury were members of the following groups: PGE, JSW, ENEA and PKN Orlen. The Company's most important suppliers related to the State Treasury were PKN Orlen Group entities.

Transactions with PKP Group related parties

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

	2022		31/12/2022	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	64.4	0.9	473.6
Subsidiaries / co-subsidiaries	416.3	594.4	77.4	154.2
Associates	0.3	-	0.4	-
Other PKP Group related parties	24.4	537.6	9.8	200.8

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

7.1 Related party transactions (cont.)

	2021		31/12/2021	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.3	58.0	0.9	473.6
Subsidiaries / co-subsidiaries	326.8	484.9	70.5	145.6
Other PKP Group related parties	15.9	511.5	1.6	166.4

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

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

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

In addition to commercial transactions, the Company had cash pooling settlements presented in **Note 5.13** and share purchase liabilities presented in **Note 5.14**.

Loans granted to / received from related parties

In the financial year ended 31 December 2022 and 31 December 2021, the Company did not grant or take any loans from its related parties.

Remunerations of key management personnel

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

Remunerations of Management Board members	2022	2021
Short-term benefits	2.3	3.4
Post-employment benefits	0.7	0.4
Termination benefits	-	0.5
Total	**3.0**	**4.3**

Remunerations of Supervisory Board Members	2022	2021
Short-term benefits	1.3	1.2
Total	**1.3**	**1.2**

Remunerations of other members of key management personnel	2022	2021
Short-term benefits	6.4	6.4
Post-employment benefits	0.3	-
Termination benefits	0.1	-
Total	**6.8**	**6.4**

In the financial year ended 31 December 2022 and 31 December 2021, the members of the key management personnel did not enter into any loan and guarantee transactions with the Company.

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

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

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

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

	31/12/2022	31/12/2021
Contractual liabilities relating to the purchase of non-financial non-current assets	595.9	756.1
Total	**595.9**	**756.1**

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

7.3 Contingent liabilities

Accounting policy applied

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

Structure of contingent liabilities

	31/12/2022	31/12/2021
Sureties for subsidiaries	-	1.5
Guarantees issued at PKP CARGO S.A.'s request	54.9	50.6
Other contingent liabilities	144.3	120.8
Total	**199.2**	**172.9**

Sureties granted for subsidiaries

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

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

As at 31 December 2022 there were outstanding guarantees issued by banks on the Company's order for commercial business partners. The guarantees comprised mainly performance bonds (worth PLN 36.3 million), payment guarantees (worth PLN 12.3 million) and tender bonds (worth PLN 5.2 million).

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

Other contingent liabilities

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

7.4 Disclosures following from Article 36g Section 1 of the Rail Transport Act

In accordance with Article 36g Section 1 of the Rail Transport Act, PKP CARGO S.A., being at the same time a rail carrier and service infrastructure operator, is obligated to prepare regulatory financial information through disclosure in the notes to these Standalone Financial Statements appropriate balance sheet (statement of financial position) and statement of profit or loss (statement of profit or loss and other comprehensive income) items separately for the business involving management of service infrastructure facilities. As part of this note the Company presents the statements mentioned above with a breakdown into different types of activity.

Rules governing the allocation of items of the statement of profit or loss and other comprehensive income

The Company allocates the items of the statement of comprehensive income to respective activities on the basis of accounting records. The Company keeps a record of expenses by nature using the Cost Centers and controlling orders. The analytical records of controlling objects makes it possible to single out and properly allocate the sales revenue items and direct and indirect operating expenses to its respective activities. Administrative expenses are allocated to respective activities using an allocation key based on the structure of the technical cost of services.
The items of other operating revenues and operating expenses are subject to detailed identification on the basis of accounting records. Since the Company has not identified any material items related to service infrastructure activities, these items were allocated fully to the Company's other activities.
Financial revenue and expense items are excluded from the division, except for the costs of settlement of the discount on account of the provision for employee benefits and interest expense on leases, which are allocated to individual activities using an allocation key and interest related to lease liabilities, which are subject to a detailed identification. Items excluded from such allocation include income tax and other comprehensive income items, since they are related to the activity of the whole Company.

Detailed information about the rules of allocation of the items of the statement of comprehensive income is presented below:

Item designation	Allocation key
Revenues from contracts with customers	detailed identification method
Operating expenses	detailed identification method / proportional method
Other operating revenue and (expenses)	detailed identification method / proportional method
Costs of settlement of discount on provisions for employee benefits	detailed identification method / proportional method
Interest expenses related to lease liabilities	proportional method
Financial revenue and (expenses)	excluded from the allocation
Income tax recognized in profit or loss	excluded from the allocation
Other comprehensive income	excluded from the allocation

Items of revenue from contracts with customers presented in the service infrastructure activities include revenues earned from external entities. On the other hand, cost items presented in service infrastructure activities include all costs generated by the Company in this activity, regardless of whether they were generated for the purposes of services provided to external entities or for the Company's own needs.

Rules governing the allocation of items of the statement of financial position

The Company allocates items of the statement of financial position to specific types of activity based on:

a) detailed identification of individual items of the statement of financial position

Detailed identification applies primarily to the items of property, plant and equipment (rolling stock and other), rights-of-use asset, intangible assets, inventories, other non-financial assets, trade receivables and liabilities, the purchase and sale of non-financial non-current assets, settlements with employees, other provisions and partially provisions for employee benefits.

In the case of the property, plant and equipment items and rights-of-use assets the Company performed a detailed identification of individual components used in the service infrastructure activities. As at 31 December 2022, assets identified as used in several separate types of activity were allocated to the type of activity which they are involved in for the most part.

In the case of inventory items the Company performed a detailed identification of individual components which may be used in the service infrastructure activities. The identified components were fully allocated to service infrastructure activities. Due to the general use of individual components it is not out of the question that in the future some of them may be used in other activities of the Company.

Provisions for employee benefits concerning retirement and disability severance pays, post-mortem benefits, jubilee awards and provisions for the Company Social Benefits Fund and transportation benefits for the current employees are calculated by an independent actuarial company.

7.4 Disclosures following from Article 36g Section 1 of the Rail Transport Act (cont.)

In the case of trade receivables and liabilities and settlements with the employees, the Company allocated them to individual items on the basis of accounting records. In the case of the remaining items listed above, the Company has not identified material items associated with the service infrastructure activities, so all of these items were allocated to the Company's other activities.

b) an allocation key
Provisions for the Company Social Benefits Fund and transportation benefits for the current retirees and disability recipients are allocated on the basis of an allocation key based on the number of employees assigned to the service infrastructure activity and other activities. On the other hand, lease liabilities are allocated using the allocation key based on the structure of rights-of-use assets used in the service infrastructure activity as compared to the overall value of the rights-of-use assets.

c) exclusion of certain items from allocation.
Some items of the statement of financial position are not allocated to specific types of activity and are excluded from the allocation because they pertain to the activities of the whole Company. The items excluded from the allocation include mainly financial items such as: shares, cash and cash equivalents, other financial assets, liabilities on account of loans and borrowings and other financial liabilities. Other excluded items are: equity, deferred tax assets and liabilities and income tax and VAT settlements.

Detailed information about the rules of allocation of the items of the statement of financial position is presented below:

Item designation	Allocation key
ASSETS	
Rolling stock	detailed identification method
Other property, plant and equipment	detailed identification method
Rights-of-use assets	detailed identification method
Investments in related parties	excluded from the allocation
Trade receivables	detailed identification method
Financial assets	excluded from the allocation
Non-financial assets	detailed identification method
Receivables from sale of non-financial non-current assets	detailed identification method
Public law receivables	excluded from the allocation
Other receivables	excluded from the allocation
Intangible assets	detailed identification method
Inventories	detailed identification method
Cash and cash equivalents	excluded from the allocation
Deferred tax assets	excluded from the allocation
EQUITY AND LIABILITIES	
Equity	excluded from the allocation
Bank loans and borrowings	excluded from the allocation
Lease liabilities	detailed identification method / proportional method
Trade liabilities	detailed identification method
Investment liabilities	detailed identification method
VAT liabilities	excluded from the allocation
Current tax liabilities	excluded from the allocation
Employee compensation, personal income tax's liability and social security liabilities	detailed identification method
Other liabilities	excluded from the allocation
Provisions for employee benefits	detailed identification method / proportional method
Other provisions	detailed identification method
Deferred tax liability	excluded from the allocation

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

7.4 Disclosures following from Article 36g Section 1 of the Rail Transport Act (cont.)

Breakdown of the statement of profit or loss and other comprehensive income and the statement of financial position for 2021-2022 by type of activity:

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Service infrastructure activities	Elimination of capitalized expenses	Other activity	Excluded items	2022
Revenues from contracts with customers	8.6	-	3,995.0	-	**4,003.6**
Consumption of traction electricity and traction fuel	-	-	(686.5)	-	**(686.5)**
Services of access to infrastructure	-	-	(550.6)	-	**(550.6)**
Other services	(31.4)	9.7	(386.4)	-	**(408.1)**
Employee benefits	(194.8)	29.6	(1,121.1)	-	**(1,286.3)**
Other expenses	(113.4)	30.2	(131.7)	-	**(214.9)**
Other operating revenue and (expenses)	(2.0)	-	(4.7)	-	**(6.7)**
Operating profit / (loss) without depreciation (EBITDA)	**(333.0)**	**69.5**	**1,114.0**	**-**	**850.5**
Depreciation, amortization and impairment losses	(22.3)	-	(586.0)	-	**(608.3)**
Profit / (loss) on operating activities (EBIT)	**(355.3)**	**69.5**	**528.0**	**-**	**242.2**
Financial revenue and (expenses)	(8.7)	-	(20.9)	(85.7)	**(115.3)**
Profit / (loss) before tax	**(364.0)**	**69.5**	**507.1**	**(85.7)**	**126.9**
Income tax	-	-	(24.2)	-	**(24.2)**
NET PROFIT / (LOSS)	**(364.0)**	**69.5**	**482.9**	**(85.7)**	**102.7**

	Service infrastructure activities	Elimination of capitalized expenses	Other activity	Excluded items	2021
Revenues from contracts with customers	7.2	-	3,078.1	-	**3,085.3**
Consumption of traction electricity and traction fuel	-	-	(500.1)	-	**(500.1)**
Services of access to infrastructure	-	-	(521.0)	-	**(521.0)**
Other services	(35.2)	11.1	(333.8)	-	**(357.9)**
Employee benefits	(176.0)	27.3	(1,060.9)	-	**(1,209.6)**
Other expenses	(94.5)	29.9	(106.7)	-	**(171.3)**
Other operating revenue and (expenses)	(0.2)	-	19.9	-	**19.7**
Operating profit / (loss) without depreciation (EBITDA)	**(298.7)**	**68.3**	**575.5**	**-**	**345.1**
Depreciation, amortization and impairment losses	(19.6)	-	(561.2)	-	**(580.8)**
Profit / (loss) on operating activities (EBIT)	**(318.3)**	**68.3**	**14.3**	**-**	**(235.7)**
Financial revenue and (expenses)	(5.9)	-	(7.9)	(18.9)	**(32.7)**
Profit / (loss) before tax	**(324.2)**	**68.3**	**6.4**	**(18.9)**	**(268.4)**
Income tax	-	-	45.1	-	**45.1**
NET PROFIT / (LOSS)	**(324.2)**	**68.3**	**51.5**	**(18.9)**	**(223.3)**

As part of the service infrastructure activities, costs were incurred in connection with the services performed for the needs of the Company's core business in the amount of approx. PLN 360.2 million in 2022 and approx. PLN 322.6 million in 2021.

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

7.4 Disclosures following from Article 36g Section 1 of the Rail Transport Act (cont.)

STATEMENT OF FINANCIAL POSITION

	Service infrastructure activities	Other activity	Excluded items	31/12/2022
ASSETS				
Rolling stock	-	3,778.1	-	**3,778.1**
Other property, plant and equipment	129.1	330.4	-	**459.5**
Rights-of-use assets	118.5	534.6	-	**653.1**
Investments in related parties	-	-	858.0	**858.0**
Lease receivables	-	-	22.1	**22.1**
Financial assets	-	-	4.9	**4.9**
Other assets	-	36.6	-	**36.6**
Deferred tax assets	-	-	135.7	**135.7**
Total non-current assets	**247.6**	**4,679.7**	**1,020.7**	**5,948.0**
Inventories	53.4	44.3	-	**97.7**
Trade receivables	0.8	531.9	-	**532.7**
Lease receivables	-	-	1.5	**1.5**
Other assets	-	76.0	36.9	**112.9**
Cash and cash equivalents	-	-	55.2	**55.2**
Total current assets	**54.2**	**652.2**	**93.6**	**800.0**
Non-current assets classified as held for sale	-	0.1	-	**0.1**
TOTAL ASSETS	**301.8**	**5,332.0**	**1,114.3**	**6,748.1**
EQUITY AND LIABILITIES				
Share capital	-	-	2,239.3	**2,239.3**
Supplementary capital	-	-	635.7	**635.7**
Other items of equity	-	-	(54.4)	**(54.4)**
Retained earnings	-	-	102.7	**102.7**
Total equity	**-**	**-**	**2,923.3**	**2,923.3**
Debt liabilities	133.7	427.8	958.1	**1,519.6**
Investment liabilities	-	46.1	-	**46.1**
Provisions for employee benefits	59.2	360.5	-	**419.7**
Other provisions	-	0.5	-	**0.5**
Total long-term liabilities	**192.9**	**834.9**	**958.1**	**1,985.9**
Debt liabilities	19.5	80.9	498.4	**598.8**
Trade liabilities	15.5	583.1	-	**598.6**
Investment liabilities	-	197.9	-	**197.9**
Provisions for employee benefits	12.5	113.0	-	**125.5**
Other provisions	-	7.2	-	**7.2**
Current tax liabilities	-	-	2.3	**2.3**
Other financial liabilities	-	-	92.6	**92.6**
Other liabilities	18.3	55.8	141.9	**216.0**
Total short-term liabilities	**65.8**	**1,037.9**	**735.2**	**1,838.9**
Total liabilities	**258.7**	**1,872.8**	**1,693.3**	**3,824.8**
TOTAL EQUITY AND LIABILITIES	**258.7**	**1,872.8**	**4,616.6**	**6,748.1**

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

7.4 Disclosures following from Article 36g Section 1 of the Rail Transport Act (cont.)

STATEMENT OF FINANCIAL POSITION

	Service infrastructure activities	Other activity	Excluded items	31/12/2021
ASSETS				
Rolling stock	-	3,827.5	-	**3,827.5**
Other property, plant and equipment	120.5	361.2	-	**481.7**
Rights-of-use assets	98.1	568.8	-	**666.9**
Investments in related parties	-	-	840.0	**840.0**
Lease receivables	-	-	23.4	**23.4**
Financial assets	-	-	4.9	**4.9**
Other assets	-	28.1	-	**28.1**
Deferred tax assets	-	-	158.7	**158.7**
Total non-current assets	**218.6**	**4,785.6**	**1,027.0**	**6,031.2**
Inventories	49.3	38.0	-	**87.3**
Trade receivables	1.0	379.5	-	**380.5**
Lease receivables	-	-	1.5	**1.5**
Income tax receivables	-	-	1.7	**1.7**
Other assets	-	47.8	21.5	**69.3**
Cash and cash equivalents	-	-	141.0	**141.0**
Total current assets	**50.3**	**465.3**	**165.7**	**681.3**
Non-current assets classified as held for sale	-	14.9	-	**14.9**
TOTAL ASSETS	**268.9**	**5,265.8**	**1,192.7**	**6,727.4**
EQUITY AND LIABILITIES				
Share capital	-	-	2,239.3	**2,239.3**
Supplementary capital	-	-	744.7	**744.7**
Other items of equity	-	-	(62.3)	**(62.3)**
Retained earnings	-	-	(109.0)	**(109.0)**
Total equity	**-**	**-**	**2,812.7**	**2,812.7**
Debt liabilities	111.1	473.8	1,287.3	**1,872.2**
Investment liabilities	-	110.1	-	**110.1**
Provisions for employee benefits	63.1	396.8	-	**459.9**
Other provisions	-	0.7	-	**0.7**
Total non-current liabilities	**174.2**	**981.4**	**1,287.3**	**2,442.9**
Debt liabilities	13.3	82.3	298.3	**393.9**
Trade liabilities	14.0	432.1	-	**446.1**
Investment liabilities	-	297.7	-	**297.7**
Provisions for employee benefits	9.2	90.7	-	**99.9**
Other provisions	-	17.7	-	**17.7**
Other financial liabilities	-	-	42.6	**42.6**
Other liabilities	16.7	52.0	105.2	**173.9**
Total short-term liabilities	**53.2**	**972.5**	**446.1**	**1,471.8**
Total liabilities	**227.4**	**1,953.9**	**1,733.4**	**3,914.7**
TOTAL EQUITY AND LIABILITIES	**227.4**	**1,953.9**	**4,546.1**	**6,727.4**

7.5 Impact of the war in Ukraine on the activity of PKP CARGO S.A.

The main risk factor affecting the performance of PKP CARGO S.A. (as well as the Polish economy as a whole) this year, remains the issue of the war in Ukraine. Despite many forecasts and analyses, it is currently impossible to clearly predict the direction in which this conflict will develop and, consequently, what its economic consequences will be. The war may cause a further shift away from globalization, which could halt free economic exchange and the fragmentation of international trade. The aftermath of Russian aggression (in 2022) was strongly felt (by the transportation industry) through supply chain disruptions and the energy crisis in Europe, which also triggered higher-than-predicted inflation and caused a sharp slowdown in the global economy. There has been a very clear and very sharp decline in trade with Russia and Belarus (up to several tens of percent), partly as a result of sanctions, but also due to companies taking care of their reputation and consumer actions to put pressure on the aggressors. The European Union's sanctions packages included energy commodities as well as ores and metals, cement and timber, among others. Companies specializing in trade with eastern players had to urgently change their sourcing/export directions, which also affected the performance of rail freight to and from this direction. This significantly increased the role of ports as delivery points for goods that had previously arrived in Poland mainly by land (e.g. coal). Any change in logistics (e.g. due to limited accessibility of rail infrastructure) takes time and may result in the loss of some cargo for rail companies, including PKP CARGO S.A. The decrease in cargo on the “New Silk Road” (reaching up to 50%), directly resulted from the increase in insurance costs (or the inability to insure goods), as well as the risk of loss of goods transported through the territory of Russia and Belarus. Due to falling freight prices, a significant proportion of cargo from China was transported by sea. In the event of a prolonged war, alternative shipping routes could become a significant issue.

On the other hand, there was a sharp increase in the exchange of goods with Ukraine (which entered the top of the list of countries to which Polish goods are exported, mainly due to the wartime needs of our eastern partner). This situation was a consequence of Russia’s seizure of a large part of Ukrainian ports, the limited ability of Black Sea seaports to export agricultural products, as well as the inability to export other goods from its own ports. As a consequence of the agreements concluded, PKP CARGO S.A. carried out, among others, shipments of iron ore, grain and other goods. The existing and potential turmoil on the markets of energy resources (due to the war) is the cause of the current “energy crisis” in Europe, which affects the activities of PKP CARGO S.A. and most of its cooperating companies. The acceleration of growth in China and the further escalation of activity in Ukraine could effectively reinforce the rise in commodity prices, which could result in a very sharp slowdown in Europe.

In order to take proactive measures, the Company continuously analyzes all information on legal and factual developments related to the impact of the war on its operations. Some of the temporarily lost cargo has been redirected to alternative routes (such as import through domestic seaports), the importance of exchange with Ukraine has increased, and cooperation with Ukrainian railways is still ongoing, which may lead to further development of cooperation after the war.

Currently, the Company does not perceive any significant risks to its operations that are related to the war in Ukraine.

7.6 Impact of the macroeconomic environment on the Company’s activities

The macroeconomic environment of the Polish economy has had and will continue to have a significant impact on the Company’s financial performance and its development. GDP growth rates, inflation, raw material prices, etc. have a significant indirect impact on the Company’s revenues and profitability.

In 2022, consumer prices increased by +14.4% year-over-year. This is the highest average annual increase in prices since 1997. The main reasons for the rapid rise in inflation last year were the economic effects of the war in Ukraine (including high energy commodity prices and supply chain issues). High energy costs caused significant increases in the costs of traction energy and fuel in the Company. Inflationary pressures also led to an increase in the Company’s unit labor costs. Inflation also had the indirect effect of increasing the financial expenses on account of debt serviced by the Company. Energy prices have a decisive influence on the state of key sectors of the Polish economy, which also indirectly affects the Company’s business.

Starting in 2021, the cost of traction energy in Poland rose sharply, among others due to the increase in capacity fee rates, the dynamic increase in energy prices in futures contracts on POLPX observed in recent months (caused, among others, by rising prices of CO2 emission allowances and other energy sources, as well as the recovery of demand for electricity in Poland and the macroeconomic environment) and the need to contract energy volumes well in advance. In 2022, the Company’s costs for the consumption of traction electric energy amounted to PLN 525 million, +34% higher than in the previous year. The increase in the cost of traction electric energy consumption in 2022 is caused, among others, by increasing unit energy prices (by an average of approx. +77% y/y), the unit capacity fee rate (by an average of approx. +35% y/y) and a greater volume of transports performed (freight turnover up +6.6% y/y).

The increase in traction energy prices has caused higher rail freight prices for key commodities, including coal, fuels, construction aggregates and grain. This will create further inflationary pressures throughout the economy.

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

Despite the pressure of the aforementioned macroeconomic factors, the financial performance of the Company in 2022 improved over previous years. The Company's Management Board has taken a number of measures to offset the increase in the price of traction energy and traction fuel, among other things, which was also reflected in the Company's costs. This in particular increased the competitiveness of the Company's offering and the margin on new and existing commercial contracts.

In February 2023, there was an accumulation of increases in CPI inflation. In the months to follow, among others due to the effect of the high base in the previous year, price increases should slow down significantly, so that the year-end result will be in the single digits on a year-over-year basis. The decrease in inflation will, of course, make it easier to calculate costs and will contribute to an increase in the scale of scale production, which should become apparent already in the second half of 2023, among others in the form of a growing number of customer inquiries for transportation, which may lead to an increase in the number of concluded contracts and gradually increase the Company's revenues.

According to forecasts by market analysts, a decrease in inflation may lead to a decrease in interest rates in Poland as early as Q3 2023, which will reduce the Company's operating costs and should have a positive impact on the ability to generate growing revenues.

7.7 Impact of climate change on the Company's activities

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

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

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

The Company is exposed to the risk of climate change primarily due to the potential impact of climatic factors on the geographic and economic environment in which the Company operates. As at 31 December 2022, climate risk has not had a material direct impact on the various areas in which estimations are carried out, including the impairment testing of selected assets, or on the Company's going concern issues for the period of 12 months after the date of approval of these financial statements.

7.8 Subsequent events

On 2 January 2023, the Company signed an investment loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. in the amount of PLN 100 million. The subject matter of the loan agreement is financing and/or refinancing capital expenditures set forth in the investment plan for 2022-2023. The loan availability period ends on 29 December 2023 and the final repayment date is 29 December 2028.

On 18 January 2023, an agreement was signed between the Company and the Trade Unions providing for a salary increase to be granted to Company employees as of 1 January 2023. The estimated annual increase in payroll costs is approx. PLN 166 million. The raises agreed upon in the agreement satisfy the postulates of the social partners and the Parties considered the collective dispute initiated on 1 March 2022 to have ended.

On 17 March 2023, the Company signed an annex to the overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. of 19 December 2019 amending the contractual terms and extending the loan availability period until 19 March 2024.

On 30 March 2023, the Company signed a loan agreement for up to PLN 20 million with PKP CARGO TERMINALE Sp. z o.o. The agreement obliges the subsidiary to repay the loan principal and interest in equal monthly installments by 29 February 2028.

On 31 March 2023, a memorandum of agreement was signed between the Company, the Consortium of NEWAG S.A. and NEWAG LEASE Sp. z o.o. S.K.A. and PKO LEASING S.A. in the matter of financing the delivery of locomotives. On the same date, 8 lease agreements were signed for the above memorandum of agreement, for the total amount of PLN 135.2 million.

Other events occurring after the balance sheet date are described in **Note 5.4** to these Standalone Financial Statements.

7.9 Approval of the financial statements

These Standalone Financial Statements were approved for publication by the Company's Management Board on 4 April 2023.

Management Board

Dariusz Seliga
President of the Management Board

Marek Olkiewicz
Management Board Member

Maciej Jankiewicz
Management Board Member

Jacek Rutkowski
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 4 April 2023