Consolidated Financial Statements of PKP CARGO CAPITAL GROUP

for the financial year
ended 31 December 2021
prepared in accordance
with IFRS EU

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2021	2020	
Revenues from contracts with customers	4,266.5	4,075.6	*Note 2.1*
Consumption of traction electricity and traction fuel	(550.2)	(492.7)	*Note 2.2*
Services of access to infrastructure	(530.0)	(517.3)	
Transport services	(350.7)	(340.5)	
Other services	(413.9)	(365.8)	*Note 2.2*
Employee benefits	(1,622.0)	(1,638.1)	*Note 2.2*
Other expenses	(309.1)	(264.6)	*Note 2.2*
Other operating revenue and (expenses)	22.6	123.6	*Note 2.3*
Operating profit without depreciation (EBITDA)	**513.2**	**580.2**	
Depreciation, amortization and impairment losses	(722.0)	(766.6)	*Note 2.2*
Profit / (loss) on operating activities (EBIT)	**(208.8)**	**(186.4)**	
Financial revenue and (expenses)	(60.3)	(82.2)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	4.7	1.7	*Note 5.4*
Profit / (loss) before tax	**(264.4)**	**(266.9)**	
Income tax	39.1	42.6	*Note 3.1*
NET PROFIT / (LOSS)	**(225.3)**	**(224.3)**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	13.2	(50.8)	
Income tax	(2.5)	9.7	*Note 3.1*
FX differences resulting from translation of financial statements	37.7	27.3	
Total other comprehensive income subject to reclassification in the financial result	**48.4**	**(13.8)**	
Actuarial profits/ (losses) on post-employment benefits	91.0	(50.2)	*Note 5.9*
Income tax	(17.3)	9.5	*Note 3.1*
Measurement of equity instruments at fair value	-	(0.7)	*Note 6.1*
Total other comprehensive income not subject to reclassification in the financial result	**73.7**	**(41.4)**	
Total other comprehensive income	**122.1**	**(55.2)**	
TOTAL COMPREHENSIVE INCOME	**(103.2)**	**(279.5)**	
Net profit / (loss) attributable:			
Net profit/(loss) attributable to shareholders of the Parent Company	(225.3)	(224.3)	
Total other comprehensive income attributable:			
Total other comprehensive income attributable to shareholders of the Parent Company	(103.2)	(279.5)	
Earnings / (losses) per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings / (losses) per share	**(5.03)**	**(5.01)**	

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2021	31/12/2020	
ASSETS			
Rolling stock	4,241.6	4,245.0	Note 5.1
Other property, plant and equipment	893.4	875.6	Note 5.1
Rights-of-use assets	1,030.7	1,008.6	Note 5.2
Investments in entities accounted for under the equity method	36.7	42.0	Note 5.4
Trade receivables	4.2	3.0	Note 5.6
Lease receivables	8.5	10.3	
Other assets	40.5	35.1	Note 5.7
Deferred tax assets	203.1	177.8	Note 3.1
Total non-current assets	**6,458.7**	**6,397.4**	
Inventories	164.6	165.8	Note 5.5
Trade receivables	611.7	585.8	Note 5.6
Lease receivables	0.6	0.7	
Income tax receivables	4.5	2.9	
Other assets	103.1	88.1	Note 5.7
Cash and cash equivalents	254.5	306.0	Note 4.3
Total current assets	**1,139.0**	**1,149.3**	
Non-current assets classified as held for sale	15.7	12.7	Note 5.3
TOTAL ASSETS	**7,613.4**	**7,559.4**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	Note 4.2
Supplementary capital	771.7	782.4	
Other items of equity	(75.8)	(160.2)	
FX differences resulting from translation of financial statements	142.5	104.8	
Retained earnings / (Accumulated losses)	(37.1)	177.5	
Total equity	**3,040.6**	**3,143.8**	
Debt liabilities	2,090.3	2,101.8	Note 4.1
Trade liabilities	2.3	1.5	
Investment liabilities	111.8	145.5	Note 5.8
Provisions for employee benefits	529.1	684.3	Note 5.9
Other provisions	7.0	5.7	Note 5.10
Deferred tax liability	93.3	90.7	Note 3.1
Total long-term liabilities	**2,833.8**	**3,029.5**	
Debt liabilities	473.9	478.5	Note 4.1
Trade liabilities	639.0	347.5	
Investment liabilities	221.4	133.5	Note 5.8
Provisions for employee benefits	127.3	116.3	Note 5.9
Other provisions	23.3	24.1	Note 5.10
Other liabilities	254.1	286.2	Note 5.11
Total short-term liabilities	**1,739.0**	**1,386.1**	
Total liabilities	**4,572.8**	**4,415.6**	
TOTAL EQUITY AND LIABILITIES	**7,613.4**	**7,559.4**	

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity			FX differences resulting from translation of financial statements	Retained earnings / (Accumulated losses)	Total equity	
			Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits/ (losses) on post-employment benefits	Measurement of hedging instruments				
1/01/2021	**2,239.3**	**782.4**	**(12.9)**	**(115.7)**	**(31.6)**	**104.8**	**177.5**	**3,143.8**	
Net result for the financial year	-	-	-	-	-	-	(225.3)	**(225.3)**	
Other comprehensive income for the financial year (net)	-	-	-	73.7	10.7	37.7	-	**122.1**	
Total comprehensive income	-	-	-	73.7	10.7	37.7	(225.3)	**(103.2)**	
Other changes for the financial year	-	(10.7)	-	-	-	-	10.7	-	*Note 4.2*
31/12/2021	**2,239.3**	**771.7**	**(12.9)**	**(42.0)**	**(20.9)**	**142.5**	**(37.1)**	**3,040.6**	
1/01/2020	**2,239.3**	**781.4**	**(12.2)**	**(75.0)**	**9.5**	**77.5**	**402.8**	**3,423.3**	
Net result for the financial year	-	-	-	-	-	-	(224.3)	**(224.3)**	
Other comprehensive income for the financial year (net)	-	-	(0.7)	(40.7)	(41.1)	27.3	-	**(55.2)**	
Total comprehensive income	-	-	(0.7)	(40.7)	(41.1)	27.3	(224.3)	**(279.5)**	
Other changes for the financial year	-	1.0	-	-	-	-	(1.0)	-	
31/12/2020	**2,239.3**	**782.4**	**(12.9)**	**(115.7)**	**(31.6)**	**104.8**	**177.5**	**3,143.8**	

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

CONSOLIDATED CASH FLOW STATEMENT

	2021	2020	
Cash flows from operating activities			
Profit / (loss) before tax	**(264.4)**	**(266.9)**	
Adjustments			
Depreciation, amortization and impairment losses	722.0	766.6	*Note 2.2*
(Profits)/ losses on the sale and liquidation of non-financial non-current assets	(19.2)	(8.9)	
(Profits)/ losses on FX differences	4.8	13.9	
(Profits) / losses on interest, dividends	50.1	54.4	
Received / (paid) interest	0.7	2.0	
Received / (paid) income tax	(11.3)	42.9	
Movement in working capital	125.1	12.4	*Note 4.4*
Other adjustments	92.0	(63.3)	*Note 4.4*
Net cash from operating activities	**699.8**	**553.1**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(808.5)	(719.0)	
Proceeds from the sale of non-financial non-current assets	158.4	60.3	
Proceeds from dividends received	2.9	0.4	
Other inflows from investing activities	1.6	3.2	
Net cash from investing activities	**(645.6)**	**(655.1)**	
Cash flows from financing activities			
Payments on lease liabilities	(128.5)	(148.5)	*Note 4.1*
Proceeds from bank loans and borrowings	323.9	285.7	*Note 4.1*
Repayment of bank loans and borrowings	(348.6)	(301.2)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(42.4)	(53.0)	*Note 4.1*
Grants received	93.3	74.7	
Other outflows from financing activities	(4.1)	(3.6)	
Net cash from financing activities	**(106.4)**	**(145.9)**	
Net increase / (decrease) in cash and cash equivalents	(52.2)	(247.9)	
Cash and cash equivalents at the beginning of the reporting period	306.0	550.4	*Note 4.3*
Impact exerted by FX rate movements on the cash balance in foreign currencies	0.7	3.5	
Cash and cash equivalents at the end of the reporting period, including:	**254.5**	**306.0**	*Note 4.3*
Restricted cash	*60.6*	*49.1*	*Note 4.3*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

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

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

In 2021, the Parent Company did not change its name or other identification details.

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 December 2021 are presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2021 in **Chapters 9.11** and **9.4**, respectively.

Information about the Group

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

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

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

The duration of individual Group companies is unlimited.

Changes in the Group's structure

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

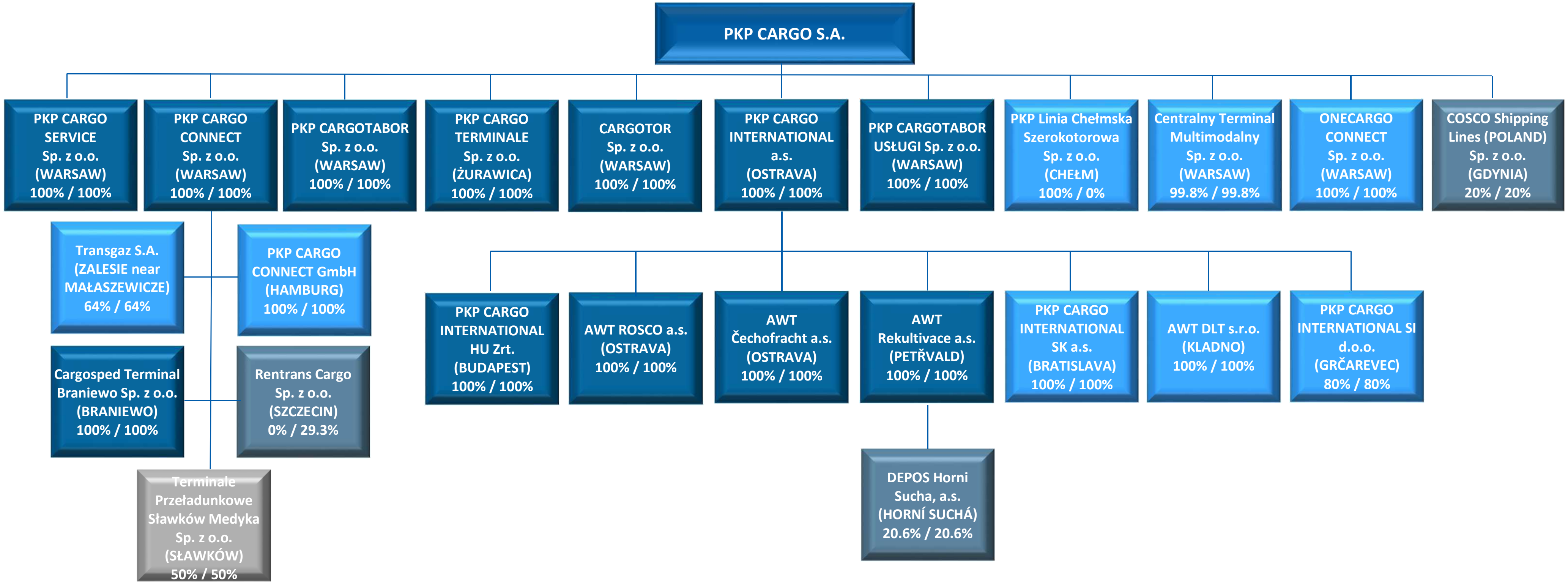
On 9 September 2021, the name of the company PRIMOL-RAIL d.o.o. was changed to PKP CARGO INTERNATIONAL SI d.o.o.

On 27 October 2021, the Parent Company signed an agreement with PKP Linia Hutnicza Szerokotorowa Sp. z o.o. to purchase a 100% share in PKP Linia Chełmska Szerokotorowa Sp. z o.o.

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

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

Detailed information about members of the Group as at 31 December 2021 and 31 December 2020 is as follows:



Subsidiaries – consolidated by the full method
Associates in the Group
Other subsidiaries in the Group
Shares in the Group's joint ventures

1.2 Basis for preparation of the Consolidated Financial Statements

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of these Consolidated Financial Statements.

These Consolidated Financial Statements for the year ended 31 December 2021 have been prepared on the assumption that the Group will continue to be a going concern in the foreseeable future. As at the preparation date of the financial statements, there are no material circumstances indicating any substantial doubt about the Group's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

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

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

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

Note	Title	Amount recognized in the Consolidated Financial Statements		Accounting Policy	Significant estimates and judgments
		2021	2020		
2.1	Revenues from contracts with customers	4,266.5	4,075.6	X	X
2.2	Operating expenses	(4,497.9)	(4,385.6)		
2.3	Other operating revenue and (expenses)	22.6	123.6		
2.4	Financial revenue and (expenses)	(60.3)	(82.2)		
3.1	Income tax	39.1	42.6	X	X
5.1	Rolling stock	4,241.6	4,245.0	X	X
5.1	Other property, plant and equipment	893.4	875.6	X	X
5.2	Rights-of-use assets	1,030.7	1,008.6	X	X
5.4	Investments in entities accounted for under the equity method	36.7	42.0	X	
3.1	Deferred tax assets	203.1	177.8	X	X
5.5	Inventories	164.6	165.8	X	
5.6	Trade receivables	615.9	588.8	X	X
	Lease receivables	9.1	11.0		
	Income tax receivables	4.5	2.9		
5.7	Other assets	143.6	123.2	X	
4.3	Cash and cash equivalents	254.5	306.0	X	
5.3	Non-current assets classified as held for sale	15.7	12.7	X	
4.2	Equity	3,040.6	3,143.8	X	
4.1	Debt liabilities	2,564.2	2,580.3	X	X
	Trade liabilities	641.3	349.0		
5.8	Investment liabilities	333.2	279.0	X	
5.9	Provisions for employee benefits	656.4	800.6	X	X
5.10	Other provisions	30.3	29.8	X	
5.11	Other liabilities	254.1	286.2	X	
3.1	Deferred tax liability	93.3	90.7	X	X
7.3	Contingent liabilities	242.1	208.8	X	X

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

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

Consolidation rules

The Consolidated Financial Statements comprise the standalone financial statements of the Parent Company and its controlled entities (subsidiaries) for the financial year ended on 31 December 2021 and 31 December 2020. The financial statements of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with EU IFRS, are prepared for the same reporting period as the statements of the Parent Company, based on uniform accounting principles applied for transactions and similar economic events.

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

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

As at 31 December 2021 and 31 December 2020, for the needs of valuation of financial statements of foreign operations subject to consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of profit or loss and other comprehensive income and the cash flow statement	
	31/12/2021	31/12/2020	2021	2020
EUR	4.5994	4.6148	4.5775	4.4742
CZK	0.1850	0.1753	0.1785	0.1687

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 30 March 2022.

1.3 Applied International Financial Reporting Standards platform

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

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

Standard / Interpretation	Effective date
Amendments to IFRS 4 "Insurance contracts" – deferral of IFRS 9	1 January 2021
Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts", IFRS 16 "Leases" - IBOR Reform - phase 2	1 January 2021
Amendments to IFRS 16 "Leases" – COVID-19-Related Rent Concessions after 30 June 2021	1 April 2021

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

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

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

Standard / Interpretation	Effective date
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
IFRS 17 "Insurance contracts" and amendments to IFRS 17	1 January 2023
Amendments to IAS 1 "Presentation of financial statements" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023

(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 not endorsed by the EU

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

Standard / Interpretation	Effective date
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term	1 January 2023
Amendments to IAS 12 "Income Tax" – deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IFRS 17 "Insurance contracts": First application of IFRS 17 and IFRS 9 – Comparative information	1 January 2023

1.4 Impact of the COVID-19 pandemic on the level of expected credit losses and the Group's liquidity standing

Assessment of expected credit losses

The Group has conducted an analysis of the impact of the COVID-19 pandemic on the calculation of expected credit losses, by incorporating the additional credit risk related to the current economic situation, which may cause deterioration of liquidity of business partners and consequently affect the ratio of recovery of trade receivables. When analyzing the payments of receivables to date, the Group observed that the payment levels of trade receivables presented in the statement of financial position as at 31 December 2021 did not differ significantly from the rates in previous periods. Additionally, some trade receivables are secured. The Group remains in touch with key contractors and has received no signals indicating an increased risk of non-payment of receivables. The Group analyzes the situation on an ongoing basis and if such indications arise it will update the assumptions adopted in the model for calculating the expected credit losses.

Liquidity standing of the Group

In order to minimize the possibility of disruption in cash flows and the risk of losing liquidity, in 2021, the Group undertook activities 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 2021, 8 Group companies. The cash pool, independently of the cash collected by particular participants, is associated with a flexible line of credit in the form of a current account overdraft facility. Information on the financing sources available as at 31 December 2021 is presented in **Note 4.1** to these Consolidated Financial Statements.

As at 31 December 2021 there was no need to reclassify loan liabilities. Details are presented in **Note 4.1**.

An update of the risks arising in connection with the COVID-19 pandemic may affect the Group's financial position in subsequent reporting periods.

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

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

31/12/2020	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	130.3	388.9	1,453.0	869.7	**2,841.9**	**2,580.3**
Trade liabilities	322.1	25.4	1.5	-	**349.0**	**349.0**
Investment liabilities	91.7	44.3	148.3	-	**284.3**	**279.0**
Derivative instruments – FX forwards	1.1	1.6	-	-	**2.7**	**2.7**
Cash pool	1.1	-	-	-	**1.1**	**1.1**
Total	**546.3**	**460.2**	**1,602.8**	**869.7**	**3,479.0**	**3,212.1**

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

2.1 Revenues from contracts with customers

Accounting policy applied

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

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

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

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

Variable remuneration

Commercial contracts contain a variable remuneration element resulting from the following:
- the possibility of imposing penalties on the client in connection with its failure to meet the contractual provisions pertaining to transportation of a specified freight volume,
- the possibility of imposing fines on the Group by the client in the event of failure to transport the ordered freight volume.

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

Assets from contracts with customers

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

Liabilities from contracts with customers

The Group recognizes in its statement of financial position a contract liability constituting the Group's obligation to transfer goods or services to the customer in return for which the Group has obtained remuneration (or the amount of remuneration is due) from the customer. The Group recognizes a contract liability chiefly in connection with remuneration received in advance for services that have not yet been provided by the Group. As at 31 December 2021 and 31 December 2020 the Group had no material liabilities under contracts with customers.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

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

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

2.1 Revenues from contracts with customers (cont.)

Structure of revenues from contracts with customers

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

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

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	274.4	2.6	825.4	2,268.6	**3,371.0**
Revenue from other transportation activity	0.5	-	0.7	152.8	**154.0**
Revenue from siding and traction services	-	12.0	148.3	157.7	**318.0**
Revenue from transshipment services	-	-	0.3	137.1	**137.4**
Revenue from reclamation services	-	2.7	1.7	70.6	**75.0**
Revenue from sales of goods and materials	-	-	0.1	83.8	**83.9**
Other revenues	1.1	17.0	9.9	99.2	**127.2**
Total	**276.0**	**34.3**	**986.4**	**2,969.8**	**4,266.5**
Revenue recognition date					
At a point of time	-	-	0.1	93.3	**93.4**
Over a period	276.0	34.3	986.3	2,876.5	**4,173.1**
Total	**276.0**	**34.3**	**986.4**	**2,969.8**	**4,266.5**

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

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

2.1 Revenues from contracts with customers (cont.)

Geography

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

	2021	2020
Poland	2,993.7	2,797.2
Czech Republic	524.8	541.3
Germany	284.0	279.5
Austria	85.5	65.2
Slovakia	72.2	86.9
Denmark	71.8	58.6
Other countries	234.5	246.9
Total	**4,266.5**	**4,075.6**

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

	2021	2020
Poland	5,461.9	5,415.6
Czech Republic	762.0	779.6
Other countries	9.2	5.5
Total	**6,233.1**	**6,200.7**

Information on key customers

In the financial year ended 31 December 2021 and 31 December 2020, revenues from any single customer of the Group did not exceed 10% of the total revenues from contracts with customers.

Assets from contracts with customers

	2021	2020
As at the beginning of the reporting period	**24.2**	**18.6**
Recognition of revenue before the sales document is issued	33.9	24.2
Reclassification to receivables	(24.3)	(18.9)
FX differences from valuation	0.1	0.3
As at the end of the reporting period	**33.9**	**24.2**

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

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	2021	2020
Consumption of traction fuel	(143.2)	(115.8)
Consumption of traction electricity	(407.0)	(376.9)
Total	**(550.2)**	**(492.7)**

Other services

	2021	2020
Repair and maintenance services for non-current assets	(102.0)	(94.7)
Rent and fees for the use of property and rolling stock	(86.2)	(62.5)
Telecommunications services	(6.0)	(6.4)
Legal, consulting and similar services	(11.1)	(11.1)
IT services	(44.3)	(45.8)
Transshipment services	(16.3)	(11.6)
Reclamation services	(70.9)	(71.5)
Other services	(77.1)	(62.2)
Total	**(413.9)**	**(365.8)**

Employee benefits

	2021	2020
Payroll	(1,263.8)	(1,254.1)
Social security expenses	(265.1)	(263.5)
Expenses for contributions to the Company Social Benefits Fund	(31.0)	(33.4)
Other employee benefits during employment	(40.7)	(44.4)
Post-employment benefits	(5.3)	(4.6)
Movement in provisions for employee benefits	(16.1)	(38.1)
Total	**(1,622.0)**	**(1,638.1)**

Other expenses

	2021	2020
Consumption of non-traction fuel	(26.2)	(21.3)
Consumption of electricity, gas and water	(41.8)	(37.5)
Consumption of materials	(86.2)	(90.8)
Taxes and charges	(39.3)	(36.2)
Cost of goods and materials sold	(61.5)	(31.4)
Business trips	(27.1)	(27.6)
Other	(27.0)	(19.8)
Total	**(309.1)**	**(264.6)**

Depreciation, amortization and impairment losses

	2021	2020
Depreciation of rolling stock	(506.2)	(537.4)
Depreciation of other property, plant and equipment	(68.9)	(77.4)
Depreciation of rights-of-use assets	(118.4)	(138.1)
Amortization of intangible assets	(8.6)	(10.9)
(Recognized) / reversed impairment losses:		
Rolling stock	(17.8)	(1.8)
Other property, plant and equipment	(6.1)	(1.3)
Non-current assets classified as held for sale	4.0	0.3
Total	**(722.0)**	**(766.6)**

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

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	2021	2020
Income from the Anti-Crisis Shield	-	115.2
Profit on sales of non-financial non-current assets	22.5	7.9
Reversed impairment losses on trade receivables	7.9	5.1
Penalties and compensations	14.5	16.0
Reversal of other provisions	7.0	3.8
Interest on trade and other receivables	2.2	3.4
Net result on FX differences on trade receivables and liabilities	-	3.3
Other	5.9	5.6
Total other operating revenue	**60.0**	**160.3**
Recognized impairment losses on trade receivables	(6.3)	(7.4)
Penalties and compensations	(7.6)	(8.3)
Costs of liquidation of non-current and current assets	(10.0)	(5.5)
Recognized other provisions	(4.1)	(7.6)
Net result on FX differences on trade receivables and liabilities	(2.0)	-
Other	(7.4)	(7.9)
Total other operating expenses	**(37.4)**	**(36.7)**
Other operating revenue and (expenses)	**22.6**	**123.6**

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2021	2020
Interest income	1.0	2.4
Other	0.4	-
Total financial revenue	**1.4**	**2.4**
Interest expenses	(49.4)	(57.9)
Settlement of the discount on provisions for employee benefits	(10.2)	(14.7)
Net result on FX differences	(0.3)	(9.3)
Other	(1.8)	(2.7)
Total financial expenses	**(61.7)**	**(84.6)**
Financial revenue and (expenses)	**(60.3)**	**(82.2)**

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

3. Explanatory notes on taxation

3.1 Income tax

Accounting policy applied

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

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

Income tax recognized in profit / loss

	2021	2020
Current income tax		
Current tax charge	(8.8)	(8.9)
Adjustments recognized in the current year relating to tax from previous years	-	1.6
Deferred tax		
Deferred income tax of the reporting period	47.9	49.9
Income tax recognized in profit / loss	**39.1**	**42.6**

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

Deferred income tax recognized in other comprehensive income

	2021	2020
Deferred tax on the measurement of hedging instruments	(2.5)	9.7
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	(17.3)	9.5
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income	(5.4)	(3.4)
Deferred income tax recognized in other comprehensive income	**(25.2)**	**15.8**

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

3.1 Income tax (cont.)

Reconciliation of the effective tax rate

	2021	2020
Profit / (loss) before tax	**(264.4)**	**(266.9)**
Income tax expense at 19%	50.2	50.7
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Sale of shares in an entity accounted for under the equity method	(1.3)	-
Reversal of non-tax provisions and impairment losses	0.1	0.2
Valuation under the equity method	0.9	0.4
Other	0.7	0.2
Tax effect of non-deductible expenses arising from tax regulations, including:		
PFRON disability fund	(5.0)	(5.0)
Establishment of non-tax provisions and impairment losses	(3.0)	(0.3)
Permanent differences in expenses related with property, plant and equipment	(0.9)	(0.9)
Representation expenses	(0.4)	(0.4)
Penalties and compensations	(1.0)	(0.9)
Value added tax and other public law liabilities	(0.4)	(0.1)
Other	(0.9)	(1.9)
Effect of tax losses used in a period in which deferred tax was not recognized	**-**	**0.1**
Effect of the recognition / (reversal) of a deferred tax asset on tax losses	**-**	**(0.6)**
Effect of application of various tax rates	**0.1**	**-**
Adjustments disclosed in the current year with reference to past years' tax	**-**	**1.1**
Income tax recognized in profit / loss	**39.1**	**42.6**
Effective tax rate	**14.8%**	**16.0%**

The corporate income tax rate effective in Poland in the years 2020-2021 amounted to 19%. In the case of the PKP CARGO INTERNATIONAL Group companies, the relevant tax rates were as follows: 19% in the Czech Republic and 9% in Hungary.

Balance of deferred tax assets and liabilities

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

	31/12/2021	31/12/2020
Deferred tax assets	203.1	177.8
Deferred tax liabilities	(93.3)	(90.7)
Total	**109.8**	**87.1**

Table of movements in deferred tax before the set-off

2021	1/01/2021	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2021
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(151.2)**	38.1	-	(5.1)	**(118.2)**
Rights-of-use assets and lease liabilities	**(9.7)**	(2.5)	-	(0.5)	**(12.7)**
Other provisions and liabilities	**13.3**	4.3	-	0.1	**17.7**
Inventories	**(9.3)**	1.4	-	-	**(7.9)**
Lease receivables	**(2.1)**	0.4	-	-	**(1.7)**
Trade receivables	**2.9**	(1.7)	-	-	**1.2**
Provisions for employee benefits	**152.0**	(10.1)	(17.3)	0.1	**124.7**
Other	**15.7**	3.8	(2.5)	-	**17.0**
Unused tax losses	**75.5**	14.2	-	-	**89.7**
Total	**87.1**	**47.9**	**(19.8)**	**(5.4)**	**109.8**

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

3.1 Income tax (cont.)

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

Maturity analysis of deferred tax assets from tax losses

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

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

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

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

Tax loss not recognized in calculation of deferred tax assets

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

	31/12/2021	31/12/2020
PKP CARGO INTERNATIONAL HU Zrt.	10.3	11.7
AWT Čechofracht a.s.	11.4	14.6
PKP CARGOTABOR USŁUGI Sp. z o.o.	1.2	3.8
Total	**22.9**	**30.1**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2021

Year	2022	2023	2024	2025	2026	Total
Unused tax losses	3.2	4.1	11.7	3.7	0.2	**22.9**

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

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

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

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

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

After the initial recognition, the Group measures the lease liability by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The Group takes advantage of an exemption and does not apply the requirements for measurement of lease liabilities and rights-of-use assets in respect of:
- short-term leases, i.e. leases where the term of the agreement is no longer than 12 months and which do not include a purchase option;
- leases for which the underlying asset is of low value. The Group defines assets of low value as those whose value, when new, does not exceed PLN 25 thousand.

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

a) the discount rate

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

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

b) term of lease

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

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

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

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

4.1 Reconciliation of debt liabilities (cont.)

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

Items in foreign currencies

31/12/2021	In the functional currency – PLN	In a foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	900.6	732.3	-	**1,632.9**
Leases	826.1	66.2	39.0	**931.3**
Total	**1,726.7**	**798.5**	**39.0**	**2,564.2**

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

Reconciliation of debt liabilities

2021	Bank loans and borrowings	Leases	Total
1/01/2021	**1,659.3**	**921.0**	**2,580.3**
New liabilities contracted	323.9	36.8	**360.7**
Modifications of agreements	-	27.1	**27.1**
Leaseback	-	102.0	**102.0**
Transaction costs	1.2	-	**1.2**
Accrual of interest	15.1	30.9	**46.0**
Payments under debt, including:			
Repayments of the principal	(348.6)	(128.5)	**(477.1)**
Interest paid	(14.7)	(27.7)	**(42.4)**
Transaction costs	(1.3)	-	**(1.3)**
Other	-	(31.7)	**(31.7)**
FX valuation	(1.7)	(0.6)	**(2.3)**
FX resulting from translation	(0.3)	2.0	**1.7**
31/12/2021	**1,632.9**	**931.3**	**2,564.2**
Long-term	1,325.4	764.9	**2,090.3**
Short-term	307.5	166.4	**473.9**
Total	**1,632.9**	**931.3**	**2,564.2**

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

4.1 Reconciliation of debt liabilities (cont.)

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

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	2021	2020
Revenues from operating leases	Revenues from contracts with customers	28.2	36.5
Interest income from leases	Financial revenue	0.5	0.5
Costs on account of:			
Short-term leases	Other services	(55.1)	(30.7)
Leases of low-value assets	Other services	(4.1)	(5.0)
Variable lease payments not included in the measurement of lease liabilities	Other services	(3.8)	(2.1)

Terms and conditions of loan agreements

Contracts signed with banks impose legal and financial obligations on the Group that are standard in such transactions. The key ratios measured in such obligations set forth in loan agreements signed by the Group include: the Net Debt/EBITDA ratio and the total debt ratio.
The above ratios are calculated on the basis of data contained in the Standalone Financial Statements of PKP CARGO S.A. and selected subsidiaries, as well as the Consolidated Financial Statements of the PKP CARGO Group and the PKP CARGO INTERNATIONAL Group. According to the provisions of the agreements signed by the Group, compliance with the terms and conditions of loan agreements is reviewed on a quarterly basis, on a semi-annual basis and at the end of each financial year.

In most agreements, the Net Debt/EBITDA is the level of financial debt less cash to the generated EBITDA and is calculated excluding the impact of IFRS 16. The maximum permitted level of the Net Debt/EBITDA ratio, depending on the contract, is set within the range of 2.25-4.0. 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 2021, the value of Net Debt/EBITDA ratios based on the Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements of the PKP CARGO Group overrun the level of 3.0 and 4.0 stipulated in the loan agreements.

Before the balance sheet date, the Parent Company:
1. had obtained from the lenders a one-time waiver of the covenant to maintain the Net Debt/EBITDA ratios at specific levels, or
2. had concluded appropriate annexes stipulating that the Net Debt/EBITDA ratio level based on the consolidated data of the PKP CARGO Group as at 31 December 2021 cannot be greater than 5.0, or that the level of the Net Debt/EBITDA ratio will not be examined as at 31 December 2021.

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

4.1 Reconciliation of debt liabilities (cont.)

In contracts with selected financing banks, the waiver mentioned above was granted with a proviso that the Net Debt/EBITDA ratio based on PKP CARGO Group's consolidated data must not exceed 5.0.
At the same time, as at 31 December 2021, in the case of agreements with one of the banks, the Parent Company also obtained consent for a temporary change of definitions of total debt, in which the impact of IFRS 16 was excluded from the definition.
The above conditions were satisfied as at 31 December 2021 and therefore under IAS 1 loan liabilities did not have to be reclassified. In the case of other subsidiaries, the covenants under loan agreements were satisfied as at 31 December 2021.

The economic situation associated, among others, with the effects of the COVID-19 pandemic and the military aggression against Ukraine may materially affect the value of the ratios under loan agreements in subsequent periods.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2021	31/12/2020
Investment loan	Bank Polska Kasa Opieki S.A.	2021/05/31	PLN	-	10.0
Overdraft	Bank Polska Kasa Opieki S.A.	2021/06/25	PLN	-	10.0
Overdraft	Bank Polska Kasa Opieki S.A.	2022/05/24	PLN	100.0	100.0
Overdraft	Bank Gospodarstwa Krajowego [1)]	2022/06/18	PLN	100.0	-
Overdraft	Bank Polska Kasa Opieki S.A.	2022/07/09	PLN	0.4	1.6
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A. [2)]	2023/03/19	PLN	100.0	99.9
Leasing facility	Millennium Leasing Sp. z o.o.	2021/12/02	PLN	-	38.7
Leasing facility	PKO Leasing S.A. [3)]	2022/06/18	PLN	15.2	-
Total				**315.6**	**260.2**

[1)] On 18 June 2021, the Parent Company signed an overdraft agreement with Bank Gospodarstwa Krajowego up to the total maximum amount of PLN 100 million. The subject matter of the loan agreement is financing current activity. The availability period expires and the final repayment date is 18 June 2022.

[2)] On 17 December 2021, the Parent Company signed an annex to the overdraft agreement with Powszechna Kasa Oszczędności Bank Polski S.A. up to the total maximum amount of PLN 100 million. The subject matter of the loan agreement is financing current activity. The availability period expires and the final repayment date is 19 March 2023.

[3)] On 18 June 2021, the Parent Company signed a master leasing agreement with PKO Leasing S.A. up to the total value of leased assets not exceeding PLN 100 million. The limit is available for the term of 12 months with a 12-month extension option.

4.2 Equity and capital management policy

Accounting policy applied

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

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

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

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

Exchange differences resulting from conversion of financial statements of foreign operations arise as a result of translation of financial data of such operations to the Polish currency based on the following principles:
a) assets and liabilities items at the exchange rate at the end of the reporting period,
b) items of the statement of profit or loss and other comprehensive income and of the statement of cash flows at the average exchange rate in the reporting period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period.

Share capital

	31/12/2021	31/12/2020
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

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

4.2 Equity and capital management policy (cont.)

As at 31 December 2021 and 31 December 2020, the share capital consisted of common shares with a par value of PLN 50 each. Fully paid up ordinary shares with a par value of PLN 50 are equivalent to one vote at the shareholder meeting and carry the right to a dividend.

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

In the financial year ended 31 December 2021 and 31 December 2020, there were no movements in the share capital of the Parent Company.

Movement in supplementary capital and retained earnings

On 28 June 2021, the Parent Company's Ordinary Shareholder Meeting adopted a resolution to cover the net loss incurred in 2020 in the amount of PLN 173.9 million with retained earnings from previous years.

In the financial year ended 31 December 2021, changes in the Group's supplementary capital resulted from the resolution of 31 May 2021 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of a partial allocation of the net profit of PLN 8.3 million generated in 2020 to supplementary capital, the resolution of 31 May 2021 adopted by the Ordinary Shareholder Meeting of PKP CARGOTABOR Sp. z o.o. to cover the 2020 net loss in the amount of PLN 29.9 million from supplementary capital, and the resolution of 5 August 2021 of the Ordinary Shareholder Meeting of CARGOTOR Sp. z o.o. to allocate the 2020 net profit of PLN 10.9 million to supplementary capital.

On 30 March 2022, the Parent Company's Management Board adopted a resolution to cover the loss for 2021 shown in the Standalone Financial Statements:

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.

Equity management

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

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

	31/12/2021	31/12/2020
Total liabilities	4,572.8	4,415.6
Total balance sheet	7,613.4	7,559.4
Total debt ratio	60%*	58%

*As described in detail in **Note 4.1**, as at 31 December 2021, for the purpose of verification conditions of loan agreements, the total debt ratio is adjusted for the impact of IFRS 16 and amounts to 56%.

4.3 Cash and cash equivalents

Accounting policy applied

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

Structure of cash and cash equivalents

	31/12/2021	31/12/2020
Cash on hand and on bank accounts	164.0	134.0
Bank deposits up to 3 months	90.0	171.6
Other cash	0.5	0.4
Total	**254.5**	**306.0**
including restricted cash	*60.6*	*49.1*

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

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

4.4 Notes to the cash flow statement

Movement in working capital

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	1.2	22.4	-	23.6
Trade receivables	(27.1)	(0.6)	0.4	(27.3)
Other assets	(20.4)	18.3	(8.6)	(10.7)
Provisions	(143.7)	-	-	(143.7)
Trade liabilities	292.3	2.7	(1.6)	293.4
Investment liabilities	54.2	(34.0)	-	20.2
Other liabilities	(32.1)	0.5	1.2	(30.4)
Total working capital	**124.4**	**9.3**	**(8.6)**	**125.1**

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

Other adjustments

	2021	2020
Actuarial profits / (losses) on post-employment benefits recognized in other comprehensive income	91.0	(50.2)
Measurement of hedging instruments	6.9	(10.0)
Measurement of equity instruments at fair value	-	(0.7)
FX differences resulting from translation of financial statements	(1.2)	(0.7)
Other	(4.7)	(1.7)
Other adjustments in the cash flow statement	**92.0**	**(63.3)**

Non-financial transactions

In the financial years ended 31 December 2021 and 31 December 2020, major non-financial transactions concerning investing and financial activity which were not reflected in the cash flow statement were as follows:

- Offsetting off mutual settlements

In 2021, the Group set off trade receivables with liabilities arising from the purchase of non-financial non-current assets. The total amount of set offs in 2021 amounted to PLN 1.1 million, whereas in 2020 it was PLN 4.4 million.

- Liquidation of rolling stock

When it is decided to derecognize a rolling stock component, its residual value is recognized in the item of inventories. In 2021, the residual value of non-current assets reclassified to inventories amounted to PLN 22.4 million, whereas in 2020 it was PLN 35.4 million.

5. Explanatory notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Accounting policy applied

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

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

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

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

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

Residual value of rolling stock

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

Repairs and periodic inspections of rolling stock

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

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

Other costs of 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

Depreciation of property, plant and equipment

The Group applies straight-line depreciation. The value of property, plant and equipment subject to depreciation is distributed equally over the useful life. The initial value of an asset subject to depreciation is determined after deducting its residual value. Freehold land and rights of perpetual usufruct of land exempt from fees are not depreciated.
The estimated useful lives, residual values and depreciation methods are verified at the end of each reporting period, including prospective application of any changes to estimates.
To calculate depreciation, the Group applies the following economic useful lives for particular groups of non-current assets:

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

Impairment of property, plant and equipment

At each balance sheet date, the Group performs an analysis of carrying amounts of owned non-current assets to determine if there are any indications of their impairment. If such indications of impairment are identified, the recoverable amount of the cash-generating units or individual assets is estimated to determine a potential related charge.
Recoverable amount is determined as the higher of: fair value less cost to sell, or value in use. The value in use is defined as the present value of estimated future cash flows discounted using a discount rate before tax. If the recoverable amount of a cash-generating unit or individual asset is lower than its carrying amount, the latter is reduced to the recoverable amount. An impairment loss is recognized in the line item "depreciation, amortization and impairment losses".
Where an impairment loss is reversed, the net value of the asset is increased to the revised estimate of the recoverable amount, which, however, does not exceed the carrying amount of the asset that would have been determined had an impairment loss not been recognized in previous years. The reversal of an impairment loss is recognized in the line item "depreciation, amortization and impairment losses".

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

The Group estimates the economic useful lives of individual items of property, plant and equipment and on this basis determines the depreciation rates for these items. The estimates are based on the expected economic useful lives of the assets. Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation charges and the net carrying amount of specific items of property, plant and equipment in future periods. The verification of the useful lives of property, plant and equipment conducted as at 31 December 2021 and 31 December 2020 did not reveal the need to correct the previously applied depreciation rates.

Residual value of the rolling stock

As at 31 December 2021, the Parent Company carried out a review of the residual value of its rolling stock based on a valuation performed by an independent appraiser. The price of scrap is an important factor affecting the measurement of residual value. Due to the recently observed increase in prices, an increase of 15% in comparison to the prices from the end of 2020 was assumed for the purposes of the appraisal. Accordingly, the Company decided to increase the residual value of its rolling stock, but this change did not have a material impact on the value of the impairment loss on rolling stock. The residual value update will reduce the amounts of depreciation charges recognized in subsequent reporting periods.

Impairment of non-current assets

In accordance with IAS 36, the Group assesses at the end of each reporting period whether there is any objective evidence of impairment of non-current assets.
As at 31 December 2021 the Group has identified indications of impairment for three cash-generating units defined at the level of assets of the Parent Company, PKP CARGOTABOR Sp. z o.o. and the PKP CARGO INTERNATIONAL Group. The main indications of the possible impairment of assets included: the market value of net assets remaining persistently below their carrying amount, financial performance of the Group being lower than expected 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.

PKP CARGO S.A.

In the case of the Parent Company the risk of impairment was identified at the level of components of rolling stock and properties. The recoverable amount of these assets was determined based on their fair value less cost to sell. The fair value was determined on the basis of valuations prepared by independent appraisers.

The fair value of rolling stock was determined using the cost method with elements of the comparative method. The market value of rolling stock was estimated based on the replacement cost, while taking into account, among other things, the loss in value due to physical, functional and external (economic) factors. The replacement cost is the cost as at the valuation date that would have to be incurred in order to receive a new technical asset, which is identical or has similar parameters. Other factors considered in the valuation process included:

- production year,
- number and types of repairs accompanied by upgrades,
- 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 2021:

a) the surplus of fair value over the carrying amount of all rolling stock components was about 30%, while the analysis at the level of individual asset items resulted in the recognition of an additional impairment loss in the amount of PLN 12.4 million;
b) no impairment of the appraised properties was identified.

The fair value of the remaining assets comprising a cash-generating unit at the Parent Company level that are not subject to valuation did not differ materially from their carrying amounts.

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

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

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

PKP CARGOTABOR Sp. z o.o.

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

a) discounted cash flows were developed on the basis of detailed financial projections for the period from 2022 to 2026,
b) in the period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 5.1% in real terms,
c) in the whole period covered by the detailed projection, capital expenditures will reach the level of 4.4% of annual operating revenue in real terms,
d) the after-tax weighted average cost of capital (WACC) will be at 7.5% in real terms,
e) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the tested assets owned by PKP CARGOTABOR Sp. z o.o., as at 31 December 2021 the Group recognized no impairment charge for assets owned by PKP CARGOTABOR Sp. z o.o.

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

PKP CARGO INTERNATIONAL GROUP

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

a) the cash-generating unit was considered to be all assets owned by the PKP CARGO INTERNATIONAL Group, used mainly to service customers on the Czech rail market,
b) discounted cash flows were developed on the basis of detailed financial projections for the period from 2022 to 2031; in the opinion of the Parent Company's Management Board, it is reasonable to adopt financial projections for more than five years because the property, plant and equipment used by PKP CARGO INTERNATIONAL a.s. have a considerably longer period of economic life.
c) in the whole period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 2.7% in real terms,
d) in the whole period covered by the detailed projection, capital expenditures will reach the level of 6.0% of annual operating revenue in real terms,
e) the after-tax weighted average cost of capital (WACC) will be at 5.5% in real terms,
f) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Because the recoverable amount determined as a result of the test was not materially different from the carrying amount of the tested non-current assets owned by the PKP CARGO INTERNATIONAL Group, the Group did not revalue the impairment loss for the assets as at 31 December 2021, which as at that date amounted to PLN 114.0 million.

Presented below is the estimated amount of impairment loss as at 31 December 2021 when changing only the following key parameters and keeping the other assumptions on a fixed level:

	PKP CARGO INTERNATIONAL GROUP	
	- 0.3 p.p.	+ 0.3 p.p.
WACC	(55.4)	44.1
Increase after the detailed projection period	27.8	(37.0)

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

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

Movement in rolling stock and other property, plant and equipment

2021	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2021	**7,044.0**	**945.2**	**479.4**	**100.7**	**44.6**	**78.3**	**1,648.2**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	441.3	**441.3**
Other acquisitions	-	-	-	-	-	391.3	**391.3**
Purchase of leased items	4.6	-	-	-	-	-	**-**
Settlement of fixed assets under construction	720.0	70.2	26.4	3.6	1.4	(821.6)	**(720.0)**
Grant for non-current assets	(82.3)	(0.9)	(1.3)	-	-	(7.7)	**(9.9)**
Sales (including leaseback)	(110.9)	(0.3)	(17.9)	(5.8)	-	-	**(24.0)**
Liquidation	(322.1)	(5.4)	(20.9)	(0.3)	(1.2)	(0.7)	**(28.5)**
Reclassified to assets held for sale	(136.9)	-	-	-	-	-	**-**
FX differences	32.9	8.9	2.6	2.3	0.2	1.3	**15.3**
Other	6.1	(3.4)	-	(4.5)	-	1.5	**(6.4)**
31/12/2021	**7,155.4**	**1,014.3**	**468.3**	**96.0**	**45.0**	**83.7**	**1,707.3**
Accumulated depreciation							
1/01/2021	**(2,612.9)**	**(295.9)**	**(345.3)**	**(84.7)**	**(38.9)**	**-**	**(764.8)**
Increases / (decreases):							
Depreciation	(506.2)	(34.3)	(29.6)	(3.0)	(2.0)	-	**(68.9)**
Purchase of leased items	(1.2)	-	-	-	-	-	**-**
Sales (including leaseback)	14.7	0.3	1.3	4.5	-	-	**6.1**
Liquidation	291.2	5.3	20.9	0.3	1.1	-	**27.6**
Reclassified to assets held for sale	93.2	-	-	-	-	-	**-**
FX differences	(4.5)	(2.2)	(1.3)	(1.9)	(0.1)	-	**(5.5)**
Other	(1.0)	(0.2)	(0.6)	(0.1)	-	-	**(0.9)**
31/12/2021	**(2,726.7)**	**(327.0)**	**(354.6)**	**(84.9)**	**(39.9)**	**-**	**(806.4)**
Accumulated impairment							
1/01/2021	**(186.1)**	**(2.4)**	**(1.7)**	**-**	**-**	**(3.7)**	**(7.8)**
Increases / (decreases):							
Recognition, including:	(17.8)	-	(5.8)	-	-	(1.9)	**(7.7)**
effect of fair value measurement	(12.4)	-	-	-	-	-	**-**
Derecognition	-	1.5	0.1	-	-	-	**1.6**
Utilization	6.0	-	5.8	-	-	0.7	**6.5**
Reclassified to assets held for sale	11.7	-	-	-	-	-	**-**
FX differences	(0.7)	-	(0.1)	-	-	-	**(0.1)**
Other	(0.2)	-	-	-	-	-	**-**
31/12/2021	**(187.1)**	**(0.9)**	**(1.7)**	**-**	**-**	**(4.9)**	**(7.5)**
Net value							
1/01/2021	**4,245.0**	**646.9**	**132.4**	**16.0**	**5.7**	**74.6**	**875.6**
31/12/2021	**4,241.6**	**686.4**	**112.0**	**11.1**	**5.1**	**78.8**	**893.4**

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

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

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

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

5.2 Rights-of-use assets

Accounting policy applied

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

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

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

In the case of expenditures on repairs and periodic reviews of right-of-use assets, the Group 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 Group applies straight-line depreciation. The value of a rights-of-use asset is distributed systematically over its useful life. The useful lives of rights-of-use assets were as follows:

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Useful lives of rights-of-use assets

The Group estimates the economic useful lives of individual items of right-of-use assets and on this basis determines the depreciation rates for these items. If the lease transfers ownership of the underlying asset to the Group before the end of the lease term or if the Group expects to exercise its purchase option, the Group will depreciate right-of-use asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates 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 2021 and 31 December 2020 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

2021	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2021	**467.2**	**792.1**	**29.1**	**17.6**	**1.9**	**1,307.9**
Increases / (decreases):						
New leases	4.2	18.2	12.0	2.5	-	**36.9**
Modifications of agreements	0.1	26.6	-	0.1	0.3	**27.1**
Leaseback	88.9	-	10.7	1.4	-	**101.0**
Periodic repairs of rolling stock	1.5	-	-	-	-	**1.5**
Return of leased items	(26.7)	(44.1)	(0.7)	(0.4)	-	**(71.9)**
Purchase of leased items	(4.6)	-	-	-	-	**(4.6)**
Other	(11.7)	4.2	1.0	-	(0.8)	**(7.3)**
FX differences	8.6	2.1	0.9	0.3	-	**11.9**
31/12/2021	**527.5**	**799.1**	**53.0**	**21.5**	**1.4**	**1,402.5**
Accumulated depreciation						
1/01/2021	**(157.5)**	**(122.8)**	**(8.7)**	**(9.7)**	**(0.6)**	**(299.3)**
(Increases) / decreases:						
Depreciation	(50.0)	(56.8)	(6.5)	(4.8)	(0.3)	**(118.4)**
Return of leased items	24.4	18.2	0.7	0.4	-	**43.7**
Purchase of leased items	1.2	-	-	-	-	**1.2**
Other	10.5	(4.3)	-	-	-	**6.2**
FX differences	(3.8)	(0.8)	(0.4)	(0.2)	-	**(5.2)**
31/12/2021	**(175.2)**	**(166.5)**	**(14.9)**	**(14.3)**	**(0.9)**	**(371.8)**
Net value						
1/01/2021	**309.7**	**669.3**	**20.4**	**7.9**	**1.3**	**1,008.6**
31/12/2021	**352.3**	**632.6**	**38.1**	**7.2**	**0.5**	**1,030.7**

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

(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 Group 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 Group 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 Group 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 Group as an impairment loss.

Changes in assets classified as held for sale

	2021	2020
As at the beginning of the reporting period	**12.7**	**-**
Increases / (decreases):		
Reclassification to property, plant and equipment	32.0	47.1
Sales	(32.4)	(34.7)
Derecognition of impairment loss	4.0	0.3
Other	(0.6)	-
As at the end of the reporting period	**15.7**	**12.7**

In the financial year ended 31 December 2021, the Supervisory Board of the Parent Company gave its consent for the sale of:
- 988 wagons with the total book value of PLN 14.1 million.
- 441 locomotives and wrecked locomotives with the total book value of PLN 39.9 million, out of which PLN 22.7 million referred to wrecked locomotives presented in inventories as rolling stock during decommissioning.

5.4 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Carrying amount	
	31/12/2021	31/12/2020
COSCO Shipping Lines (POLAND) Sp. z o.o.	0.8	1.2
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	21.2	21.2
Transgaz S.A.	6.4	6.3
Rentrans Cargo Sp. z o.o.	-	7.0
PKP CARGO CONNECT GmbH	0.9	0.2
PKP CARGO INTERNATIONAL SK a. s.	2.8	2.8
PKP CARGO INTERNATIONAL SI d.o.o.	3.4	2.1
Centralny Terminal Multimodalny Sp. z o.o.	1.2	1.2
Total	**36.7**	**42.0**

Investments in entities accounted for under the equity method

	2021	2020
As at the beginning of the reporting period	**42.0**	**40.4**
Sale of shares	(7.0)	-
Share in the profit / (loss) of entities accounted for under the equity method	4.7	2.5
Movement in equity on account of dividends	(2.9)	(0.4)
Impairment losses for an entity accounted for under the equity method	-	(0.8)
FX differences from translation of financial statements	(0.1)	0.3
As at the end of the reporting period	**36.7**	**42.0**

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

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

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

	31/12/2021	31/12/2020
Non-current assets	28.8	31.6
Current assets	111.1	105.6
Total assets	**139.9**	**137.2**
Long-term liabilities	0.2	0.4
Short-term liabilities	75.3	46.3
Total liabilities	**75.5**	**46.7**
Net assets	**64.4**	**90.5**
Group's shares in the net assets of the entities accounted for under the equity method	35.8	41.9
Total revenues	104.6	111.4
Net result for the financial year	7.5	4.4
Group's shares in the result of the entities accounted for under the equity method	4.7	2.5
Group's shares in the comprehensive income of the entities accounted for under the equity method	4.7	2.8

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

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 Group creates impairment losses for inventories if redundant or damaged inventories exist or when the net sale price of the inventory is lower than its carrying amount. The amount of the impairment loss for inventories is determined on the basis of usefulness analysis conducted at least at the end of each financial year. Based on this analysis, impairment losses for inventories are made with respect to inventories useless from the Group's point of view.

Structure of inventories

	31/12/2021	31/12/2020
Strategic inventories	31.2	33.7
Rolling stock during liquidation	31.0	40.3
Other inventories	109.4	97.2
Impairment losses	(7.0)	(5.4)
Net inventories	**164.6**	**165.8**

List of changes in impairment losses for inventories

	2021	2020
As at the beginning of the reporting period	**(5.4)**	**(4.8)**
Recognition	(11.5)	(3.0)
Reversal	0.3	0.4
Utilization	9.7	2.0
FX differences from translation of financial statements of foreign operations	(0.1)	-
As at the end of the reporting period	**(7.0)**	**(5.4)**

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The calculation and measurement of impairment losses for trade receivables and assets arising from contracts with customers is an area that requires estimation. Expected credit losses are calculated on the basis of an individual assessment of the recoverability of a given receivable and taking into account the model applied by the Group to estimate its counterparty default ratio. Impairment losses determined on a case by case basis require judgment of whether the receivable in question will be repaid by the counterparty, taking into account the established security and settlements made, if any. Such judgments are made by debt collection units in Group companies. The model of estimation of the counterparty default ratio applied by the Group is based on a simplified impairment loss matrix for each aging range based on the expected credit losses throughout the lifetime of the receivables. The estimation of the expected credit losses is based on a method that makes use of expected counterparty default ratios calculated on the basis of historical data for the years 2018-2021 obtained from financial and accounting systems. The COVID-19 pandemic had no significant impact on the level of expected credit losses, which is described in **Note 1.4**. The reconciliation of impairment losses for receivables is presented in the tables below.

Structure of trade receivables

	31/12/2021	31/12/2020
Trade receivables	756.1	738.0
Impairment loss on receivables	(140.2)	(149.2)
Total	**615.9**	**588.8**
Non-current assets	4.2	3.0
Current assets	611.7	585.8
Total	**615.9**	**588.8**

Reconciliation of impairment losses on trade receivables

	Expected credit losses					
	2021			2020		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	**(1.9)**	**(147.3)**	**(149.2)**	**(1.7)**	**(143.5)**	**(145.2)**
Recognition	-	(6.3)	**(6.3)**	(0.2)	(7.0)	**(7.2)**
Reversal	0.4	7.5	**7.9**	-	4.9	**4.9**
Utilization	-	10.7	**10.7**	-	2.9	**2.9**
FX valuation	-	1.4	**1.4**	-	(1.6)	**(1.6)**
FX differences resulting from translation of financial statements	-	(4.7)	**(4.7)**	-	(3.0)	**(3.0)**
As at the end of the reporting period	**(1.5)**	**(138.7)**	**(140.2)**	**(1.9)**	**(147.3)**	**(149.2)**

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

5.6 Trade receivables (cont.)

Movement in the carrying amount of gross trade receivables

	2021			2020		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	**588.3**	**149.7**	**738.0**	**595.5**	**144.0**	**739.5**
Recognized	5,066.0	0.5	**5,066.5**	4,795.5	0.1	**4,795.6**
Interest accrued	1.8	0.1	**1.9**	2.2	0.2	**2.4**
Written off	-	(10.8)	**(10.8)**	(0.1)	(3.1)	**(3.2)**
Repaid	(5,039.4)	(7.8)	**(5,047.2)**	(4,805.1)	(5.0)	**(4,810.1)**
Transferred	(6.5)	6.5	-	(8.9)	8.9	-
FX valuation	(2.2)	(1.5)	**(3.7)**	3.7	1.6	**5.3**
FX differences resulting from translation of financial statements	6.9	4.5	**11.4**	5.5	3.0	**8.5**
As at the end of the reporting period	**614.9**	**141.2**	**756.1**	**588.3**	**149.7**	**738.0**

Age analysis of trade receivables

	31/12/2021			31/12/2020		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	555.3	(1.2)	554.1	550.5	(1.5)	549.0
Overdue receivables						
to 30 days	42.6	(0.2)	42.4	23.3	(0.3)	23.0
31 - 90 days	9.7	(0.8)	8.9	7.3	(1.1)	6.2
91-180 days	6.6	(3.2)	3.4	2.7	(1.2)	1.5
181 - 365 days	1.3	(0.7)	0.6	9.4	(2.8)	6.6
over 365 days	140.6	(134.1)	6.5	144.8	(142.3)	2.5
Total	**756.1**	**(140.2)**	**615.9**	**738.0**	**(149.2)**	**588.8**

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

5.7 Other assets

Accounting policy applied

The accounting policy pertaining to financial instruments is described in **Note 6** to these Consolidated Financial Statements.
As other assets, the Group recognizes predominantly prepaid expenses which are recognized in the amount of incurred expenses that relate to future periods and will generate future economic benefits for the Group. Prepaid expenses are written off in line with the passage of time.
Other receivables include predominantly public law receivables measured at the amount due.
Intangible assets are presented at purchase price or production cost less amortization and the total amount of impairment loss of intangible assets. The Group applies straight-line depreciation.
The period of useful life and the amortization method are verified at the end of each reporting period, and the results of estimate changes are settled prospectively.

Structure of other assets

	31/12/2021	31/12/2020
Financial assets		
Shares in unlisted companies	5.6	5.6
Non-financial assets		
Costs settled over time		
Prepayments for purchase of electricity	32.3	24.0
Insurance	6.8	7.0
IT services	11.6	8.1
Other costs settled over time	4.1	2.5
Other	9.2	1.9
Other receivables		
VAT settlements	30.5	35.6
Receivables from the sale of shares	5.3	-
Other	12.0	12.6
Intangible assets		
Licenses	19.3	20.8
Other intangible assets	0.3	0.3
Intangible assets under development	6.6	4.8
Total	**143.6**	**123.2**
Non-current assets	40.5	35.1
Current assets	103.1	88.1
Total	**143.6**	**123.2**

5.8 Investment liabilities

Accounting policy applied

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

Structure of investment liabilities

	31/12/2021	31/12/2020
Investment liabilities related to rolling stock	298.8	260.5
Investment liabilities related to real properties	19.8	9.8
Other	14.6	8.7
Total	**333.2**	**279.0**
Long-term liabilities	111.8	145.5
Short-term liabilities	221.4	133.5
Total	**333.2**	**279.0**

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

5.9 Provisions for employee benefits

Accounting policy applied

The Group provides its employees with long-term benefits during their employment (jubilee awards) as well as post-employment benefits (retirement and disability severance pays, transportation benefits and benefits from the Company Social Benefits Fund (ZFŚS) for old age and disability pensioners, post-mortem benefits). Jubilee awards are paid out to the employees after working for specified number of years. Retirement and disability severance pays are paid out as lump sum when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The Group is establishing provisions for future liabilities arising out of the foregoing virtues to assign the costs to the respective periods. The employees are also vested with the right to receive post-employment benefits in the form of social benefits from the Company Social Benefits Fund and train fare discounts. In its statement of financial position, the Group 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 the profit or loss. Net interest cost is calculated by applying a discount rate to the net value of the defined benefit obligation and presented in financial expenses.
Actuarial profits and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2021 and 31 December 2020, the actuarial valuation of provisions for employee benefits for the Polish Group companies was based on the following assumptions:

	Valuation as at [%]	
	31/12/2021	31/12/2020
Discount rate	3.5	1.4
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 3.6	up to 2.5
Assumed growth of the price of transportation benefits	2.5	2.5
Assumed average annual growth of the base for calculation of provisions on account of charge for the Company Social Benefits Fund.	4.0	4.0
Weighted average employee mobility ratio	2.6 - 6.5	2.0 - 7.9

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

Sensitivity analysis of provisions for employee benefits

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

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

5.9 Provisions for employee benefits (cont.)

	31/12/2020	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	310.5	(5.4)	5.6	5.3	(5.2)	(4.2)	4.3
Retirement and disability severance benefits	234.5	(4.3)	4.5	3.9	(3.8)	(2.7)	2.8
Post-mortem benefits	7.3	(0.2)	0.2	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	179.3	(8.5)	9.1	7.8	(7.4)	(1.0)	1.1
Transportation benefits	40.3	(1.8)	1.9	1.7	(1.6)	(0.3)	0.3
Total	**771.9**	**(20.2)**	**21.3**	**18.8**	**(18.1)**	**(8.3)**	**8.6**

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
1/01/2021	**234.5**	**179.3**	**40.3**	**7.3**	**310.5**	**28.7**	**800.6**
Current service cost	8.6	3.9	0.8	0.5	14.8	-	**28.6**
Interest expenses	3.0	2.5	0.5	0.1	4.1	-	**10.2**
Actuarial (profits)/ losses recognized in other comprehensive income	(19.3)	(55.1)	(16.7)	0.1	-	-	**(91.0)**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	(20.8)	-	**(20.8)**
Past service cost	(0.5)	-	-	-	(0.1)	-	**(0.6)**
Recognition of provisions	-	-	-	-	-	17.9	**17.9**
Reversal of provisions	-	-	-	-	-	(9.0)	**(9.0)**
Benefits paid out	(21.1)	(5.1)	(0.9)	(1.3)	(49.4)	(2.3)	**(80.1)**
FX differences	-	-	-	-	0.3	0.3	**0.6**
31/12/2021	**205.2**	**125.5**	**24.0**	**6.7**	**259.4**	**35.6**	**656.4**
Long-term provisions	169.5	119.8	23.1	5.7	211.0	-	**529.1**
Short-term provisions	35.7	5.7	0.9	1.0	48.4	35.6	**127.3**
Total	**205.2**	**125.5**	**24.0**	**6.7**	**259.4**	**35.6**	**656.4**

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

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

5.9 Provisions for employee benefits (cont.)

Items recognized in the result in reference to employee benefits programs

	31/12/2021	31/12/2020
Employee benefits	(16.1)	(38.1)
Financial expenses	(10.2)	(14.7)
Total recognized in the profit before tax	**(26.3)**	**(52.8)**

Actuarial (profits) / losses

2021	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses / (profits) – post-employment benefits				
Retirement and disability severance benefits	(2.8)	(28.1)	11.6	**(19.3)**
Company Social Benefits Fund	(16.1)	(44.1)	5.1	**(55.1)**
Transportation benefits	(2.8)	(8.3)	(5.6)	**(16.7)**
Post-mortem benefits	0.5	(1.0)	0.6	**0.1**
Actuarial losses / (profits) – other long-term benefits				
Jubilee awards	(3.4)	(35.4)	18.0	**(20.8)**
Total	**(24.6)**	**(116.9)**	**29.7**	**(111.8)**

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

Analysis of maturities of paid out employee benefits

31/12/2021	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	35.7	5.7	0.9	1.0	48.4	35.6	**127.3**
1 to 5 years	83.4	22.9	4.1	2.8	111.9	-	**225.1**
over 5 years	86.1	96.9	19.0	2.9	99.1	-	**304.0**
Total	**205.2**	**125.5**	**24.0**	**6.7**	**259.4**	**35.6**	**656.4**

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

The average maturity of employee benefits in the Parent Company was 9.5 years as at 31 December 2021. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using actuarial methods, is approx. 87%.

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

5.10 Other provisions

Accounting policy applied

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

Structure of other provisions

2021	Provision for penalties imposed by anti-monopoly authorities	Provision for land reclamation	Other provisions	Total
1/01/2021	**0.4**	**6.4**	**23.0**	**29.8**
Recognition	-	0.3	16.2	**16.5**
Reversal	(0.4)	(0.1)	(7.2)	**(7.7)**
Utilization	-	(0.1)	(8.6)	**(8.7)**
FX differences	-	0.3	0.1	**0.4**
31/12/2021	**-**	**6.8**	**23.5**	**30.3**
Long-term provisions	-	6.3	0.7	**7.0**
Short-term provisions	-	0.5	22.8	**23.3**
Total	**-**	**6.8**	**23.5**	**30.3**

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

Provision for land reclamation

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

Other provisions

This line item mostly includes the provisions established for contractual penalties in the amount of PLN 11.6 million, as well as disputed claims and litigation, which are more likely than not to result in an outflow of cash in connection with the realization of those claims.

According to the Parent Company's Management Board, the amount of other provisions as at 31 December 2021, and as at 31 December 2020, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the Group's estimates may be changed in subsequent reporting periods.

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

5.11 Other liabilities

Accounting policy applied

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

Structure of other liabilities

	31/12/2021	31/12/2020
Financial liabilities		
FX forwards	-	2.7
Cash pool	1.1	1.1
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	34.2	46.5
Public law liabilities	109.3	121.5
Settlements with employees	96.2	97.0
Received grants	0.6	1.6
Other settlements	6.8	8.8
VAT settlements	5.1	5.3
Current income tax liabilities	0.8	1.7
Total	**254.1**	**286.2**
Short-term liabilities	254.1	286.2
Total	**254.1**	**286.2**

6. Financial instruments and principles of financial risk management

Accounting policy applied

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Company becomes bound by the contractual provisions of the instrument.
At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, financial assets of a debt nature are classified as measured:
a) at amortized cost,
b) fair value through other comprehensive income,
c) at fair value through profit or loss.

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

Financial assets carried at amortized cost

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

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

As at 31 December 2021 and 31 December 2020, the Group did not have any financial assets of a debt nature measured at fair value through other comprehensive income or measured at fair value through profit or loss.

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

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

Accounting policy applied

Investments in equity instruments

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

Financial liabilities

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

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

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

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	31/12/2021	31/12/2020
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.7*	5.6	5.6
Financial assets measured at amortized cost			
Trade receivables	*Note 5.6*	615.9	588.8
Receivables from sale of non-financial non-current assets		-	0.1
Receivables from the sale of shares	*Note 5.7*	5.3	-
Cash and cash equivalents	*Note 4.3*	254.5	306.0
Financial assets excluded from the scope of IFRS 9		9.1	11.0
Total		**890.4**	**911.5**

Financial liabilities by categories and classes	Note	31/12/2021	31/12/2020
Hedging financial instruments			
Derivatives	*Note 5.11*	-	2.7
Bank loans and borrowings	*Note 4.1*	732.2	660.0
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	33.5	53.1
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	900.7	999.3
Trade liabilities		641.3	349.0
Investment liabilities	*Note 5.8*	333.2	279.0
Cash pool	*Note 5.11*	1.1	1.1
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	897.8	867.9
Total		**3,539.8**	**3,212.1**

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

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

6.1 Financial instruments (cont.)

Hedge accounting

In the period from 1 January 2021 to 31 December 2021, the Group applied hedge accounting to its cash flows. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly likely cash flow denominated in EUR.

As at 31 December 2021, the Group has established the following hedging instruments:

- investment loans denominated in EUR. The hedged cash flows will be realized until January 2035. As at 31 December 2021, the nominal amount of the hedging instrument was EUR 159.2 million, which is an equivalent of PLN 732.2 million.
- leases denominated in EUR. The hedged cash flows will be realized until October 2026. As at 31 December 2021, the nominal amount of the hedging instrument was EUR 7.3 million, which is an equivalent of PLN 33.5 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 31 December 2021, the value of liabilities from measurement of a hedging instrument was PLN 24 thousand.

Fair value hierarchy

As at 31 December 2021 and 31 December 2020, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	31/12/2021		31/12/2020	
	Level 2	Level 3	Level 2	Level 3
Assets				
Investments in equity instruments - shares in unlisted companies	-	5.6	-	5.6
Liabilities				
Derivatives – FX forward contracts	-	-	2.7	-

Measurement methods for financial instruments carried at fair value

a) FX forward contracts

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

b) Investments in financial instruments

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

c) Other financial instruments

For the category of financial instruments that are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because as at 31 December 2021 and 31 December 2020 fair value was not materially different from the value presented in the statement of financial position.

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

	2021	2020
As at the beginning of the reporting period	**5.6**	**6.3**
Profits / (losses) for the period recognized in other comprehensive income	-	(0.7)
As at the end of the reporting period	**5.6**	**5.6**

In the financial year ended 31 December 2021 and 31 December 2020, there were no transfers between levels 2 and 3 of the fair value hierarchy.

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

6.1 Financial instruments (cont.)

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

2021	Hedging financial instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(4.1)	2.2	0.5	(16.9)	(29.5)	**(47.8)**
FX differences	-	(5.2)	-	2.1	0.6	**(2.5)**
Impairment losses / revaluation	-	1.5	-	-	-	**1.5**
Transaction costs related to loans	-	-	-	(1.2)	-	**(1.2)**
Effect of settlement of cash flow hedge accounting	(6.7)	-	-	-	-	**(6.7)**
Profit / (loss) before tax	**(10.8)**	**(1.5)**	**0.5**	**(16.0)**	**(28.9)**	**(56.7)**
Revaluation	13.2	-	-	-	-	**13.2**
Other comprehensive income	**13.2**	**-**	**-**	**-**	**-**	**13.2**

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 (6.7) million.
In the financial year ended 31 December 2021, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN 2.7 million and bank loans in the amount of PLN 8.7 million and lease liabilities in the amount of PLN 1.8 million, which are recognized under the hedge accounting applied by the Group.

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

In the financial year ended 31 December 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (9.9) million.
In the financial year ended 31 December 2020, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (10.0) million and bank loans in the amount of PLN (40.6) million and lease liabilities in the amount of PLN (0.2) million, which are recognized under the hedge accounting applied by the Group.

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

6.1 Financial instruments (cont.)

Offsetting financial assets

31/12/2021	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	615.9	615.9	(1.4)	614.5
Total	**615.9**	**615.9**	**(1.4)**	**614.5**

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

Offsetting financial liabilities

31/12/2021	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	641.3	641.3	(4.0)	637.3
Total	**641.3**	**641.3**	**(4.0)**	**637.3**

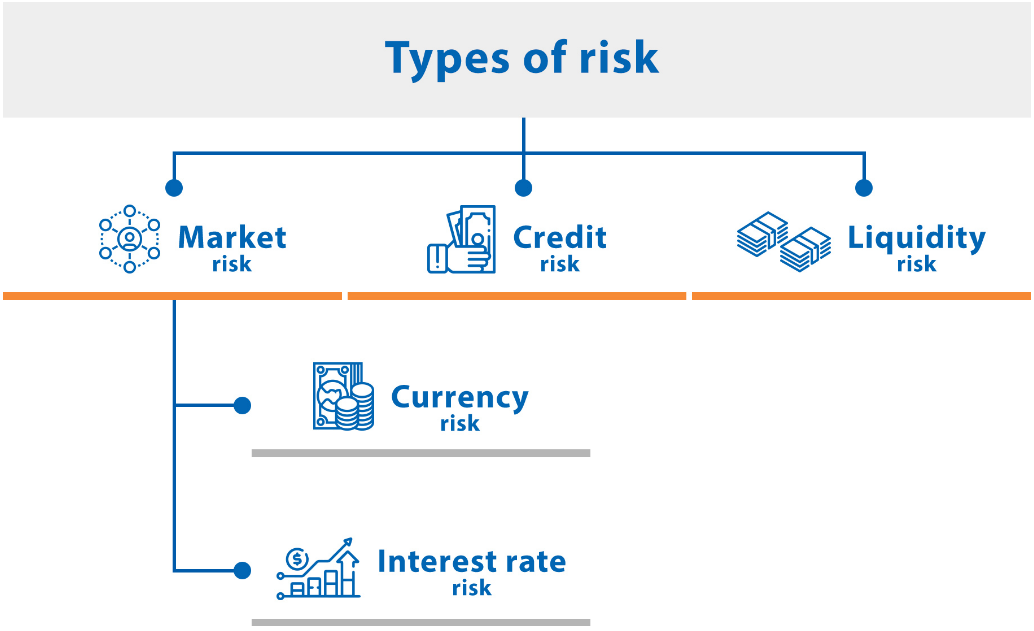
31/12/2020	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	349.0	349.0	(5.3)	343.7
Total	**349.0**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

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

6.2 Objectives and principles of financial risk management

Objectives and principles of financial risk management

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



Market risk

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

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

According to the Financial Risk Management Policy in effect in the Group, in 2021, the Group applied FX risk management transactions for the EUR/PLN currency pair.

Foreign exchange risk management

As at 31 December 2021, the Group was exposed to foreign exchange risk concerning for the most part trade receivables and debt liabilities denominated in foreign currencies.

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

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

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

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

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

Items in foreign currencies

31/12/2021	Total value of items in PLN	EUR/PLN		CZK/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS					
Non-current assets					
Trade receivables	4.2	-	-	22.9	4.2
Other assets	0.8	-	-	4.2	0.8
Current assets					
Trade receivables	195.5	24.4	112.2	450.2	83.3
Other assets	15.3	2.0	9.3	32.7	6.0
Cash and cash equivalents	83.1	7.5	34.4	263.0	48.7
Total	**298.9**	**33.9**	**155.9**	**773.0**	**143.0**
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	721.3	149.7	688.6	176.8	32.7
Other liabilities	0.5	-	-	2.6	0.5
Short-term liabilities					
Debt liabilities	154.6	32.2	147.9	36.5	6.7
Trade liabilities	101.6	10.3	47.5	292.2	54.1
Investment liabilities	17.5	1.2	5.6	64.5	11.9
Other liabilities – FX forward contracts (1)	-	0.2	-	-	-
Other liabilities	30.1	2.0	9.1	113.4	21.0
Total	**1,025.6**	**195.6**	**898.7**	**686.0**	**126.9**
Net currency item	**(726.7)**	**(161.7)**	**(742.8)**	**87.0**	**16.1**

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

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

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

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

Sensitivity to FX risk

The Group is exposed mainly to the foreign exchange risk associated with the EUR/PLN and CZK/PLN currency pairs in connection with its operating and financing activities. Deviations in exchange rates were calculated on the basis of the average daily volatility of each currency exchange rate in the period under analysis. Sensitivity of financial instruments to foreign exchange risk has been calculated as the difference between the original carrying amount of the financial instruments and their potential value while assuming changes to foreign exchange rates. The tables below present the Group's exposure to the foreign exchange risk in 2021 and 2020.

31/12/2021	Value of the item in PLN	Currency risk							
		EUR/PLN						CZK/PLN	
		impact on the result		impact on other comprehensive income		impact on equity		impact on other comprehensive income and equity	
		+2%	-2%	+2%	-2%	+2%	-2%	+1%	-1%
ASSETS									
Non-current assets									
Trade receivables	4.2	-	-	-	-	-	-	-	-
Other assets	0.8	-	-	-	-	-	-	-	-
Current assets									
Trade receivables	195.5	2.2	(2.2)	-	-	2.2	(2.2)	0.8	(0.8)
Other assets	15.3	0.2	(0.2)	-	-	0.2	(0.2)	0.1	(0.1)
Cash and cash equivalents	83.1	0.7	(0.7)	-	-	0.7	(0.7)	0.5	(0.5)
EQUITY AND LIABILITIES									
Long-term liabilities									
Debt liabilities	721.3	(0.2)	0.2	(13.6)	13.6	(13.8)	13.8	(0.3)	0.3
Other liabilities	0.5	-	-	-	-	-	-	-	-
Short-term liabilities									
Debt liabilities	154.6	(0.4)	0.4	(2.5)	2.5	(2.9)	2.9	(0.1)	0.1
Trade liabilities	101.6	(1.0)	1.0	-	-	(1.0)	1.0	(0.5)	0.5
Investment liabilities	17.5	(0.1)	0.1	-	-	(0.1)	0.1	(0.1)	0.1
Other liabilities	30.1	(0.2)	0.2	-	-	(0.2)	0.2	(0.2)	0.2
Total gross effect		**1.2**	**(1.2)**	**(16.1)**	**16.1**	**(14.9)**	**14.9**	**0.2**	**(0.2)**

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

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

31/12/2020	Value of the item in PLN	Currency risk							
		EUR/PLN						CZK/PLN	
		impact on the result		impact on other comprehensive income		impact on equity		impact on other comprehensive income and equity	
		+2%	-2%	+2%	-2%	+2%	-2%	+1%	-1%
ASSETS									
Non-current assets									
Trade receivables	3.0	-	-	-	-	-	-	-	-
Other assets	0.4	-	-	-	-	-	-	-	-
Current assets									
Trade receivables	198.2	2.3	(2.3)	-	-	2.3	(2.3)	0.8	(0.8)
Other assets	11.3	0.1	(0.1)	-	-	0.1	(0.1)	0.1	(0.1)
Cash and cash equivalents	74.9	0.5	(0.5)	-	-	0.5	(0.5)	0.5	(0.5)
EQUITY AND LIABILITIES									
Long-term liabilities									
Debt liabilities	613.7	(0.6)	0.6	(11.1)	11.1	(11.7)	11.7	(0.3)	0.3
Short-term liabilities									
Debt liabilities	194.8	(0.6)	0.6	(3.2)	3.2	(3.8)	3.8	-	-
Trade liabilities	96.6	(0.8)	0.8	-	-	(0.8)	0.8	(0.5)	0.5
Investment liabilities	14.1	-	-	-	-	-	-	(0.1)	0.1
Other liabilities – FX forward contracts	2.7	-	-	(1.7)	1.7	(1.7)	1.7	-	-
Other liabilities	20.3	(0.1)	0.1	-	-	(0.1)	0.1	(0.2)	0.2
Total gross effect		**0.8**	**(0.8)**	**(16.0)**	**16.0**	**(15.2)**	**15.2**	**0.3**	**(0.3)**

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

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

Interest rate risk management

As at 31 December 2021, the Group was exposed to the risk of volatility of interest rate cash flows following from bank loans and lease agreements based on variable interest rates. Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M.

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

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

The cash held by the Group as at 31 December 2021 was mainly in the form of fixed rate bank deposits which were concluded with time horizons depending on the Group's liquidity needs. In future periods, as a result of changes in the deposit interest rates, the cash position may be exposed to interest rate risk.

In 2020-2021, the Group did not use derivative instruments to hedge the interest rate risk.

Financial instruments by interest rate type

Financial assets	31/12/2021			31/12/2020		
	Interest rate		Total	Interest rate		Total
	at a fixed interest rate	at a variable interest rate		at a fixed interest rate	at a variable interest rate	
Lease receivables	9.1	-	**9.1**	11.0	-	**11.0**
Receivables from sale of non-financial non-current assets	-	-	**-**	0.1	-	**0.1**
Receivables from the sale of shares	5.3	-	**5.3**	-	-	**-**
Cash and cash equivalents	254.5	-	**254.5**	306.0	-	**306.0**
Total	**268.9**	**-**	**268.9**	**317.1**	**-**	**317.1**

Financial liabilities	31/12/2021			31/12/2020		
	Interest rate		Total	Interest rate		Total
	at a fixed interest rate	at a variable interest rate		at a fixed interest rate	at a variable interest rate	
Debt liabilities	855.0	1,709.2	**2,564.2**	971.2	1,609.1	**2,580.3**
Investment liabilities	181.3	-	**181.3**	202.2	-	**202.2**
Cash pool	1.1	-	**1.1**	1.1	-	**1.1**
Total	**1,037.4**	**1,709.2**	**2,746.6**	**1,174.5**	**1,609.1**	**2,783.6**

Interest rate fluctuation sensitivity

The sensitivity analyses presented below are based on the level of exposure of financial instruments to interest rate risk as at the balance sheet date. In the case of liabilities with variable interest rates, for the needs of the analysis it is assumed that the amount of outstanding liabilities as at the balance sheet date will be unpaid for the whole year. In 2021 and 2020, the Group identified the exposure to interest rate risk mainly for WIBOR and EURIBOR. Interest rate deviations are calculated on the basis of observations of average interest rate fluctuations. The sensitivity analysis presented below does not comprise the interest accrued as at the balance sheet date. The analysis results are presented in gross terms (before tax).

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

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

31/12/2021	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result and equity		impact on the result and equity	
		+ 150 bps	- 150 bps	+ 25 bps	- 25 bps
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,370.5	(12.9)	12.9	(1.3)	1.3
Short-term liabilities					
Debt liabilities	337.7	(3.9)	3.9	(0.2)	0.2
Total gross effect		**(16.8)**	**16.8**	**(1.5)**	**1.5**

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

Credit risk management

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

	31/12/2021	31/12/2020
Trade receivables	615.9	588.8
Lease receivables	9.1	11.0
Cash and cash equivalents	254.5	306.0
Receivables from sale of non-financial non-current assets	-	0.1
Receivables from the sale of shares	5.3	-
Total	**884.8**	**905.9**

The Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received. In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use a deferred payment date. Based on its internal policies, the Group grants deferred payment terms only to counterparties with acceptable standing and a positive history of cooperation. Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy.

Structure of trade receivables in terms of entity types

	31/12/2021	31/12/2020
Group of entities related to the biggest external counterparty	9.3%	9.1%
PKP Group related parties	0.8%	0.5%
State Treasury related parties	28.3%	27.6%
Other entities	61.6%	62.8%
Total	**100.0%**	**100.0%**

In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts from its customers securities in the form of, among others: receivables insurance, bank / insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes. As at 31 December 2021, 13.9% of trade receivables were secured.

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

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

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

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

Bank	Credit rating agency	Rating	31/12/2021
Bank A	Fitch	A-	31.8%
Bank B	Moody's	A2	17.0%
Bank C	Moody's	A2	12.9%
Bank D	Moody's	A3	11.8%
Bank E	Moody's	Aa3	9.8%
Bank F	Moody's	Aa3	9.1%
Other			7.6%
Total			**100.0%**

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the financial year ended 31 December 2021 and 31 December 2020, the State Treasury was for the PKP CARGO Group an upper level parent company. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the financial years ended 31 December 2021 and 31 December 2020, there were no transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: PGE, JSW, Azoty and ENEA. In the financial year ended 31 December 2021, the Group's most important suppliers related to the State Treasury were PKN Orlen Group entities.

Transactions with PKP Group related parties

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

	2021		31/12/2021	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.3	71.4	1.3	572.2
Subsidiaries/co-subsidiaries – unconsolidated	5.2	22.4	-	1.7
Associates	2.8	0.2	0.6	-
Other PKP Group related parties	26.0	532.0	3.2	169.3

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

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

7.1 Related party transactions (cont.)

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

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

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

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

Remunerations of key management personnel

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

Remunerations of Management Board Members	Parent Company		Subsidiaries	
	2021	2020	2021	2020
Short-term benefits	3.4	2.4	6.3	5.8
Post-employment benefits	0.4	0.3	0.9	0.1
Termination benefits	0.5	0.1	0.4	0.1
Total	**4.3**	**2.8**	**7.6**	**6.0**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	2021	2020	2021	2020
Short-term benefits	1.2	1.3	0.6	0.5
Total	**1.2**	**1.3**	**0.6**	**0.5**

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	2021	2020	2021	2020
Short-term benefits	6.4	6.9	17.0	17.8
Post-employment benefits	-	-	0.5	0.9
Total	**6.4**	**6.9**	**17.5**	**18.7**

In the financial year ended 31 December 2021 and 31 December 2020, the members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan and guarantee transactions with the Group.

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

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

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

	31/12/2021	31/12/2020
Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment	583.0	856.4
Contractual liabilities on account of non-commenced lease contracts	0.2	5.9
Total	**583.2**	**862.3**

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

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

7.3 Contingent liabilities

Accounting policy applied

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

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) a present obligation that arises from past events but is not recognized in the statement of financial position or in the statement of profit or loss and other comprehensive income, because it is not likely that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

Structure of contingent liabilities

	31/12/2021	31/12/2020
Guarantees issued on the Group's order	113.0	93.9
Other contingent liabilities	129.1	114.9
Total	**242.1**	**208.8**

Guarantees issued on the Group's order

As at 31 December 2021, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

Other contingent liabilities

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

7.4 Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2021 and 31 December 2020 the Group had assets which constituted collateral for repayment of liabilities. The assets secure mainly correct performance of facility agreements.

Carrying amount of assets securing repayment of liabilities

	31/12/2021	31/12/2020
Rolling stock and other property, plant and equipment	245.0	237.0
Trade receivables	73.2	74.5
Cash	7.8	5.0
Total	**326.0**	**316.5**

7.5 Subsequent events

Outbreak of war in Ukraine

The war in Ukraine and its social and economic consequences create significant risks for the operating and financial performance of the PKP CARGO Group over the next several quarters. At the same time, due to the short period that passed from the commencement of the military aggression in Ukraine and the very dynamic political and economic situation (including the gradually expansion of the scope of sanctions imposed on the Russian Federation and Belarus, including the discussed option of imposing a full embargo on raw material imports from Russia), the impact of the conflict on the activities of PKP CARGO Group companies is currently difficult to assess precisely.

Given the current structure of cargo transports and the scope of activities of PKP CARGO Group companies, a direct effect of the armed conflict in Ukraine may be the loss of a portion (about 5-10%) of revenues from transportation services, while the level of revenue loss will strongly depend on the final scope of sanctions and potential retaliation between the European Union (including Poland) and the Russian Federation and Belarus. Moreover it will possible to ultimately redirect at least part of the stream of cargo lost to alternative routes (among others by substituting hard coal imported by land from Russia to imports from Australia or Colombia through domestic sea ports). The war in Ukraine and the potential tightening of sanctions may adversely affect the operating revenues of the subsidiaries in PKP CARGO Group, especially those specialized in the operation of terminals on Poland's eastern border and providing forwarding services on routes leading from Eastern Europe.

At the cost side, the following key risks for the financial outlook of the PKP CARGO Group remain: further dynamic increase in the prices of energy materials and fuels (which raises the variable costs of the operating activity) and maintenance or intensification of inflationary processes (which may cause an increase in costs, such as third party services and materials used in rolling stock and equipment repairs). At the same time, the very strong increase in geopolitical risk (resulting in an outflow of foreign capital from Poland and pressure on weakening the Polish zloty) is likely to contribute to further gradual rise of market interest rates in Poland – which will boost the cost of servicing current debt and potentially also new liabilities of the PKP CARGO Group.

An update of the risks arising in connection the military aggression against Ukraine may affect the Group's financial position in subsequent reporting periods.

Events after the balance sheet date

In performance of the Memorandum of Agreement concluded on 27 August 2021 between the parties to the Collective Bargaining Agreement of PKP CARGO S.A. stipulating that talks regarding the implementation of a systemic salary raise from 1 April 2022 would be undertaken by 31 January 2022, on 1 March 2022 the Parent Company requested the Trade Unions operating on behalf of employees of PKP CARGO S.A. Units and Head Office to extend the pending social dialog at least until the evaluation of the Parent Company's financial performance for 2021 and Q1 2022 and consequently to defer any potential decisions on systemic salary raises. In connection with the fact that the Trade Unions upheld the postulates of implementing the salary raise as of 1 April 2022, the Parties signed a protocol ending the social dialog on 1 March 2022. On 1 March 2022, a collective dispute was launched by Trade Unions.

Other events occurring after the balance sheet date are described in **Notes 1.1**, **4.2** and **7.2** to these Consolidated Financial Statements.

7.6 Approval of the financial statements

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 30 March 2022.

Parent Company's Management Board

Władysław Szczepkowski
Acting President of the Management Board

Marek Olkiewicz
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 30 March 2022