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Management Board report on the activity of PKP CARGO S.A. and the PKP CARGO Group for 2022

PKPCARGO

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

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

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1. Letter from the President of the Management Board to the Shareholders

Dear Shareholders,

The year 2022 turned out to be very successful for the PKP CARGO Group, especially considering the extremely difficult business environment for the conduct of our operations. At the outset of 2022, it seemed that the toughest days for the economy were behind it, that the COVID-19 epidemic would quickly become a thing of the past and that supply chains would be rebuilt, heralding the return of international trade to pre-pandemic levels. Good prospects also seemed just around the corner for Poland, as the country expected its relatively high rates of economic growth, investment and export indicators to be maintained. All these factors were expected to drive the growth of rail freight business.

Regrettably, these scenarios were brutally uprooted by Russia's aggression against Ukraine. The war set off by the Kremlin landed a huge blow on global economic trade and shattered well-established supply chains. Poland experienced the disruptions severely in several areas. The war curtailed the movement of trains from China along the New Silk Road and, at the same time, due to the EU embargo imposed on Russia and Belarus, the transport of cargo by rail from these two countries was suspended. This was the most evident in the context of coal, followed by chemicals and petroleum products, all of which had traditionally accounted for a major chunk of cargo transported by PKP CARGO. Accordingly, it became necessary to shift the directions of coal transport operations, because routes originating at Poland's eastern border had to be swapped for coal freight services rendered from Polish seaports to customer facilities located in the country's interior.

This situation translated into a major decrease in the volume of intermodal cargo operations and presented us with a huge challenge of having to ensure coal supplies for Polish families, which made us an even more crucial link in Poland's energy security system.

At the same time, PKP CARGO took on a serious assignment of transporting goods to Ukraine, predominantly charitable aid, fuels and other products intended to help Ukrainians overcome the harsh wartime reality. We also became involved in the strenuous process of supporting Ukrainian exports by transporting grain and vegetable oils to Polish seaports, from which these commodities were shipped to various countries in Northern Africa and the Middle East.

In these exceptional circumstances, a major success of the PKP CARGO Group was the fact that its bottom line not only bounced back into the black, but that earnings were actually much greater than in 2021. Consolidated net profit stood at over PLN 148 million, up by PLN 373.3 million compared to 2021. Moreover, our last year's profit was also over PLN 110 million better than in 2019 – which was the last pre-pandemic year that also saw PKP CARGO's positive profit figures.

PLN
5,390.1 million
REVENUES FROM CONTRACTS WITH CUSTOMERS

PLN
148.0 million
NET RESULT

PLN
1,066.3 million
EBITDA

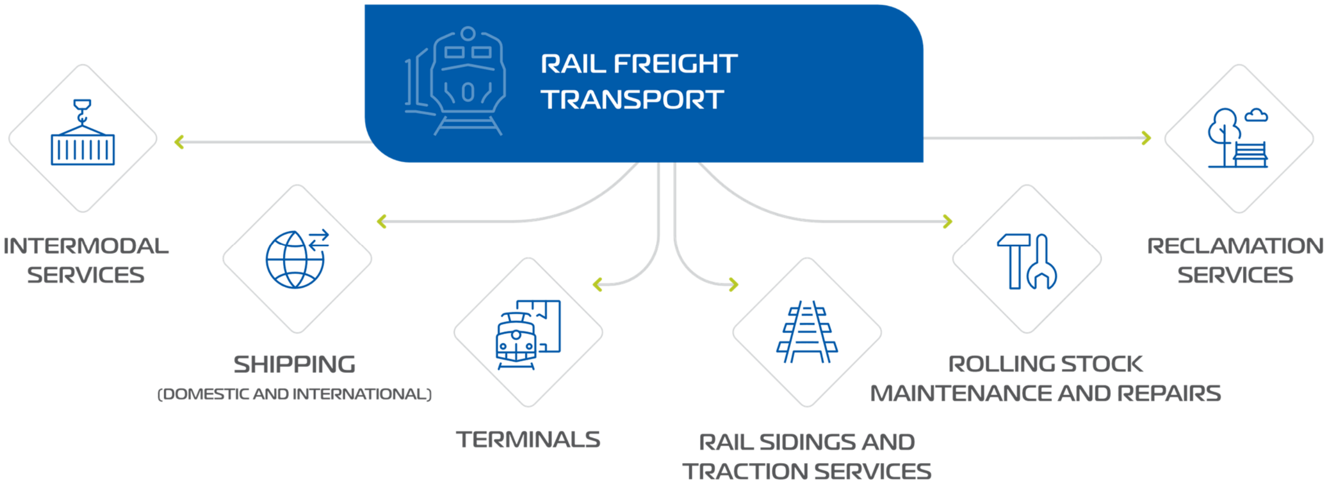
Consolidated revenue from sales in 2022 reached nearly PLN 5.4 billion, which marked not only an increase by over 26% compared to 2021, but also set a new financial performance record since PKP CARGO went public (in 2013). The Group's consolidated EBITDA was also the largest in its history, having surpassed PLN 1 billion (up by as much as 108% year-on-year). At the same time, it should be noted that especially the second half of 2022 was very successful for PKP CARGO, which was the period for which the current Management Board, itself completely formed in April 2022, bore full responsibility.
Our financial performance attests to the significant increase in the profitability of our transport services. The freight volume we transported in 2022 was comparable to that of 2021 (100.6 million tons), yet out freight turnover increased by 5.5% (to 27 billion tkm). Our financial and freight data reflect the consequences of the PKP CARGO Group's cost optimization efforts along with the simultaneous increase in the unit price, in line with our intended objective, namely a clear improvement in the Group's financial standing. This is the outcome of joint efforts of all employees and the Management Board.
Our common achievement is also the constructive conduct of the social dialogue at PKP CARGO. The Management Board is committed to improving the working conditions in the Group, which is why one of our first decisions was a wage increase as of 1 June 2022. This did not mean the completion of wage negotiations, because the final agreement in this matter was entered into by the Management Board and Trade Unions in January 2023. The Management Board appreciates the endeavors made by employees, because without their commitment and dedication, it would have been impossible to carry out our transport operations and generate such solid financial results.
Another challenging year is ahead of us, but I am sure that the PKP CARGO Group will come out victorious and maintain the favorable trends recorded in 2022.

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group[1]

The PKP CARGO Group is a rail freight operator in Poland and the European Union ("EU") that has provided comprehensive logistics services for years. The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. Apart from transport activity, the PKP CARGO Group provides complementary services supporting the Group in the area of rail freight, including siding and traction services, terminal services and forwarding services.

The PKP CARGO Group holds licenses for the provision of rail freight services in the following 8 EU countries: Lithuania, Slovakia, Slovenia, Austria, the Czech Republic, Germany, the Netherlands and Poland.



2.2. Information on capital ties of PKP CARGO

As at 31 December 2022, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A.:

a) 20 subsidiaries of PKP CARGO, controlled directly or indirectly (by entities controlled by PKP CARGO), including:
   - 10 subsidiaries controlled directly by PKP CARGO;
   - 10 subsidiaries controlled directly by companies directly controlled by PKP CARGO (and indirectly controlled by PKP CARGO), including 3 companies directly controlled by PKP CARGO CONNECT sp. z o.o. and 7 companies directly controlled by PKP CARGO INTERNATIONAL a.s.;

b) 1 jointly controlled subsidiary (in which a member of the PKP CARGO Group holds a 50% stake in the share capital), specifically: TERMINALE PRZEŁADUNKOWE SŁAWKÓW MEDYKA sp. z o.o., a company under a joint control of PKP CARGO CONNECT sp. z o.o., holding a 50% stake in its share capital (under an indirect joint control of PKP CARGO);

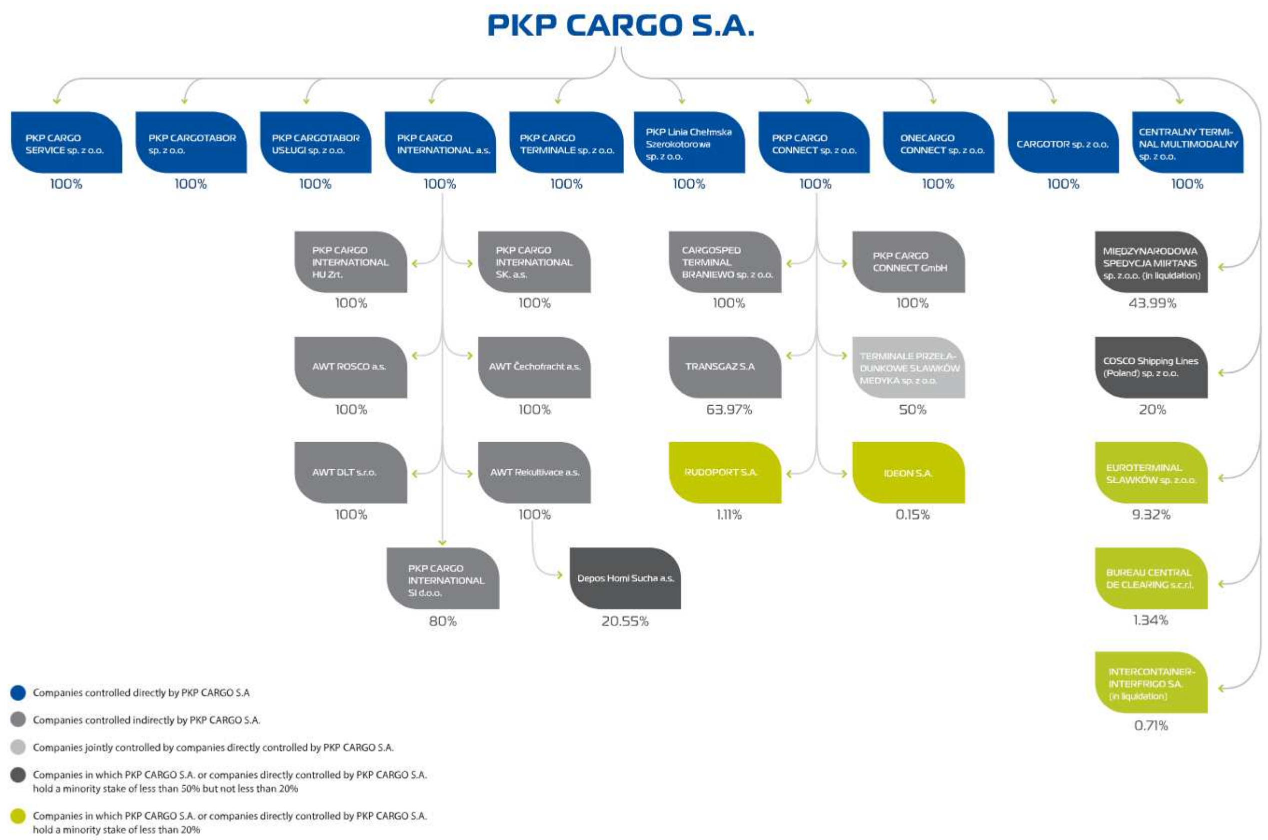
[1] Whenever the Report mentions:
- the Company, the Parent Company or PKP CARGO, it should be construed to mean PKP CARGO S.A.,
- the PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

Moreover, as at 31 December 2022, PKP CARGO or PKP CARGO's (direct or indirect) subsidiaries held shares in 8 companies that were not controlled or jointly controlled by PKP CARGO or PKP CARGO's subsidiaries, including:

- 5 companies in which PKP CARGO directly holds a minority stake,
- 2 companies in which PKP CARGO CONNECT sp. z o.o., a company directly controlled by PKP CARGO, holds a minority stake in the share capital in a manner that does not make it possible to exercise control or joint control,
- 1 company related to the PKP CARGO INTERNATIONAL Group in which a company indirectly controlled by PKP CARGO holds a minority stake in the share capital in a manner that does not make it possible to exercise control or joint control.

The chart below presents the structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 31 December 2022:

Figure 1 Structure of capital links with the companies in which PKP CARGO S.A. or its subsidiaries hold shares – as at 31 December 2022



Source: Proprietary material

2.3. Consolidated entities

The Consolidated Financial Statements for the financial year ended 31 December 2022 encompass PKP CARGO S.A. and 12 subsidiaries consolidated by the full method:

Table 1 Subsidiaries consolidated by the full method

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

Additionally, a list of companies accounted for under the equity method is presented in *Note 5.4* of the Consolidated Financial Statements for the financial year ended 31 December 2022.

2.4. Organizational structure of PKP CARGO S.A.

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

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

Company's Head Office

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

Units

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

The Units of the PKP CARGO are as follows:

- Central Unit of the Company,
- Lower Silesian Unit of the Company
- Southern Unit of the Company
- Northern Unit of the Company
- Silesian Unit of the Company
- Eastern Unit of the Company
- Western Unit of the Company

2.5. Changes in key principles of managing the enterprise of PKP CARGO S.A. and its Group

In 2022, no changes were made to the basic management principles.

2.6. Description of changes in the Group's organization

In 2022, the following changes were made to the structure of capital ties:

- acquisition by PKP CARGO S.A. of a 0.17% stake in Centralny Terminal Multimodalny Sp. z o.o. with its registered office in Warsaw.

On 11 March 2022, under a Share Purchase Agreement, PKP S.A. sold all 50 shares held by it in Centralny Terminal Multimodalny sp. z o.o. with its registered office in Warsaw (hereinafter also: "CTM"), of the par value of PLN 50.00 each, and of the total par value of PLN 2,500.00, to PKP CARGO S.A. (as a shareholder of Centralny Terminal Multimodalny sp. z o.o.), for a total price equivalent to the total par value of the shares sold, i.e. PLN 2,500.00. As a result of the execution of the said Agreement, on 11 March 2022 the title was acquired to 50 shares in CTM with a total par value of PLN 2,500.00 (accounting for 0.17% of the company's share capital), making PKP CARGO S.A. the sole shareholder of Centralny Terminal Multimodalny sp. z o.o. (prior to the transaction, PKP CARGO S.A. held a 99.83% stake in CTM);

- liquidation of GDAŃSKI TERMINAL KONTENEROWY S.A. in liquidation with its registered office in Gdańsk, in which a 41.93% stake was held by PKP CARGO CONNECT sp. z o.o., a fully owned subsidiary of PKP CARGO S.A.

On 7 June 2022, the District Court for Gdańsk-North in Gdańsk, 7th Commercial Division of the National Court Register, issued a decision to delete GDAŃSKI TERMINAL KONTENEROWY SPÓŁKA AKCYJNA in liquidation from the National Court Register – upon entry of the date of completion of the company's liquidation proceedings, that is as at 25 June 2020. On 2 July 2022, the entry on the deletion of GDAŃSKI TERMINAL KONTENEROWY S.A. in liquidation made by the District Court for Gdańsk-North in Gdańsk, 7th Commercial Division of the National Court Register, became final non-appealable. As a result, the legal existence of GDAŃSKI TERMINAL KONTENEROWY S.A. in liquidation was terminated when the decision of the court of registration on the company's deletion from the National Court Register became final non-appealable and thus the company ceased to be a related party of PKP CARGO S.A.

- increase in the share capital of PKP CARGO TERMINALE sp. z o.o. with its registered office in Żurawica, a wholly owned subsidiary of PKP CARGO S.A.

On 23 December 2022, an Extraordinary Shareholder Meeting of PKP CARGO TERMINALE sp. z o.o. with its registered office in Żurawica was held and adopted a resolution to increase the share capital of PKP CARGO TERMINALE sp. z o.o. from PLN

75,015,000.00 to PLN 93,015,000.00, that is by PLN 18,000,000.00, by creating 18,000 new shares with a par value of PLN 1,000.00 each and a total par value of PLN 18,000,000.00, to be covered by PKP CARGO S.A. with a cash contribution of PLN 18,000,000.00. The said increase in the share capital of PKP CARGO TERMINALE sp. z o.o. will formally occur on the date of its registration by in the registry court (the entry in the National Court Register will be of a constitutive nature in this case), which has not yet taken place.

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

3.1. Macroeconomic environment

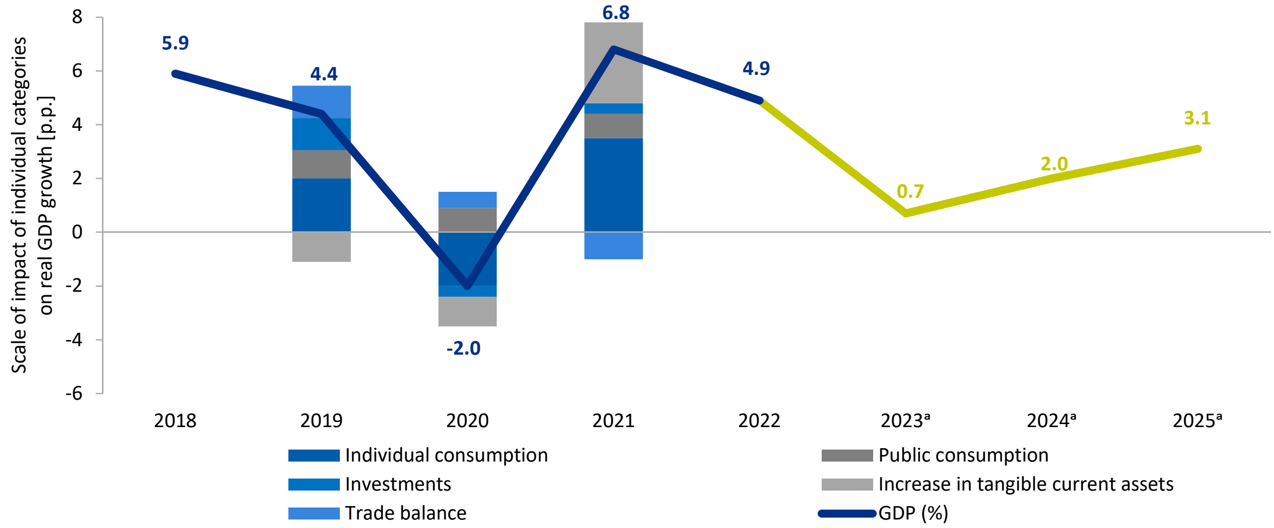
Industry and the economy in Poland

Increase in sold industrial output in 2022 by +10.2% yoy (+14.8% yoy in 2021) with a clear trend of a decreasing rate of growth in Polish industry.[2] Despite the sector's strong resilience to the impact of the war in Ukraine and the COVID-19 pandemic, the high inflation rate, the significant cost of capital and the increase in energy commodity prices along with their stabilization at high levels effectively slowed down industrial activity. The rate of growth in industrial output kept decreasing from quarter to quarter, having attained +16.0% yoy in Q1, +11.3% yoy in Q2, +9.7% yoy in Q3 and +4.6% yoy in Q4 2022.[3]

Increase in yoy output (January-December) in 32 (out of 34) industrial branches which account for a 99.7% share in the sector's sold output, including those of key significance for the PKP CARGO Group, such as: extraction of hard coal and lignite (+20.3%), production of machinery and equipment (+22.1%), metal products (+16.9%), motor vehicles (+15.0%), rubber and plastic products (+8.4%), chemicals and chemical products (+8.4%), wood products (+7.8%), paper and paper products (+7.5%), products from other non-metallic raw materials (+6.0%), metals (+3.5%) and furniture (+1.8%).[4]

In 2022, according to preliminary data published by Statistics Poland, the country's GDP grew by +4.9% yoy (compared to +6.8% yoy in 2021). The key factor driving the economic growth was domestic demand (5.5% higher than in 2021). Both total consumption (+2.1% yoy) and investment demand exerted a positive impact. Gross fixed capital formation increased by +4.6% (2.1% the year before), and the investment rate was +16.8% (compared to 17.0% in 2021). After the pandemic-related decline in 2020 and the strong post-pandemic rebound in 2021, the Polish economy entered 2022 with a high rate of growth (GDP growth of +8.6% yoy in Q1 2022). However, the war in Ukraine reversed this trend and the quarter-on-quarter rate of GDP growth clearly declined. In the following quarters of the year, according to preliminary estimates published by Statistics Poland, the country's GDP growth rate kept decreasing: +5.8% yoy in Q2, +3.6% yoy in Q3 and +2.0% in Q4 yoy (compared to +8.5% yoy in Q4 2021).[5]

Figure 2 Real GDP growth rate in Poland in 2018-2022 (decomposed for 2019-2021) and forecast for 2023-2025 – data not adjusted for seasonality.



a – macroeconomic forecasts of the National Bank of Poland for 2022-2025 (November 2022)
Source: Proprietary material based on data published by Statistics Poland and the National Bank of Poland.

[2] Statistics Poland (in enterprises employing more than 9 staff)
[3] Statistics Poland
[4] Statistics Poland
[5] Statistics Poland

Strong price growth in 2022: prices of consumer goods and services increased by +14.4% yoy (compared to +5.1% yoy in 2021), of which prices of goods increased by +15.4% yoy and prices of services by +11.2% yoy.[6] This was the largest average annual price increase since 1997. The primary reasons for the rapid increase in inflation included the implications of the war in Ukraine (high prices of energy carriers and disruptions of supply chains). The inflation rate kept increasing gradually throughout the year (in November and December, it slowed down slightly, but remained high). In 2022, a strong increase was recorded in the prices of sold industrial output (+22.4% yoy) and the prices of construction and assembly output (+12.6% yoy).[7]

Weak leading indicator for industrial processing PMI – in December, for the eighth consecutive month, the PMI was below the 50.0-point threshold marking the technical border between recovery and recession in the industrial processing sector. Both Q4 and during the 12 months of the year, the index remained below this threshold (43.7 points and 47.0 points, respectively). This was associated with the clear slowdown in the Polish economy, as reflected in a decrease in new orders and negative assessments by commercial undertakings as to the possibility of a rapid economic rebound. In December, the PMI increased to 45.6 points (from the lowest level of 40.9 points in August), which was its second increase in a row confirming the improvement in sentiment and expectations as to the stabilization of output in the coming months. However, new orders declined for the tenth consecutive month.[8]

Deterioration of the business tendency indicator for industrial processing (Statistics Poland) – this indicator, after the Q2 improvement to -11.4 (compared to -13.1 in Q1), declined in Q3 2022 to -16.5, to decline even further in Q4 to -20.4 (which is the worst result since Q2 2020, when, due to the peak of the epidemic, all business activity stalled). This means that the number of businesses expecting a further deterioration of the economic situation in the coming months grew in relation to the number of businesses expecting the opposite to occur.[9]

Forecasts: the National Bank of Poland's economic growth forecast anticipates a strong decrease in GDP growth in 2023-2024. According to the projection, the following GDP growth figures may be expected: +0.9% yoy in 2023, +2.1% yoy in 2024 and +3.1% yoy in 2025. A further significant increase in prices above the inflation target (of between +1.5% and +3.5%) is expected in 2023-2024 (specifically, +11.9% yoy in 2023, +5.7% yoy in 2024 and +3.5% yoy in 2025).[10] Similar forecasts were also published by the Polish Economic Institute, which assumed GDP growth in 2023 at +1.2% yoy. Also, the Polish Economic Institute estimates the inflation rate at +13.0% yoy, with a peak in February 2023, followed by a gradual decrease in the price growth rate in the following months (additionally, a high level of core inflation is assumed – of nearly 8% at the end of the year);[11] Despite the deteriorated sentiments in both the domestic industry and in the euro zone (as measured by the PMI) coupled with the gradual weakening of the economic situation, there are currently no signs of a strong decline in production. It should be noted, however, that the current improved production rates may still be partly due to the post-pandemic recovery effect (problems in global supply chains). The market shows deterioration of global sentiments in the industry and poor prospects for foreign and domestic demand, which in the coming quarters will translate into a decrease in output growth in the industrial sector. At the beginning of 2023, the high reference base from previous periods (resulting, among other facts, from stockpiling in Q1 of last year) will cause a decline in industrial output growth to around 0% yoy. The war in Ukraine and its consequences for international trade coupled with its impact on the processes taking place in Poland will exert a key impact on the sector's performance.

Mining industry

- In 2022, the domestic coal market saw increased demand with limited supply of commodities as a result of, among other factors, the relatively rapid economic growth (supported by domestic demand) and growing industrial output, coupled with the consequences of the ongoing armed conflict in Ukraine (increase the prices of energy carriers, for which coal serves as a natural substitute, resulting, without limitation, from the abrupt increase in prices and tensions on the natural gas market in Europe) and the related economic sanctions, specifically the ban on coal imports from Russia (which intensified the uncertainty regarding the availability and prices of commodities).
- Decline in hard coal output in 2022 to 52.8 million tons (-2.2 million tons, or -4.0% yoy). In Q4 2022, hard coal output stood at 13.3 million tons (down -0.8 million tons yoy or -6.0% yoy), signifying a major decrease in the domestic output of this commodity.[12]
- Decline in domestic hard coal sales in 2022 to 52.4 million tons (-5.9 million tons yoy, or -10.1% yoy). In Q4 2022, sales of this commodity decreased by as much as -22.0% yoy, and only 12.1 million tons were delivered to

[6] Statistics Poland
[7] Statistics Poland
[8] IHS Markit
[9] Statistics Poland
[10] National Bank of Poland
[11] Polish Economic Institute
[12] Industrial Development Agency (ARP)

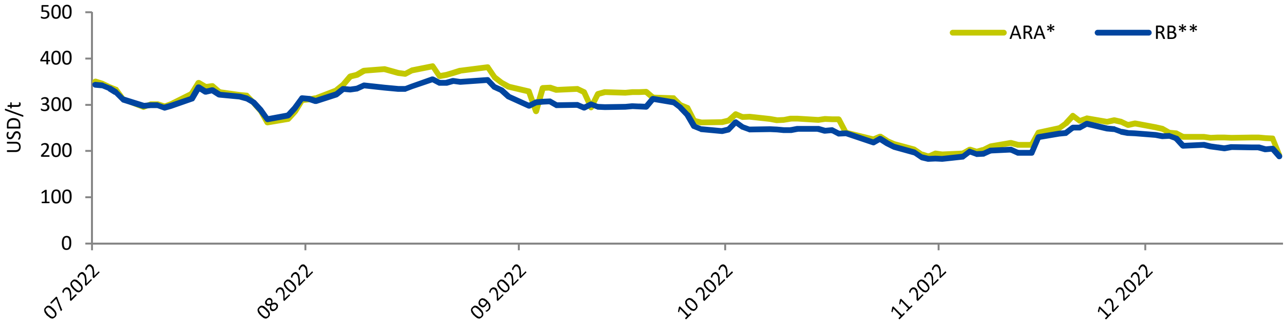
customers (compared to 15.6 million tons in the same period of the previous year). At the same time, in 2022, sales of hard coal turned out to be lower than its output by 0.4 million tons.[13]

- Volume of hard coal inventories in the mines' storage yards: 1.1 million tons as at the end of September 2022 (down by -2.7 million tons, or -71.0% yoy). In the following months, inventories increased to 1.4 million tons in October (-54.3% yoy), then to 1.8 million tons in November (-28.7% yoy) and finally to 2.2 million tons in December (-1.4% yoy).[14]
- Increase in hard coal imports in 2022 (according to Eurostat) by +58.9% yoy to 19.8 million tons (with a major diversification of supply directions). Australia was the new main supply source of this commodity (+56.7% yoy, from 2.0 million tons to 3.1 million tons, which translated into a 15.6% market share). The leader was followed by Kazakhstan (3.0 million tons, 15.1% share), South Africa (2.9 million tons, 14.5% share) and Colombia (2.6 million tons, 13.1% share). Russia, which was the leader in 2021 with a 65.6% market share, in 2022 accounted for a 13.0% share (2.6 million tons, -68.5% yoy). Due to the embargo imposed by Poland in April 2022 on commodity imports from the Russian Federation, from June of last year no more coal purchases from this country were recorded. At the same time, significant increases in imports from other countries were recorded, including: Indonesia (+1.7 million tons, which translated into an 8.8% share), the United States (+0.6 million tons), the Netherlands (+0.3 million tons) and Mozambique (+0.3 million tons).[15]
- Polish seaports handled record-high transshipment volumes in 2022, largely due to the restrictions imposed on commodity supplies from Russia. In 2022, transshipment of 13.2 million tons of coal was recorded in the port of Gdańsk (+175.6% yoy), 3.4 million tons of coal and coke in the port of Gdynia (+174.0% yoy) and 4.3 million tons of coal in the ports of Szczecin and Świnoujście (+50.8% yoy). This meant a significant (by over 10 million tons) increase in coal transshipment volumes, which accounted for over 50% of the total increase in 2022 (from 113 million tons in 2021 to 133 million tons in 2022).[16]
- Sharp increases in coal prices and increased international demand: rise in demand for coal resulting from, among others, the embargo imposed on Russia by the European Union (in effect since August of last year), high natural gas prices on the world markets compared to previous years, curtailed global mining operations resulting from numerous natural disasters, and further increases in demand for coal from major Asian economies (which, despite increases in their own output, were in need of significant coal imports). In Q4 of last year, the average coal price in the ARA ports was USD 242.34 per ton (compared to USD 153.13 per ton in Q4 2021), up by +58.3% yoy. Throughout 2022, the rate of growth was even higher, with prices rising 140.7% yoy, to USD 276.35 per ton (from USD 114.82 per ton in 2021). At the same time, over the last 4 months, market prices clearly declined: after reaching USD 380 per ton at the beginning of September, they gradually dropped to a level below USD 200 per ton at the end of the year due to the relatively mild winter.
- Very strong price increase on the Polish coal market: in 2022, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 408.66 per ton. In turn, PSCMI2 reached PLN 796.97 per ton in 2022. In Q4, the average value of the coal index for the commercial power industry, PSCMI1, was PLN 543.89 per ton (+121.7% yoy and +1.4% qoq). PSCMI2 for the heating industry reached PLN 1,092.86 per ton (+221.7% yoy and +5.6% qoq). This year-on-year increase takes into account the increase in commodity prices caused by the renegotiation of previously executed coal supply contracts by mining companies with contractors, which resulted from a significant increase in prices on global markets last year.[17]
- Decrease in electricity consumption in Poland in 2022 by -0.5% yoy to 173.5 TWh.[18]
- Increase in electricity output by +0.9% yoy to 175.2 TWh from January to December 2022. In parallel, the volume of electricity generated by hard coal-fired commercial power plants decreased by -5.7% yoy (to 87.8 TWh) and, at the same time, increased for lignite-fired power plants by +3.6% yoy (to 47.0 TWh). At the same time, electricity generation in gas-fired power plants decreased by -25.2% yoy, while in wind power plants it increased by +28.6% yoy.[19]
- Reversal of the favorable (from the perspective of hard coal producers) trend in the national energy mix – decrease in the share of hard coal in total energy output to 50.1% (-3.5 p.p. yoy).[20]

[13] Industrial Development Agency (ARP)
[14] Industrial Development Agency (ARP)
[15] Eurostat
[16] WNP
[17] Industrial Development Agency (ARP)
[18] Polskie Sieci Elektroenergetyczne
[19] Polskie Sieci Elektroenergetyczne
[20] Polskie Sieci Elektroenergetyczne

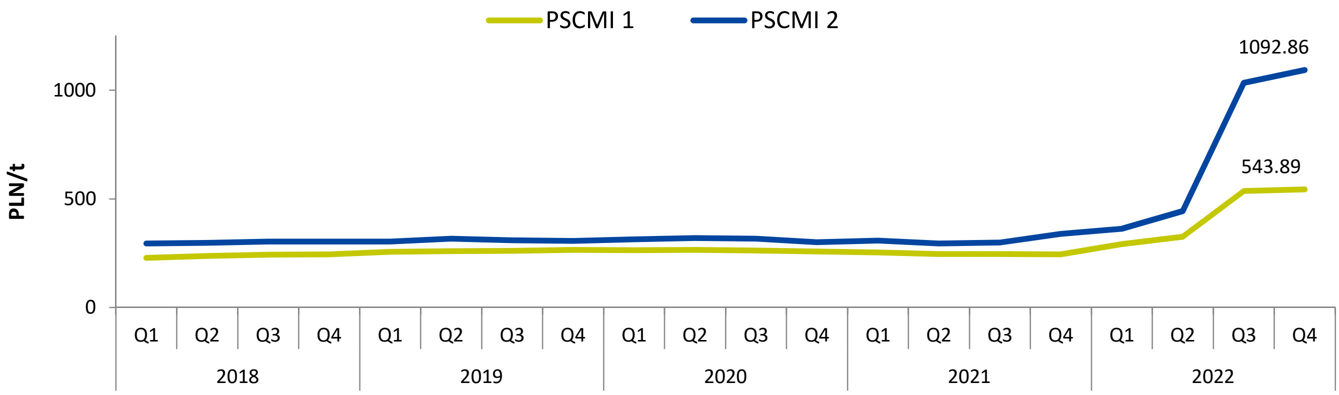
- The ban on the import and transit of coal (and coke) from the Russian Federation and Belarus that has been in force in Poland since April 2022 was imposed as part of the fifth package of European Union sanctions covering the Community (effective as of 10 August 2022).[21]

Figure 3 Current and historical values of coal price indices on the European ARA* vs. RB** markets



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

Figure 4 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



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

Factors with a positive effect on the sector:

- the temporary increase in demand for coal mined in Poland pushes up output and enables the conduct of modernization projects in Polish mines, which should have a positive impact on production capacity in 2023 and subsequent years;
- the high prices of other energy carriers (including natural gas playing the role of a substitute for coal) in the coming years will effectively increase coal prices on the global market, which should drive up production capacity and enable profitable mining operations along with relatively easy sales of the commodity on the market;
- the growing demand of the Chinese and Indian economies may generate the need to additionally amplify the output volume in Poland (due to the rising prices and insufficient supply from other sources).

Factors with a negative effect on the sector:

- the acceleration of work on reducing the emission intensity of European economies will force Polish mines to incur high transformation costs, which in extreme scenarios may lead to some of them having to shut down their operations;
- the uncertainty as to the environmental costs of coal combustion may effectively accelerate work on the departure from this commodity by other sectors of the Polish economy (e.g. heating or metallurgy);

[21] Gov.pl

- the decrease in the number of specialists leaving their jobs for natural reasons will suppress the output capacity of Polish mines and increase the pressure for greater automation of processes (which may be associated with higher cost-intensity of mining operations);
- the absence of a consistent plan for the mining industry and the European Commission's refusal to approve sector-specific programs may result in further cuts in output.

Construction industry

- Positive growth in construction investment, with apparent symptoms of a progressive slowdown in activity in the construction industry.
- Increase in construction and assembly output: +6.2% yoy (compared to +3.2% yoy in 2021).[22] After Q1, a high year-on-year rate of growth was recorded, which subsided in the following quarters amid the waning growth in construction and assembly output. In 2022, improved performance was recorded in all sections of construction and assembly output, including by enterprises involved in the construction of buildings (+11.7% yoy), specialist construction works (+5.4% yoy) and construction of civil engineering facilities (+2.8% yoy).[23]
- Decrease in cement production in Poland by -2.4% yoy to 18.9 million tons and increase in cement clinker production by +4.3% yoy to 14.6 million tons.[24]
- Ban on cement imports from Belarus (as of 4 June 2022, in connection with the sanctions imposed by the European Union). In 2016-2021, the volume of cement imported from this country increased from 119 thousand tons to 538 thousand tons.[25]
- Diminishing activity in the construction sector resulting largely from the significant increase in the cost of capital (a factor of key significance for the growth rate of residential construction projects), the high inflation rate, the rising prices of materials and the numerous market disturbances largely caused by the war in Ukraine. Construction companies recorded an increase in operating expenses, while the high financing costs hampered new investments. The market also experienced a decline in the purchasing power of households (due to the curtailed availability of mortgage loans coupled with a significant increase in debt servicing costs).
- Weaker-than-expected demand from public institutions (relatively low involvement of the state and local governments in the execution of new public investment projects) due to the absence of funds from the National Reconstruction Plan and the yet-to-be released funds from the new budget framework for 2021-2027 – no significant recovery in infrastructural construction was recorded despite the earlier expectations that it would help sustain the sector's good performance.
- In 2022, the General Directorate for National Roads and Motorways (GDDKiA) commissioned 26 new road sections with a total length of 322 km (which translated into an extension of the road network to 4,887.1 km of expressways, of which 1,799.7 km of motorways and 3,087.4 km of expressways). 103 projects with a total length of 1,325.9 km remain in progress. There are currently 13 projects at the stage of tender procedure with a total length of 168.8 km under the National Road Construction Program (NRCP) and 3 ring roads under the governmental Program for the Construction of 100 Ring Roads for 2020-2030 (PB100) with a total length of 21.9 km. During the year, a tender was announced for the construction of 20 sections of new roads with a total length of 226.8 km, while GDDKiA signed 24 contracts for projects with a total length of 333.4 km.[26]
- On 13 December 2022, the Council of Ministers adopted the Governmental Program for the Construction of National Roads until 2030 (with an outlook until 2033) – the program is intended to ensure the final completion of the construction of all expressways, for which PLN 294.4 billion will be earmarked.[27]
- The estimated value of the largest railroad construction investments in Poland in 2022-2027 is PLN 125 billion (of which PLN 37 billion are projects at the execution stage). Most projects are being executed in the following voivodships: Małopolskie, Łódzkie, Mazowieckie, Śląskie and Podlaskie (over 60% of all projects at the execution stage and in the pipeline).[28]
- The Strategic Investments Program under the Polish Deal Governmental Fund: funding of over PLN 63.4 billion has been granted to 99% of local governments in Poland. Largest subsidies were earmarked for road infrastructure (PLN 30.8 billion), water and sewage systems (PLN 11.3 billion), sports infrastructure (PLN 4.4 billion) and education infrastructure (PLN 3.4 billion).[29]

[22] Statistics Poland, in construction companies, including enterprises with up to 9 staff
[23] Statistics Poland
[24] WNP
[25] money.pl
[26] General Directorate for National Roads and Motorways
[27] General Directorate for National Roads and Motorways
[28] polskiprzemysl.com.pl, Spectis
[29] BGK

Forecasts for the construction industry:

The construction industry is experiencing a decline in activity, which is why the forecasts for the first months of this year predict a further slowdown in the growth rate in the construction industry, which is likely to result, on the one hand, from the high reference base of 2022, but also from the still relatively high cost of capital, the significant degree of uncertainty on the market and the rapid cooling of sentiments in the economic environment. In general, the first half of 2023 is expected to see the continuation of market trends, specifically the weakening of private investments in construction with a simultaneous increase in public investments. In Q1 2023, the sector expects a year-on-year decrease in construction output. However, it should be noted here that construction and assembly output at the beginning of 2022 was also highly volatile (+18.9% mom in January 2022 and -5.0% mom in February 2022). These rapid changes in the reference bases will translate into highly volatile Q1 2023 performance, with the continuation of the downward trend in output growth recorded by the construction sector. The unstable and volatile situation will probably persist until the end of Q1, but in Q2 2023 it may return to positive annual growth rates with an increase in the construction industry's output (mostly due to the expected boost in public investments in the power sector and infrastructure). Demand for aggregates and other construction materials in Poland is driven by large infrastructural investment projects executed within the framework of the "National Road Construction Program" and the "National Railway Program". It may be expected that these production sectors should exert a favorable impact on the performance of the whole construction sector in the coming months. Optimistic but at the same time realistic assumptions predict a recovery from the downward trend and the launch of an upward trend due to the anticipated rebound in the civil engineering industry (supported by the assumed increase in the scale of expenditures in the pre-election period and the intensification and accumulation of investment programs funded from the EU budget framework for 2014-2020).

Factors with a positive effect on the sector:

Continuation of the good economic situation in the construction sector in the coming months despite market turmoil as a result of:

- good performance reported by industrial production companies associated with the construction sector;
- improved activity in enterprises specializing in the construction of civil and water engineering facilities (in infrastructural public investments);
- expected increase in the volume of infrastructural expenditures by the public sector and state-owned companies in the pre-election period.

Factors with a negative effect on the sector:

The construction sector's growth rate in the coming months will be hampered by:

- effects of an increasingly higher reference base;
- rising cost of capital (and decreasing creditworthiness of borrowers) – the interest rates hikes announced by Poland's central bank in 2022 (due to the double-digit inflation rate) adversely affected the financing of existing and new construction projects and caused a significant decrease in mortgage lending, which translated into a dampening impact on residential construction projects;
- higher prices of construction materials and energy carriers (higher production costs in the construction industry implying a lower rate of real production growth based on the adopted budgets);
- cooling down/gradual downturn in the housing construction market (sharp decrease in the number of new residential construction projects in H2 2022 and weaker prospects for private investment in building construction);
- lower capital expenditures by enterprises (due to the economic downturn, weaker demand and poor investment sentiments);
- changing spending priorities of the state (purchases of hardware for the army, expenditures related to protection against the effects of the energy crisis);
- dependence of numerous infrastructural projects on EU funding – deferred launch of funds from the National Reconstruction Plan;
- armed conflict in Ukraine causing both the outflow of employees from Ukraine and limited access to high-quality aggregates used in Poland for the construction of roads and rail lines as well as for the production of concrete and prefabricated elements.

Steel industry

- Strong cooling down of the economic situation on the steel market – the high costs of doing business along with the weakening demand effectively hampered the sector's activity. Limitations in production and investments caused by the weaker demand for the sector's output. The war in Ukraine exacerbated the growing problems related to the increase in prices across the world. The inflation, the relatively high interest rates and the high energy prices prevent the sector from returning to operating at full capacity. The potential return to the path of economic growth coupled with the normalization of the commodity markets may result in the restoration of full production capacities.

- Decrease in global crude steel output: according to Wordsteel 1,831.5 million tons were produced (-4.3% yoy).[30]
- Decline in steel production in the European Union: production stood at 136.7 million tons (-10.5% yoy).[31]
- Lower steel production in Asia (including Oceania): production totaled 1,351.3 million tons (-2.3% yoy), of which China produced 1,013.0 million tons of steel (-2.1% yoy), with an approximately 55% share in the global market. India follows with production of 124.7 million tons of steel (+5.5% yoy).[32]
- Decrease in steel production in Poland: down by -7.8% yoy to 7.5 million tons.[33]
- Decline in crude steel output in Poland: a decrease was recorded in the production of cold-rolled sheets by -25.4% yoy to 1.4 million tons, thin sheets by -17.2% yoy to 1.0 million tons, hot-rolled products by -13.9% yoy to 7.7 million tons, rods and flat bars by -6.5% yoy to 3.4 million tons and hot-rolled bars and rods by -6.0% yoy to 1.3 million tons.[34]
- Decrease in coke production in Poland: by -8.6% yoy to 8.5 million tons[35] in connection with a decrease in the profitability of steel production in Europe, due to very high energy costs and the weakening demand for products.

Forecasts for the steel sector:

- According to the November 2022 estimates of the World Steel Organization, demand for steel will decline by -2.8% yoy in 2022, but in 2023 the market will see a slight rebound – output is expected to increase by +1% yoy. According to analysts, demand for steel will fall the most in the European Union (-3.5% in 2022 and a further -1.9% in 2023). A sharp weakening is also projected for China (-4% in 2022 and stagnation in 2023). In turn, experts forecast a gradual positive growth in the United States and in developing countries (Philippines, Indonesia, Malaysia, Singapore and Thailand), where demand is expected to increase at an annual rate of approx. +6% over the next two years.[36]
- According to Eurofer's expectations, real steel consumption in the European Union, following the significant increase in 2021 (+9.5% yoy) and the continued growth despite market turmoil in 2022 (+1.3% yoy), will dwindle by -0.8% yoy in 2023, but will return to the upward trend in 2024 (+2.5% yoy);[37]
- According to ArcelorMittal's expectations, global demand for steel in 2023 (excluding China) will increase by +2-3% yoy, while the company's steel deliveries will increase by approx. +5% yoy (due to the improved economic situation in the largest economies and a decrease in customer inventories in H2 2022);[38]
- The slowdown in European economies will reduce the demand for steel. According to data published by Eurofer in 2022, all the most significant segments of the economy from the perspective of steel consumption decelerated in quarter-on-quarter terms. The SWIP (Steel Weighted Industrial Production) index measuring the rate of production changes in steel-intensive sectors kept declining, of which in the construction sector (which in Europe accounts for approx. 35% of total steel consumption, and in Poland for over 40%) it fell by -3.4% in Q4 2022 (for Q1 2023, a further -6% decrease is forecast), and in the automotive sector (accounting for approx. 18% of total steel consumption) a decrease of -3.6% was recorded in Q4 2022, while for Q1 2023 the market expects only +0.1% growth, compared to the same period of the previous year (when the decrease was -10%).[39]

Factors with a positive effect on the sector:

- forecast pick-up in infrastructural investments in Poland;
- sourcing new component suppliers after strong disruptions to supply chains in the first half of 2022, e.g. in the case of suppliers for the automotive industry.

Factors with a negative effect on the sector:

- high degree of uncertainty for geopolitical reasons (the outbreak of war in Ukraine);
- uncertainty relating to the economic situation and inflation (the possibility of particular economies falling into recession);

[30] Worldsteel.org
[31] Worldsteel.org
[32] Worldsteel.org
[33] Statistics Poland
[34] Statistics Poland
[35] Statistics Poland
[36] Polish Economic Institute, November 2022
[37] European Steel Association (Eurofer), 2023
[38] WNP
[39] WNP

- decline in demand due to earlier excessive purchasing aimed partly at securing companies against expected shortages, and as a result of the economic downturn (resulting in a decline in demand for steel among its recipients);
- high prices of raw materials and emission allowances and an increase in costs (especially those relating to energy and energy carriers);
- reduction in output and the overhauls of steelworks relating to a low market demand – e.g. overhauls conducted by ArcelorMittal at the Steelworks in Dąbrowa Górnicza and the coking plant in Zdzieszowice (the stock level which is still high reduces the level of orders placed with steelworks and the low demand and decreasing product prices constitute disincentives to production in both Europe and China);
- poor results in the domestic appliances/electronics and automotive industries;
- uncertainty as to the development of the COVID-19 epidemiological situation and possible further restrictions (possible further waves of infections and virus variants and temporary closing of economies, especially in Asia);
- environmental requirements imposed on business activities conducted in the European Union which effectively decrease the competitiveness of European steel manufacturers;
- possible increase in freight prices that increases the costs of steel and steel production in Europe (for raw materials and commodities arriving by sea);
- concerns about disruptions to gas supplies which may result in another wave of panic in the steel market (increase in prices and purchases/stocks).

Chemical industry

- The chemical industry remains a key sector of the Polish economy, with its products used mainly as semi-products necessary in other economy sectors, and also by producers operating in other countries (especially in neighboring countries). High dependency on the pace of economic development contributes to strong production fluctuations in this sector, especially in the case of a severe market downturn or a major increase in the prices of raw materials necessary for conducting business in this sector. The most important group of companies are companies engaged in the production of liquid fuels. Demand for liquid fuels is strongly connected with the GDP growth rate – a faster growth rate translates into an increase in demand for transport fuels, whereas a collapse in demand constitutes an important triggering factor and a signal of consumption slowdown and a reduction in the output of the industrial processing sector.
- Changes in the economic situation in Poland are the main factor determining the output and results of the chemical sector. Other important factors affecting the sector's operation or contributing to a decline in the level of rail transport (of both raw materials for production and finished products) are: oil and gas prices, the oil import level, the rate of growth in the use of liquid fuels in Poland, the development of the transmission network (pipelines), the scale of demand for chemicals (including fertilizers), as well as the prices of energy and raw materials (the chemical industry is highly energy-consuming).
- Decline in the output of fertilizers in Poland in 2022 – including nitrogenous fertilizers (-16.9% yoy to 1.7 million tons), potassic fertilizers (-21.3% yoy to 0.3 million tons) and phosphorous fertilizers (-27.4% yoy to 0.3 million tons).[40]
- In 2022, a decline in the output of: sulfuric acid (-9.2% yoy to 1.5 million tons), nitric acid (-17.4% yoy to 2.0 million tons) and ammonia (-18.9% yoy to 2.1 million tons).
- In 2022, an increase in the output of: diesel fuel (+4.9% yoy to 14.3 million tons), motor gasoline (+3.9% yoy to 4.3 million tons) and plastics (+0.9% yoy to 3.4 million tons).[41]
- Increase in oil import volume in 2022 by +7.9% yoy to 25.1 million tons (i.e. by 1.8 million tons).[42]
- The domestic liquid fuel consumption over the first three quarters of 2022 increased by +4.7% yoy (according to the information provided by the Polish Organization of the Oil Industry and Trade), which was the result of, among other things, an increase in the number of cars from Ukraine (brought along with the large migration wave at the beginning of the year), but at the same of a decrease in demand during the holiday period (related to a considerable increase in prices and reduced travelling frequency among Polish people). In the case of three key liquid fuels (motor gasoline, diesel fuel, LPG), the increase was +3.5% yoy and consumption was 25.6 million cubic meters, which constitutes an increase in demand to a level clearly exceeding the 2019 level (24.4 million cubic meters).[43]

[40] https://stat.gov.pl/- Production of major industrial products in December 2021 – tables.
[41] https://stat.gov.pl/- Production of major industrial products in December 2021 – tables.
[42] https://stat.gov.pl/- GUS Statistical Bulletin
[43] Polish Organization of the Oil Industry and Trade

- A difficult situation in the fertilizer market caused by high gas prices and other production factors has a negative impact on the results achieved by producers, i.e. the Azoty Group (the second largest producer of fertilizers in Europe) and Anwil, a company belonging to the PKN Orlen Group, among others. Additionally, the VAT on fertilizers was reintroduced starting from 2023 after a period when it was 0% (8% starting from January 2023).[44]
- A possible increase in the prices of diesel oil – the embargo on the import of Russian oil products to the European Union which took effect on 5 February 2022 may lead to turbulence in the supply chains of oil 30% of which is imported (in previous years, fuels from Russia accounted for over 60% of fuels imported to Poland and in 2022 this share decreased to approx. 1/3). Importers declare that they are prepared for the upcoming changes, but the lengthening of supply chains and the need to store appropriate stocks may have an adverse impact on costs and, at the same time, on prices at fuel stations.[45]

Factors with a positive effect on the sector:

- forecast economic downturn in Europe, which is considerably weaker than initially assumed and which may contribute to the weakening of the production scale to a lesser extent, without resulting in a clear reduction in international exchange, which should contribute to a positive growth rate of results achieved by producers in subsequent quarters;
- ban on the import of fuels from Russia (which took effect on 5 February 2023) should have a favorable impact on the use of production capacities in Poland, including in particular on the production of diesel fuel;
- restoration of calm in the gas market should stabilize prices, resulting thus in a real decrease in production costs, which at the same time will boost the production scale. The chemical industry is very sensitive to the prices of this raw material, because of the fact that it constitutes even as much as 70% of the costs of production of the sector's selected products (e.g. fertilizers).

Factors with a negative effect on the sector:

- the economic downturn (especially in Europe) will continue to adversely affect prospects for a dynamic market development, but the scale of the decrease in the growth rate is to be lower than initially assumed;
- possible increase in the prices of raw materials, relating to an increase in the global GDP which is greater than initially estimated (return to a high growth rate in China whose economy will need large amounts of all types of raw materials and components necessary for production);
- limited demand on the domestic market - because of, among other things, the lower buying power of people (including business enterprises and farmers), which is related to a decline in the average real wage over the last months and increasing costs of living.

Automotive industry

- A total of 255.1 thousand passenger cars were manufactured in Poland in 2022 (compared to 260.8 thousand in 2021, 278.9 thousand in 2020 and 434.7 thousand in 2019), which means that the declining trend, which intensified during the pandemic, is continuing. This situation was caused by a number of problems in supply chains, as well as the need to adapt the production base to modern economy requirements.
- At the same time, the production of trucks and tractors increased in 2022 - from 166.4 thousand in 2020, to 173.4 thousand in 2021, to 223.7 thousand in 2022. This constitutes an increase by +7.6% compared to the result achieved in 2019 (when the production reached the level of 207.8 thousand vehicles), as well as a significant year-over-year growth (+29.0%), which is due to the increasing needs of the transport sector and the army.[46]
- At the end of 2022, the number of electric-powered passenger cars and utility vehicles registered in Poland was 64.7 thousand, which was the effect of a considerable increase in 2021, when the number of vehicles registered during the year was 26.4 thousand (an increase in new registrations of over 33% compared to 2021). 31.2 thousand out of 61.6 thousand of registered passenger cars were fully electric-powered. With respect to delivery vans and trucks, there were over 3.1 thousand such vehicles in Poland, and additionally 821 buses. At the same time, the number of general-access charging stations is growing (there were 2,565 such facilities with 5,016 charging points at the end of December), and because of the decision not to register combustion vehicles in the European Union starting from 2035, a rapid and relatively balanced development of infrastructure is of special importance.[47]

Factors with a positive effect on the sector:

- lifting of pandemic restrictions;

[44] cenyrolnicze.pl, money.pl
[45] businessinsider.com.pl, WNP
[46] Polish Automotive Industry Association
[47] Polish Automotive Industry Association

- relatively mild course of the energy crisis in Europe;
- improvement in the semiconductor supply logistics;
- the need to make up for production backlogs from previous years, relating to, among other things, the shortage of components (such as semiconductors), should continue to have a favorable impact on the sector's production results, despite possible further disruptions in logistic chains;
- remodeling of logistic chains which are to enable the sourcing of new components at the right time (the use of the "nearshoring" strategy, i.e. a strategy consisting in finding cooperating parties in nearby countries, which considerably shortens delivery time and reduces the risk of lengthening time necessary to make up for shortages, as well as the risk of suspending production relating to the lack of key elements), which includes diversifying the supplier base.

Factors with a negative effect on the sector:

- the forecast worsening of the economic situation in Europe may translate into a pessimistic mood among potential buyers, including in particular institutional buyers (which have the largest share in the new cars market). The economic slowdown in Poland and in Europe will contribute to a lower demand for cars, and, because of the lower demand, the current production capacities will need to be adapted to societies' weakening buying power;
- the increasingly restrictive environmental regulations - the pre-announced introduction of further pro-environmental solutions may generate high adaptation costs, and also periodically change the production volume in Europe (due to, among other things, on-going investment processes or the launching of production of zero- or low-emission solutions);
- bottlenecks in logistic chains;
- high inflation which makes economic calculations difficult;
- high purchase financing costs will result in a lower number of sold vehicles

Czech industry and economy

The industrial marketed production increased by +1.7% yoy in 2022. In Q4 2022, the production growth rate was +2.4% yoy (after a good result in Q3, which stood at +5.2% yoy, and a poor beginning of the year, with a decline by -0.2% yoy recorded in Q2 and by -0.4% yoy in Q1).[48]

The production of cars, trailers and semi-trailers increased in 2022 (+11.7% yoy), and so did the production of electrical equipment (+4.3% yoy) and of machines and equipment (+4.3% yoy). On the other hand, a decline was recorded in the production of metal structures and products (-3.8% yoy), the generation and distribution of electricity, gas, heat and air conditioning (-3.1% yoy), as well as in the production of other means of transport and equipment (-10.8% yoy).[49] The value of new orders in current prices increased by +10.4% in 2022 (following a +14.8% yoy growth in 2021), which includes an increase in domestic orders by +15.6% and in orders from abroad by +8.0% yoy. The increase in the total number of orders was driven mainly by an increase in the production of cars, trailers and semi-trailers (+8.5%).[50]

In Q4 2022, the main sectors of the Czech industry (account being taken of the PKP CARGO Group's transport operations) recorded declines in production, except for the automotive industry (+26.7% yoy). The key segment of the Czech industry, namely the production of chemicals and chemical products, recorded a -9.5% yoy decrease in output. Decreases were also recorded in the production of metals (-13.3% yoy) and metal products (-4.4% yoy), as well as in the mining and extraction sectors (-1.8% yoy).[51]

Deteriorating economic situation: due to worsening results in the global economy and the adverse impact of the war in Ukraine (including the problems in supply chains), the Czech industry continued to be under strong pressure relating additionally to, among other things, very expensive energy and high prices of components for production. The positive export results, however, constitute the driving force propelling the Czech economy, stabilizing at the same time the internal market. A considerable threat to industry's results may be the weakening demand for foreign products and the upcoming economic slowdown (expected to affect European countries, i.e. the main business partners of Czech companies, most profoundly). This will most probably result in a temporary decrease in the number of orders and a more pronounced decline in production in a large number of economy segments over the next quarters.

The GDP increase in 2022 - according to the preliminary estimate published by the CZSO, the GDP improved by +2.5% yoy (after an increase of +3.6% yoy in 2021, and the difficult 2020, when the Czech GDP decreased by -5.5% yoy). An important factor supporting the Czech economy's good results in the past year was international exchange. Owing to good results in this field

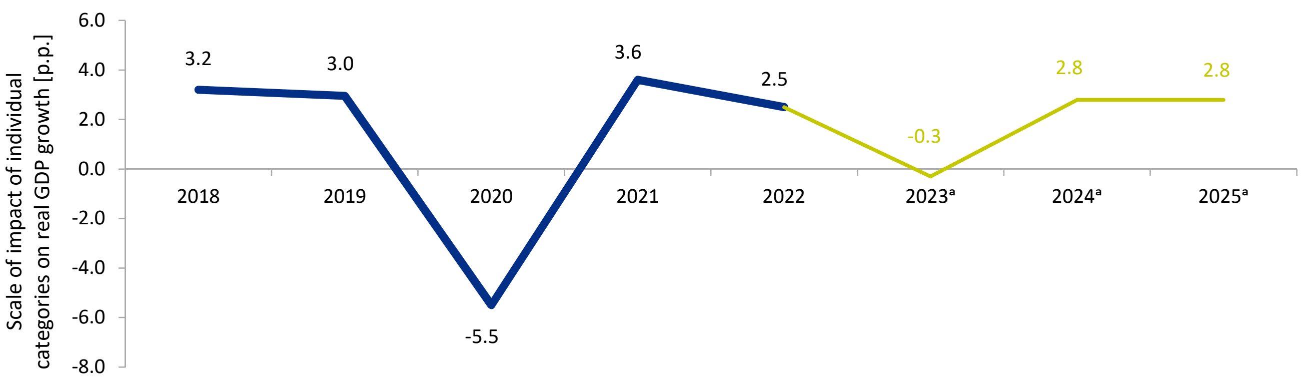
[48] Czech Statistical Office
[49] Czech Statistical Office
[50] Czech Statistical Office
[51] Czech Statistical Office

and considerable expenditure on gross accumulation, the GDP growth rate continued to be positive in the following quarters, which translated into a good year-over-year result. Due, however, to considerable capital costs and high inflation, among other things, contributing to poorer results in domestic exchange, the Czech economy can be seen to be weakening, despite the good year-over-year result.[52]

According to the preliminary estimate published by the CZSO, the country's GDP in Q4 2022 improved by +0.4% yoy (after an increase of +1.6% yoy in Q3, +3.5% yoy in Q2 and +4.6% in Q1), but at the same time it fell by -0.3% qoq. The reduction in the growth rate on a quarterly basis was due to declining domestic demand, which in turn was caused by declining household expenditure. The adverse impact of declining domestic consumption was countered by good external demand results and by expenditure on gross accumulation.[53]

GDP forecasts: the analysts of the Czech Ministry of Finance forecast the Gross Domestic Product, seasonally-adjusted in the first three quarters of 2023, to decline in connection with the worsening of the economic situation in global markets (which will affect especially export-oriented economies, such as the Czech economy), further disruptions in supply chains and persistent high inflation. All these phenomena will translate into consumers' reduced activity (real consumption will continue to fall) and, due to high capital costs, also into a decline in investments. A relatively mild GDP decrease will be related to a favorable impact of governmental investments (including those financed from the European Union funds) and partly also to the foreign trade results which, despite everything, are positive. According to the forecast, the GDP will decrease year-over-year in the first three quarters of 2023 (respectively, from -1.2% yoy, through -1.1% yoy, to -0.3% yoy) and the economy will finally break the adverse trend in the fourth quarter to reach a year-over-year growth of +1.4%. At the same time, following the estimated +2.3% yoy growth in 2022, the Czech GDP will decrease by -0.3% yoy in 2023, and after the return of the global economy to a path of a relatively dynamic growth, which is forecast to take place next year, the Czech economy will develop at the rate of +2.8% yoy in 2024 and +2.8% in 2025.[54]

Figure 5 Real GDP growth rate in the Czech Republic in 2018-2022 and forecasts for 2023-2025– seasonally-adjusted data



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

Inflation: in Q4 of 2022, inflation reached +15.7% yoy (after increasing by +17.6% yoy in Q3, +15.8% yoy in Q2 and +11.2% yoy in Q1). A decrease in the rate of growth of prices can be noticed, which is due to, among other things, a decrease in the prices of raw materials. At the same time, inflation for the entire year 2022 stood at +15.1% yoy (compared to +3.8% yoy in 2021).[55]

Inflation forecasts: according to the Czech Ministry of Finance's most recent forecasts from the end of January 2023, after reaching the annual average growth rate of +15.1% yoy in 2022, inflation will decrease in the following years (remaining at the same time at a level above the Czech National Bank's inflation target of +2.0% yoy), which will translate into the annual average growth in prices of +10.4% in 2023, +3.8% in 2024 and +2.8% in 2025. According to the analyses conducted by the Ministry of Finance, inflation peaked in September 2022 (when prices rose by +18.0% yoy) and disinflation phenomena will be observed in the following months of 2023, relating to, among other things, the previous year's high base effect and a decrease in the prices of raw materials compared to 2022 (which refers especially to the first three quarters), so that the rate of growth of prices will be close to +8.0% yoy at the end of 2023.[56]

[52] Czech Statistical Office
[53] Czech Statistical Office
[54] Czech Ministry of Finance
[55] vdb.czso.cz
[56] Czech Ministry of Finance

Pessimistic mood among business enterprises and poor PMI results: in Q4 2022, PMI averaged 42.0 points for the Czech Republic (compared to 46.1 points in Q3, 51.9 in Q2 and 56.7 points in Q1 2022), remaining since June below the 50.0 threshold delineating the technical boundary between recovery and recession in the industrial sector.[57] A gradual decline in the index from 59.0 points in January to 41.6 points in November, with a slight pick-up in December to 42.6 points, illustrates a relatively sharp decline in the Czech economy, which is dependent on export prospects for manufactured goods (due to a relatively small number of consumers in the domestic market), as well as further mood worsening among business enterprises. A clear drop in the number of new orders can be observed, as well as a general decline in demand among the recipients of final products, which translates into a decline in production. High energy costs and a very high inflation, which effectively restricted possible business expansion, had a strong impact on the conditions in which companies operated. At the same time, such important production factors as stocks or purchases were found to be decreasing (stocks decreased in December for the seventh time in a row). S&P Global Market Intelligence forecasts a 0.7% reduction in industrial production in the coming year.[58]

The following significant factors affected the situation of selected industries in the course of 2022:

Mining industry

- Increase in hard coal mined in Q4 2022: the volume of hard coal mined was 0.6 million tons (+23.6% yoy), which included 0.15 million tons of coking coal (-66.7 % yoy) and 0.44 million tons of thermal coal (+ 1,194.1% yoy). Although the volume of coking coal mined remained at a similar level as in Q3 2022, it was well below the level of the results achieved in preceding quarters (a gradual decrease in output starting from Q4 2021). At the same time, due to the growing importance of hard coal-based energy generation, Q4 2022 turned out to be the best quarter over the last two years, a result achieved in spite of a reduction in investments aimed at maintaining a high output level in preceding years and of the fact that two mines had been closed at the beginning of 2021.[59]
- Hard coal output in the Czech Republic exceeded 1.8 million tons (0.9 million tons of coking coal and 0.9 million tons of thermal coal) and, at the same time, 4.1 million tons were imported (with exports at 0.8 million tons). The decline of -18.0% yoy in the volume of coal mined was caused by, among others, the discontinuation of production by the ČSA and Darkov mines at the end of February 2021, as well as by the planned coal phase-out over the following years. At the same time, lignite production is of key importance for the Czech energy sector (with this raw material accounting for several times higher electricity generation capacities), which translated into an increase of +14.0% yoy in 2022 (from 29.3 million ton to 33.4 million tons).[60]
- Extension of coal mining in CSM in Stonava (the last active hard coal mine in the Czech Republic). Once mining has been extended until the end of 2023, due to, among other things, the high energy generation prices (including also coal prices), the war in Ukraine and the EU ban on coal imports from Russia, works on extending the mine's operations until the end of 2025 are underway. At the same time, an important step in this direction was the extension of validity of the documentation concerning the environmental impact until 2026, which effectively opens the way towards the continuation of the company's operations in the following years.[61] The share of hard coal in the energy mix is, however, relatively small; hard coal is intended to fill gaps during turbulence in the market (e.g. the gas market). Lignite mining is of fundamental importance for the Czech economy, as lignite is used to generate energy satisfying 40% of the total domestic demand (in spite of its numerous defects, such as high carbon-intensity and adverse environmental effects).[62]
- In November 2022, the President of the Czech Republic signed a tax package introducing, among things, a “windfall tax”, i.e. a tax on unexpected profits. The charge will apply in the years 2023-2025 to highly profitable companies engaged in generating and trading in energy, banking, and oil and fossil fuel mining and processing. The rate of the levy will be 60% of the surplus over the appropriately defined (by reference to the results achieved in previous years) tax base and, according to preliminary estimates, the state budget's proceeds on this account will amount to approx. CZK 85 billion in 2023.[63]

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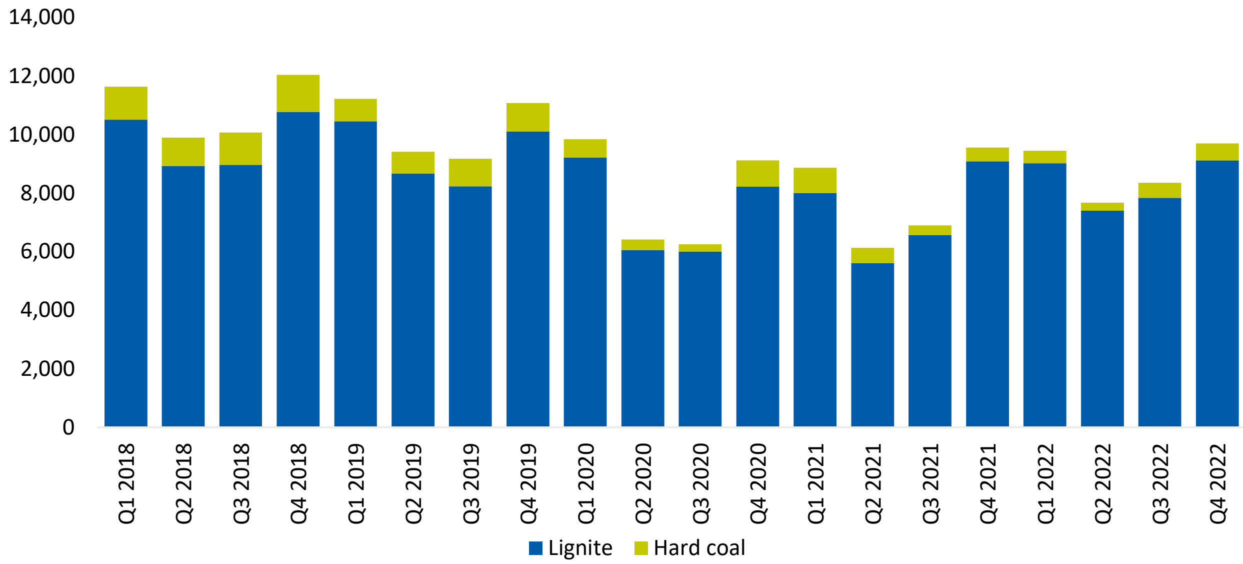
[57] Markit PMI
[58] Markit PMI
[59] Czech Ministry of Industry and Trade
[60] Czech Ministry of Industry and Trade
[61] slazag.pl
[62] WNP
[63] ceskenoviny.cz, kurzy.cz

Figure 6 Hard coal and lignite mining volumes in the Czech Republic in 2018-2022 (in thousands of tons).



Source: Proprietary material based on data from the Czech Ministry of Industry and Trade.

Steel industry

- Drop in coke output. Coke production in 2022 in the Czech Republic was 2.4 million tons (-8.8% yoy) with imports of this raw material remaining at a similar level as in 2021 (0.2 million tons, i.e. -1.7% yoy), while exports decreased to 0.6 million tons (-14.4% yoy). The reason for this was a gradual slowdown in economic growth in global terms and the limited operation of blast furnaces in Europe (due to production unprofitability in connection with, among other things, a decrease in the prices of finished products combined with an increase in the prices of energy needed to manufacture them).[64]
- Decline in steel production in the Czech Republic: production stood at 4.3 million tons (-11.0% yoy). [65]
- The Liberty Steel Group is planning to spend over CZK 1 billion annually on investments related to melting furnaces over the next 8 years. As part of a transformation program, “LIBERTY Ostrava GREENSTEEL”, a leading steel manufacturer in the Czech Republic, intends to replace 4 tandem furnaces with 2 modern hybrid electric arc furnaces and additionally build a new power line (which is an essential element of this project and has key importance for it).[66]

Automotive industry

- Growth in the output of the automotive industry: a total of 1.25 million motor vehicles of various types (passenger cars, trucks, buses and motorcycles) were produced in the Czech Republic in 2022, which represents an increase of +9.4% yoy. At the same time, growth was recorded in Q4 2022 alone, when the output increased by 0.31 million motor vehicles (which is a level similar to the result for Q3 2022), up +11.1% compared to the corresponding period of 2021.[67] The number of passenger cars produced in the entire 2022 exceeded 1.22 million, which represents an increase of +10.2% yoy. Q4 was the second consecutive quarter with passenger car production above 0.3 million units (and a year-over-year growth at the same time). The truck production, on the other hand, was more than 1/5 lower year-over-year (with the decrease in Q4 2022 alone at -1.4% yoy).
- Problems in supply chains persist in certain areas, but it is the increase in energy prices (as a consequence of the war in Ukraine), inflation and economic slowdown that are currently the main challenge for automotive manufacturers. The industry will most probably be strongly affected by consumers' weaker buying power over the next quarters, which will translate into decreased domestic purchases, and export markets, which will determine the industry's results, continue to be the key issue.
- Forecasts for the automotive sector: the Motor Industry Association (of Czech car manufacturers) forecasts that the production will increase in 2023 to the level from before the crisis (i.e. to approx. 1.3-1.4 million vehicles),

[64] Czech Ministry of Industry and Trade
[65] Worldsteel.org
[66] Liberty Ostrava
[67] AutoSap

because of the lifting of pandemic restrictions, improvement in the logistics of semiconductor supplies and a relatively mild course of the energy crisis in Europe. Concerns remain about persisting bottlenecks in logistic chains, high inflation which makes economic calculations difficult and increasingly restrictive environmental regulations. The output of Skoda Auto AS (the largest manufacturer in the Czech Republic) increased by +1.9% yoy in 2022, but its supplies dropped by approx. -17.0% due to, among other things, the shortage of chips.[68]

Chemical industry

- Chemical industry ranks third in terms of share in the GDP among the main industries of the Czech economy. It is strongly oriented towards exports and support for other areas of the Czech economy. The relatively high level of manufacturers' technological sophistication is also important, and so is considerable expenditure on adapting the emission of pollutants to the requirements of the Community's environmental policy (this expenditure constitutes a significant percentage of all investment expenses). The scale of the restriction makes it possible for the objective set in the European Green Deal, to reduce emissions by 55%, to be achieved by 2030. After a decline in activity by -5.9% yoy in 2020 due to the coronavirus pandemic, the sector restored its activity in the following years (noticeable increases could be observed already at the end of 2022).
- The industry focuses on three main areas, namely the production of: chemicals, pharmaceuticals and rubber and plastic products (which is important also from the point of view of the Czech largest industrial sector, i.e. the automotive industry).
- At least one quarter of manufacturing exports/imports is exports/imports to/from Germany (which because of a highly specialized nature of its industry has a number of the industry's leading brands) - this refers to both production factors and finished products. This enables Czech companies to participate to a greater extent in global trade in chemical industry products (e.g. as semi-product suppliers). Because of equity links, nearly 10% of trade turnover is with Polish companies (this is due, among other things, to the operations of the Orlen Unipetrol Group – the largest refinery and petrochemical company in the Czech Republic).[69]

Construction industry

- The construction industry is an important branch of the Czech economy which is recording a systematic growth. The reasons for a favorable situation for its services include, among other things, an increase in the GDP, the creation of special economic zones (located in areas in which governmental programs involving the development of the heavy and mining industries are implemented, especially in the northern part of the country), the development of transport infrastructure as well as the construction of commercial and industrial centers. Investment projects were often carried out with the use of EU funds, which drove an increase in activity in the sector. The Czech Republic, like Poland, saw construction boom and an increase in residential real estate prices, which was partly constrained due to increasing interest rates and reduced access to bank loans.
- The construction market in the Czech Republic in 2021 was valued at USD 48 billion. Globaldata analysts expect the market to grow by more than 1% in the years 2023-2026. The growth will be supported by new developments and necessary investments in the transport and energy sectors. The construction industry's prospects in the Czech Republic got worse in connection with the slowdown in the global economy. High energy costs and serious inflation (being an effect of turbulence in global markets, including as a result of the war in Ukraine) are expected to continue to have an adverse impact on construction activities in 2023.[70]

3.2. Transport activities of the PKP CARGO Group companies

3.2.1 Rail transport market in Poland

116 rail operators active on the Polish rail freight market hold an active license issued by the President of the Office of Rail Transport for the conduct of rail freight operations (as at 30 January 2023).[71] Three members of the PKP CARGO Group, namely PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and PKP CARGO International a.s., render rail freight transport services.[72]

[68] Forsal.pl
[69] doingbusiness.cz
[70] globaldata.com
[71] Office of Rail Transport (as at 30 January 2023), the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating on the market under an international license;
[72] Office of Rail Transport

Despite the difficult market situation, rail operators are still fairly interested in rendering rail freight transport services - the Office of Rail Transport issued 10 new licenses in this respect in 2022.[73]

Rail operators transported a total of 248.6 million tons of cargo (+2.1% yoy) in 2022 and achieved a freight turnover of 62.5 billion tkm (+11.7% yoy). It was a difficult year for rail transport due to new challenges relating to the effects of the ongoing war in Ukraine, but the results show that the rail transport market is very stable.[74] Compared to the result for 2021, the industry achieved an increase of 5.0 million tons in the volume of transported cargo and an increase 6.5 billion tkm in freight turnover. The more rapid improvement in freight turnover compared to that in freight volume was caused by an increase in the average haul which stood at 251 km, up by +22 km, compared to the result for 2021.[75] The factors contributing to the increase in average haul included both changes in delivery destinations and new cargo distribution channels, and large-scale repairs to the rail infrastructure. The volume of freight transported by rail in 2022 was the largest since 2018, which means that it was higher not only than the volume transported in the years 2020-2021 (when the market suffered from the effects of the global pandemic), but also than the result for the still stable 2019. When comparing the results for 2022 and 2019, it can be seen that the market recorded an increase of 12.2 million tons (+5.2%) in the transported freight volume, with freight turnover increasing by 6.6 billion tkm (+11.8%) at the same time.[76]

The rail transport volume decreased month over month in 2022 (from +12.2% yoy recorded in January to +1.0% yoy in July), to turn negative in August (from -1.4% yoy in August to -7.5% yoy in December).[77] March was the best month both in terms of the freight volume transported by rail (22.9 million tons, or +7.3% yoy) and freight turnover (which was 5.5 billion tkm, or +14.3% yoy). This was the highest monthly result since 2012. December 2022, when rail carried only 18.9 million tons of freight (-1.6 million tons, or -7.5 yoy), with a freight turnover of 4.9 billion tkm (+0.2 billion tkm, or +3.8% yoy), was the month with the lowest result in 2022 in terms of the freight volume transported. January and February 2022, when the freight volume transported did not exceed 20 million tons, were also poor months. Finally, rail carried 20.7 million tons per month on average in 2022 (compared to 20.3 million tons in 2021).[78]

During the 12 months of 2022, the main cargo category transported by rail[79] was hard coal, which accounted for 36.1% of the total freight transport volume. The transport of construction materials[80] ranked second with a share of 21.0%. The following changes in rail transport year-over-year performance were recorded over that period in the cargo categories defined by Statistics Poland:[81]

- hard coal (a drop in freight volume by -4.3% yoy to 85.7 million tons),
- aggregates, stone, sand and gravel (freight volume up by 1.7% yoy to 46.9 million tons),
- refined petroleum products (up by 12.9% yoy to 20.1 million tons),
- metals and metal products (up by 5.0% yoy to 10.9 million tons),
- coke, briquettes, gases (down -7.7% yoy to 10.4 million tons),
- chemicals, chemical products (down -8.3% yoy to 10.0 million tons),
- iron ore (up by 1.7% yoy to 7.0 million tons),
- agriculture products (up by 127.3% yoy to 6.5 million tons).

In aggregate, these cargo categories accounted for 83.1% of the rail market's total freight volume in 2022. The highest increase in freight volume transported by rail compared to the 2021 was recorded then in the transport of agriculture products (+3.6 million tons yoy), refined petroleum products (+2.3 million tons), aggregates, stone, sand and gravel (+0.8 million tons yoy), metals and metal products (+0.5 million tons) and iron ore (+0.1 million tons). A significant decline, on the other hand, was recorded in the transport of hard coal (-3.9 million tons), chemicals and chemical products (-0.9 million tons), coke, briquettes, gases (-0.9 million tons) and cement, lime, plaster (-0.5 million tons). Also the transport of other freight (where the intermodal transport accounts for approx. 80% of this category) declined by -1.1 million tons, or by -3.3% yoy[82]. A noticeable trend in the rail freight market in Q1 2022 was an increase in the transport of goods such as hard coal, iron ores, industrial products (relating to the risk of an embargo being imposed on products from Russia and Belarus). Rail operators intensified the rail transport of products to and from Ukraine in the following months.

In 2022, domestic rail transport operations accounted for 64.3% of total rail freight transport operations (with import operations representing 20.2%, export operations representing 12.4%, and transit operations representing 3.0%). Domestic transport operations decreased over that period (-3.1 million tons, or -2.0% yoy), and so did export operations (-0.4 million tons, or -1.5% yoy), whereas the remaining international transport operations increased (imports +7.0% yoy and transit +0.8% yoy). In the period under review, cargo streams changed clearly year-over-year, which shows that rail carriers dynamically

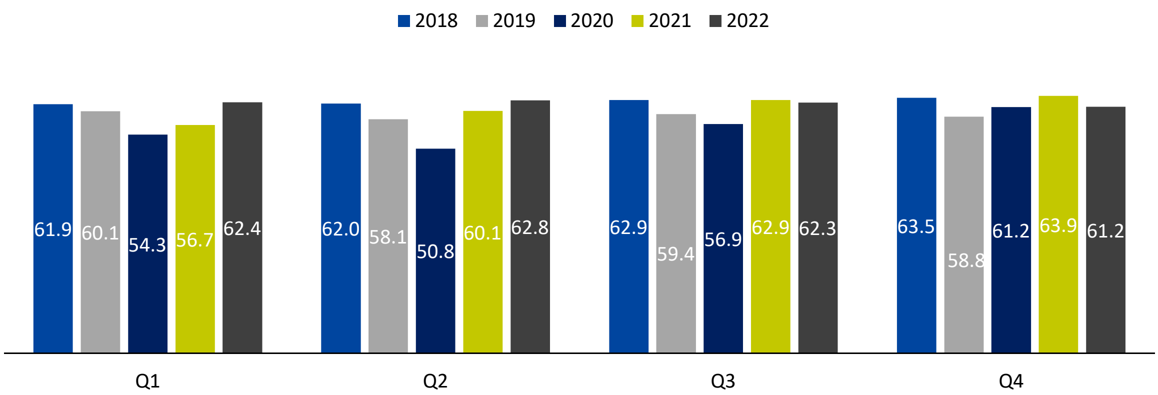
[73] Office of Rail Transport (4 licenses were withdrawn over that period and not all the rail operators which were granted a license commenced transport operations in 2022)
[74] Office of Rail Transport (data as at 31 January 2023)
[75] Office of Rail Transport (data as at 31 January 2023)
[76] Office of Rail Transport (data as at 31 January 2023)
[77] Office of Rail Transport (data as at 31 January 2023)
[78] Office of Rail Transport (data as at 31 January 2023)
[79] Based on the NST classification
[80] The following cargo categories were taken into account based on the NST classification: "aggregate, sand, gravel"; "cement, lime, plaster"; "other construction materials"
[81] Statistics Poland
[82] Statistics Poland

adapted to the changeable situation in the market. The greatest increase was recorded in sea imports, which increased by +4.8 million tons, or by +50.6 yoy, while land imports decreased by -1.6 million tons, or -4.6% yoy. At the same time, land exports increased by +0.7 million tons, or +3.2% yoy, while sea exports decreased by -1.1 million tons, or -14.2% yoy.[83]

The rail freight transport market has operated in a context of dynamic changes in international markets over the last years, which has significantly contributed to changes in freight transport structure and delivery destinations. In 2022, the situation in the domestic industry sector and in the rail freight transport market was favorable, and transport operations remained relatively stable despite a clear slowdown in their growth year-over-year (related to the turmoil in the markets and the ongoing armed conflict in Ukraine). The performance of rail freight in the context of significant global supply chain disruptions confirms the fact that rail transport is of strategic importance, although railroads have been hit particularly hard by the impediments to carrying out freight on the New Silk Road, which has resulted in a significant reduction in East-West freight. The intermodal rail transport segment, which in previous years experienced a continuous and dynamic growth, clearly slowed down in the course of 2022. Already during the year's second and third quarters, the intermodal domestic transport volume recorded a negative growth rate year-over-year (-2.7% yoy in Q2 and -2.3% yoy in Q3 2022). Intermodal carriers had to put special efforts in 2022 into adapting to the new market conditions (changes in delivery destinations and the fact that shippers sough alternative transport channels contributed to a decrease in the number of transit links through Poland). This, however, did not have an adverse impact on the general rail transport results, and the war in Ukraine forced the need to look for new freight distribution channels in 2022. As a result of restricting East-West transport operations, railways activated other rail transport routes within the country and from seaports (North-South). Additionally, in spite of the ongoing numerous repairs on the PKP PLK network that limited the possibility of carrying out transport operations, rail carriers relatively efficiently reorganized their work, adapting their offer to the rapidly changing environment (the intensification of transport operations in the North-South direction, where there were other logistic channels linked to seaports). A serious new challenge faced by rail carriers, including in particular by the intermodal market, was an increase in traction energy prices, and the unstable situation in fuel markets resulted in a clear increase in costs incurred by carriers (rising energy prices and an increase in the remaining costs contributed to railways becoming less competitive in the transport market).

Due to the unstable market situation caused by the war in Ukraine, railways carried out emergency rail transport operations in 2022 on a large scale (e.g., diversification of coal supplies as a result of withdrawal from the purchase of energy resources from Russia, the need to ensure the continuity of hard coal supplies for the mass transport of this raw material from seaports, transport of agricultural products from Ukraine).[84] The present situation does, nevertheless, offer also new opportunities for raising the role of rail transport and its better use for transporting goods necessary for the industry or the building sector, or for transporting consumer goods, grain, coal, oil and natural gas.

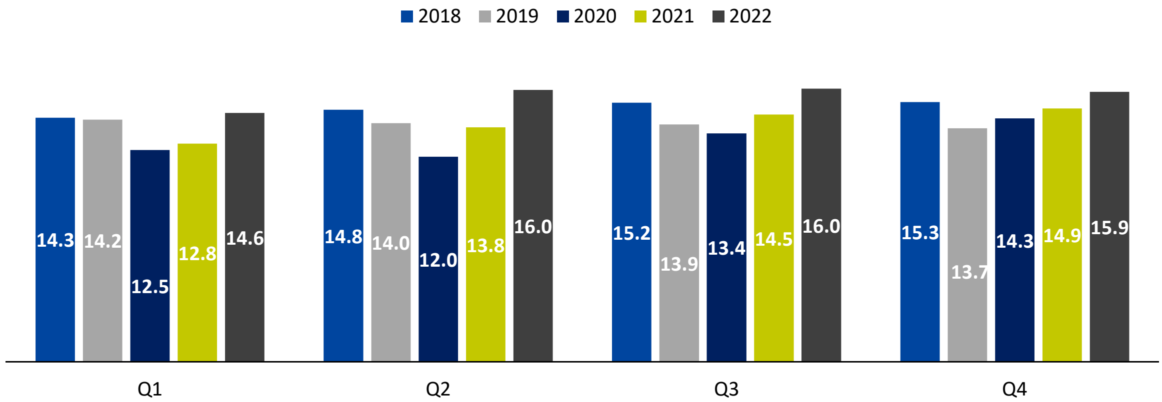
Figure 7 Rail freight volumes in Poland broken down by quarter in 2018-2022 (million tons)



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

[83] Statistics Poland
[84] Office of Rail Transport

Figure 8 Rail freight turnover in Poland broken down by quarter in 2018-2022 (billion tkm)

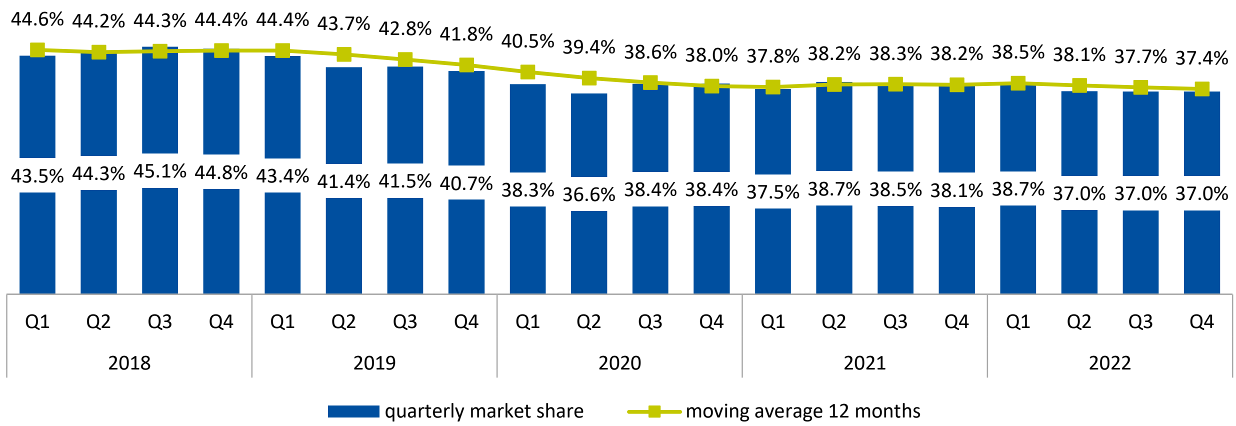


Source: Proprietary material based on the Office of Rail Transport's data

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

In the course of 2022, the rail freight market improved year-over-year in terms of freight volume and freight turnover compared to the previous year. According to the Office of Rail Transport's data, 27 rail carriers conducted transport operations whose market share in terms of transported freight volume exceeded 0.5% (which is 2 carriers more than in 2021). The PKP Cargo[85] Group continues to be the undisputed leader in the rail freight transport market in Poland both in terms of share in the transported freight volume and the generated freight turnover. The Group maintained the volume of transported freight at a comparable year-over-year level in 2022, increasing at the same time freight turnover. The PKP CARGO Group's market shares were 37.4% (-0.8 p.p. yoy) in terms of freight volume and 39.8% in terms of freight turnover (-1.3 p.p. yoy).[86] The market shares of the parent company of the PKP CARGO Group, i.e. PKP CARGO S.A., were 35.5% (-1.1 p.p. yoy) in terms of freight volume and 39.3% (-1.4 p.p. yoy) in terms of freight turnover in 2022.[87]

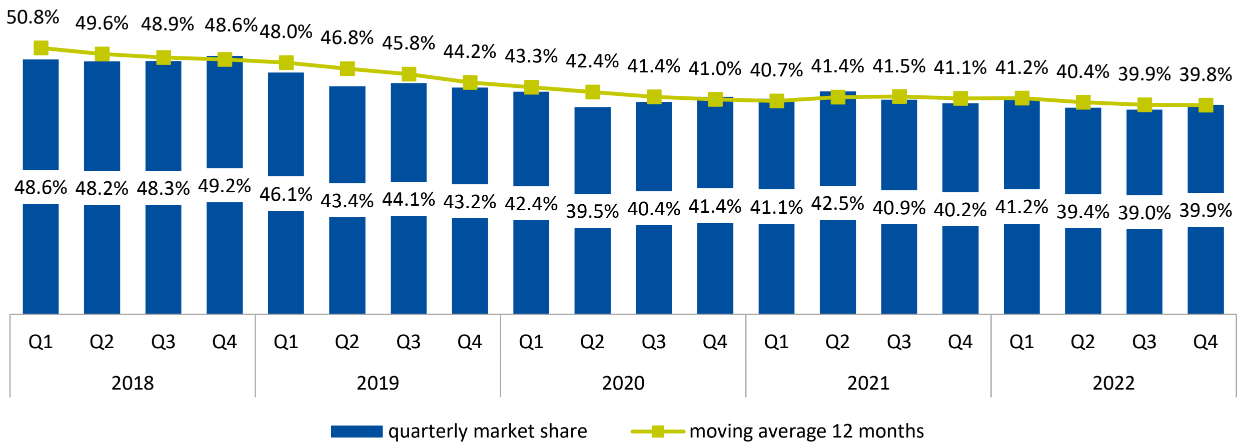
Figure 9 Share of the PKP CARGO Group in freight volume in Poland in 2018-2022



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

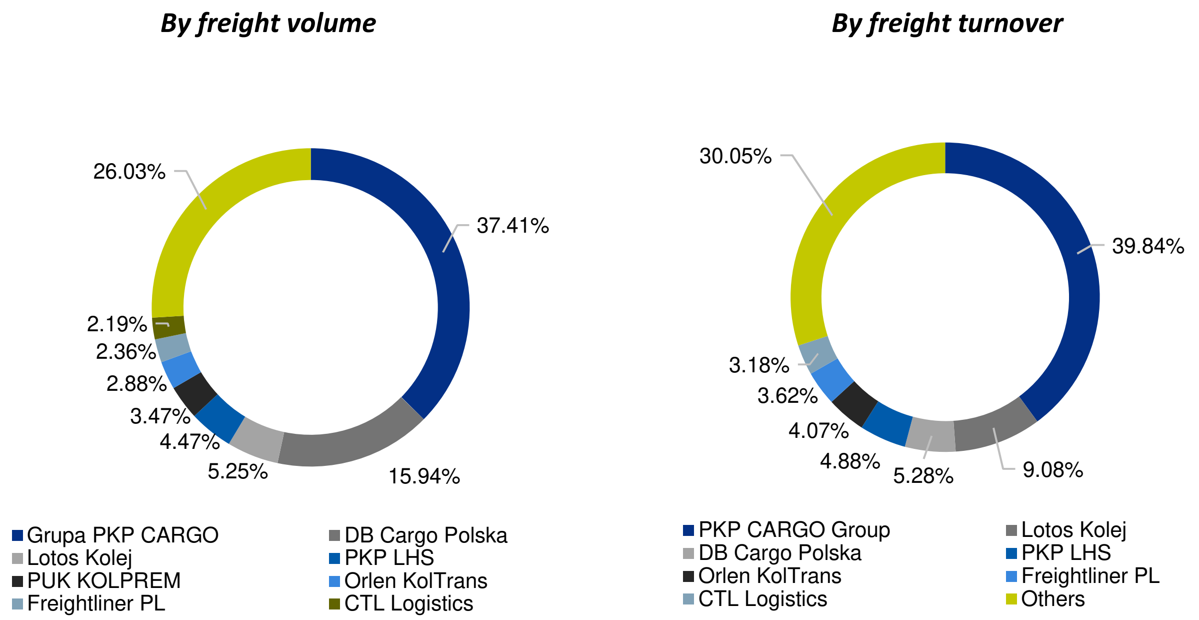
[85] The PKP CARGO Group's freight volume takes into account also freight transported by PKP CARGO International a.s. in Poland.
[86] Data from the PKP CARGO Group and the Office of Rail Transport (as at 31 January 2023)
[87] Office of Rail Transport (data as at 31 January 2023)

Figure 10 Share of the PKP CARGO Group in total freight turnover in Poland in 2018-2022



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

Figure 11 Market shares of the largest rail freight transport operators in Poland in 2022



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

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

In the period in question, the competitors transported a total of 155.6 million tons of freight (+3.4% yoy). In that period, the largest freight volume was transported by DB Cargo Polska companies (39.6 million tons, down -3.2% yoy), Lotos Kolej (13.1 million tons, up +1.1% yoy) and PKP LHS (11.1 million tons, up +15.0% yoy).[88] The competitors of the PKP CARGO Group that recorded the largest drops in market shares in 2022 were DB Cargo Polska (to 15.9%, or -0.9 p.p. yoy) and CTL Logistics (to 2.2%, or -0.8 p.p. yoy).

At the same time, freight turnover generated by operators competing with the PKP CARGO Group increased by +14.1% yoy, to 37.6 billion tkm. The largest generated freight turnover was achieved by the following competing rail operators: Lotos Kolej (5.7 billion tkm, up +1.4% yoy), DB Cargo Polska (3.3 billion tkm, up +15.4% yoy) and PKP LHS (3.1 billion tkm, up +5.6% yoy).[89] The competitors that recorded the largest drops in market shares in 2022 were Lotos Kolej (to 9.1%, or -0.9 p.p. yoy) and PKP

[88] proprietary material based on the Office of Rail Transport's data (as at 31 January 2023)
[89] proprietary material based on the Office of Rail Transport's data (as at 31 January 2023)

LHS (to 4.9%, or -0.3 p.p. yoy). The average haul of competitive rail operators increased to 242 km in 2022 (i.e. by +23 km, or +10.4% yoy).[90]

3.2.3 Rail freight transport market in the Czech Republic

During the first 9 months of 2022, a total of 440.7 million tons of cargo was transported in the Czech Republic (-2.2% yoy) and freight turnover stood at 65.4 billion tkm (+2.9% yoy).[91] A year-over-year decrease was recorded over that period in transport by road and by rail, while there was an increase in freight volumes transported by the other means of transport in aggregate*. In terms of generated freight turnover, growths were recorded in all branches of the transport market*.

The average haul of cargo increased by +5.2% yoy and reached 148.5 km, with the road transport segment recording an increase in the average haul by +4.1% yoy (to 140.8 km), whereas in rail transport the average haul grew by +10.7% yoy (to 180.8 km).[92]

Table 2 Freight transport market in the Czech Republic in 9M 2022

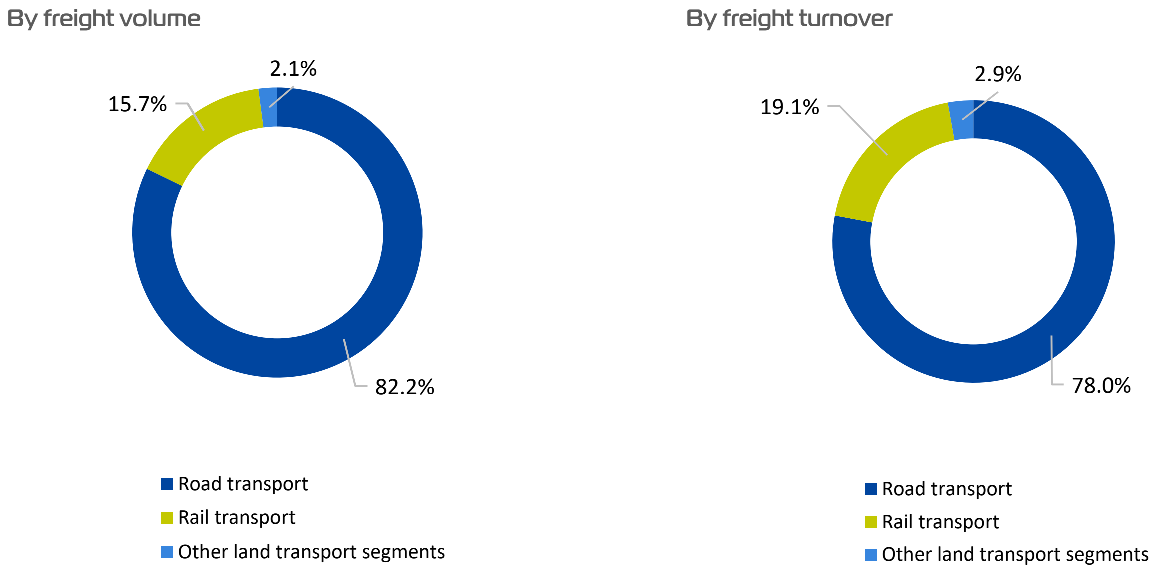
	Freight volume			Freight turnover			Average haul		
	Quantity (million tons)	Change yoy	Change % yoy	Quantity (billion tkm)	Change yoy	Change in % yoy	Haul (km)	Change yoy	Change in % yoy
Total market	440.7	-9.8	-2.2%	65.4	1.9	2.9%	148.5	7.4	5.2%
Road transport	362.3	-5.6	-1.5%	51.0	1.3	2.5%	140.8	5.5	4.1%
Rail transport	69.2	-4.7	-6.3%	12.5	0.4	3.7%	180.8	17.4	10.7%
Other transport segments	9.2	0.4	5.1%	1.9	0.2	9.0%	209.6	7.6	3.8%

**Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic (data excluding air transport).*

In the three quarters of 2022, rail transport in the Czech Republic recorded a decrease in freight volume to 69.2 million tons (-6.3% yoy) with a concurrent increase in freight turnover to 12.5 billion tkm (+3.7% yoy).[93] In the same period, transports of goods by road were down -1.5% in terms of freight volume and up +2.5% in terms of freight turnover. This performance translated into a further increase in the share of road transport in terms of freight volume (+0.5 p.p. yoy), with a simultaneous decrease in the share of rail transport (-0.7 p.p. yoy). At the same time, rail transport recorded a slight increase in terms of freight turnover (+0.1 p.p. yoy), with a decrease in the share in road transport (-0.3 p.p. yoy). [94]

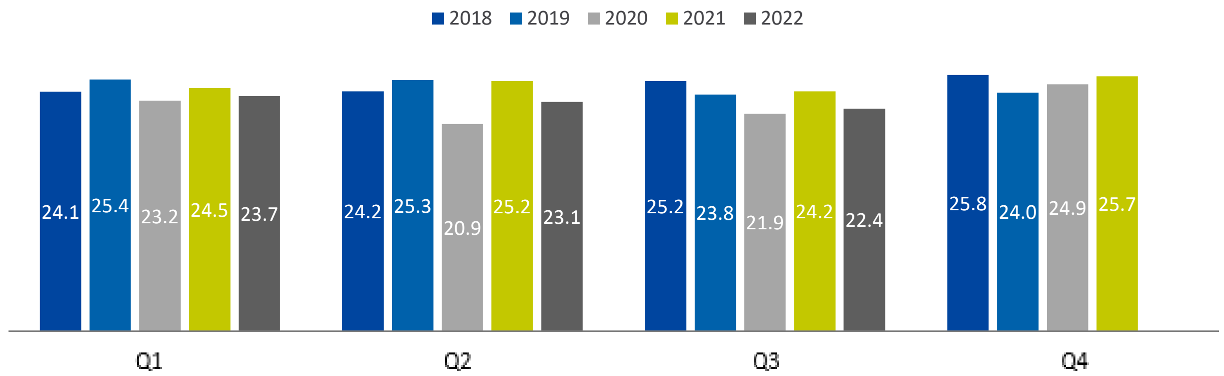
[90] proprietary material based on the Office of Rail Transport's data (as at 31 January 2023)
[91] Ministry of Transport of the Czech Republic, data for Q4 2022 will be available at the turn of Q1 and Q2 2023 (data excluding air transport)
[92] Ministry of Transport of the Czech Republic (data without air transport).
[93] Ministry of Transport of the Czech Republic (data without air transport).
[94] Ministry of Transport of the Czech Republic (data without air transport).

Figure 12 Shares of various modes of transport in the transport market in the Czech Republic in 9M 2022: freight volume (L) and freight turnover (R)



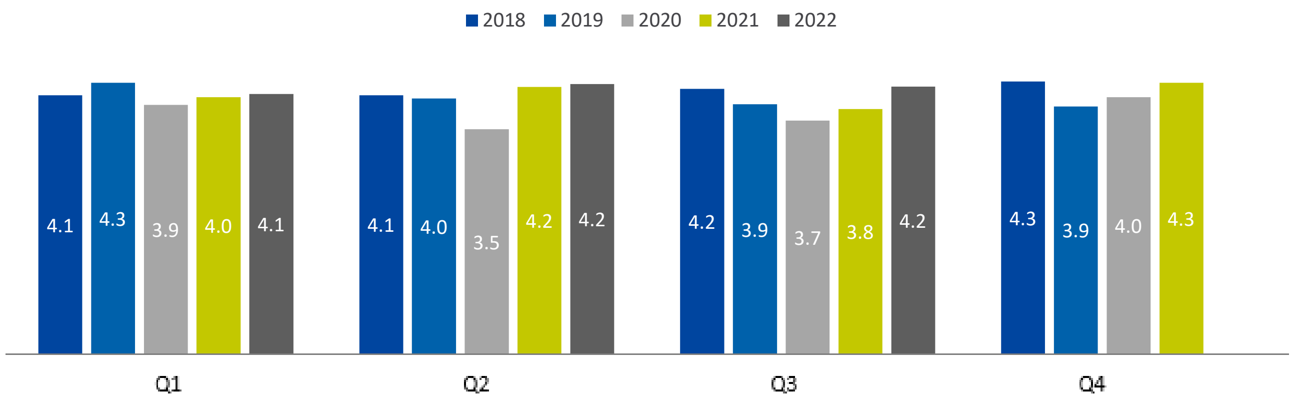
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic.

Figure 13 Quarterly rail freight transport in the Czech Republic by freight volume in 2018-2022 (million tons)



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

Figure 14 Rail freight transport in the Czech Republic by freight turnover broken down by quarter in 2018-2022 (billion tkm)



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

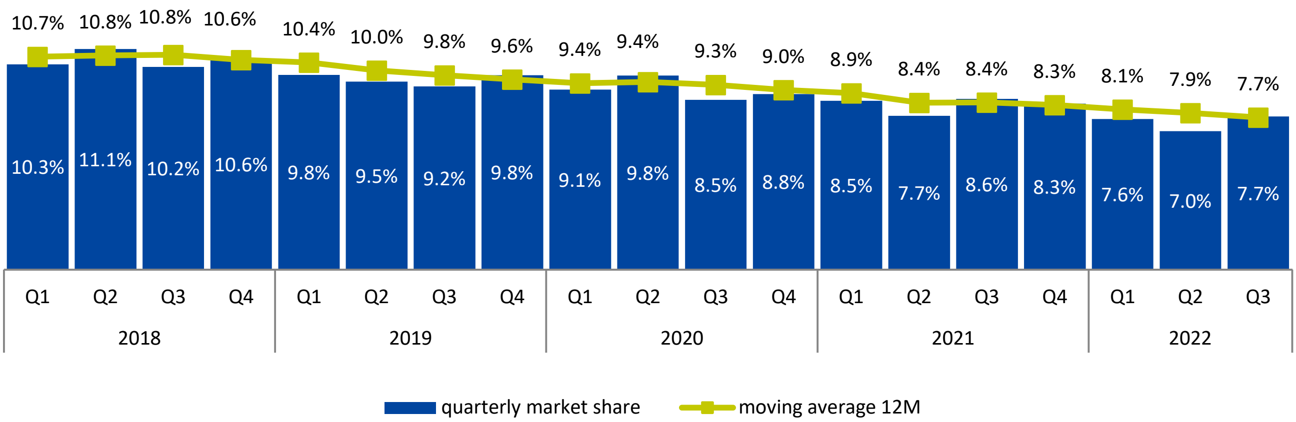
3.2.4 Position of PKP CARGO Group companies in the rail transport market in the Czech Republic

According to data published by the Czech rail infrastructure manager (SŽDC), 120 operators are currently licensed to provide rail freight services in this country, including 2 members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s.[95]

In 2022, PKP CARGO International a.s. transported 7.0 million tons of freight (-15.1% yoy) and achieved a freight turnover of 0.9 billion tkm (-13.2% yoy).[96] In the same period, the average haul of PKP CARGO International increased to 131.4 km (+2.2% yoy), as a result of a rearranged mix of transported freight.[97] Decreases in the volume of transported freight were recorded predominantly in: solid fuels by -13.1% yoy to 4.0 million tons (including hard coal down -26.4% yoy to 2.2 million tons), liquid fuels (-41.7% yoy to 0.6 million tons), metals and ores (-28.2% yoy to 0.2 million tons), chemicals (-16.4% yoy to 0.4 million tons) and other cargo (-46.1% yoy to 0.1 million tons). In the period under analysis, intermodal transport continued to demonstrate a positive rate of growth (+0.4% yoy to 1.6 million tons).[98] The decrease in freight volume in selected cargo categories resulted from activities deliberately taken by the Group, which were intended to change the freight structure to obtain higher-margin goods, at the same time matching the rolling stock owned by the Company and its logistics base. Some changes, however, were caused by the war in Ukraine, which brought about a change of directions for acquiring components by the Czech industry as well as impacted directions for exporting goods), and to a lesser extent by the pandemic (which continued to halt operations of the largest manufacturer in the world, namely China).

According to SŽDC data on the shares in the rail transport market in terms of gross freight turnover, PKP CARGO International's market share in the Czech market decreased by -1.0 p.p. yoy to 5.6% in 2022.[99] In spite of the above, the Company continues to hold the position of the third largest rail operator on the Czech rail freight transport market.[100]

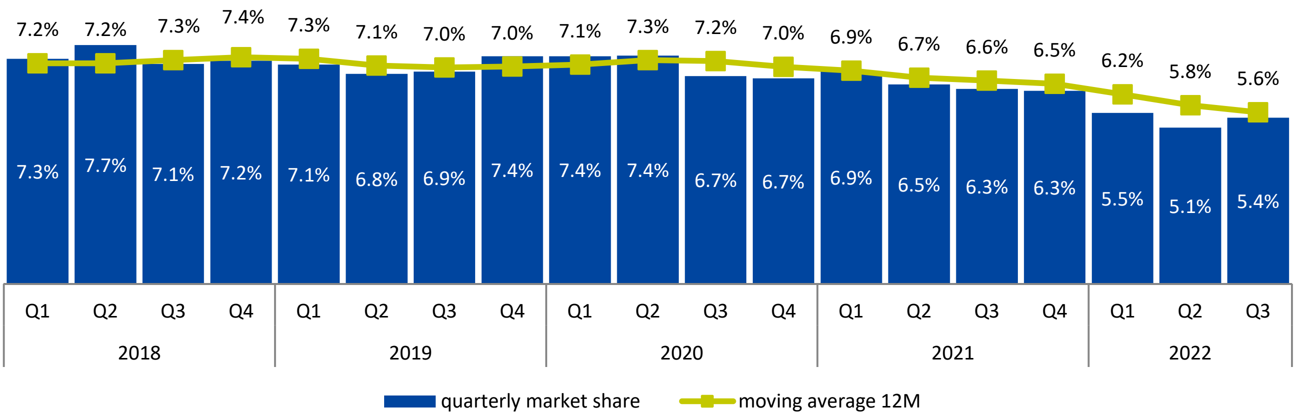
Figure 15 PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2018-2022*



** data for Q4 2022 will be available at the end of Q1 and the beginning of Q2 2023.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International.

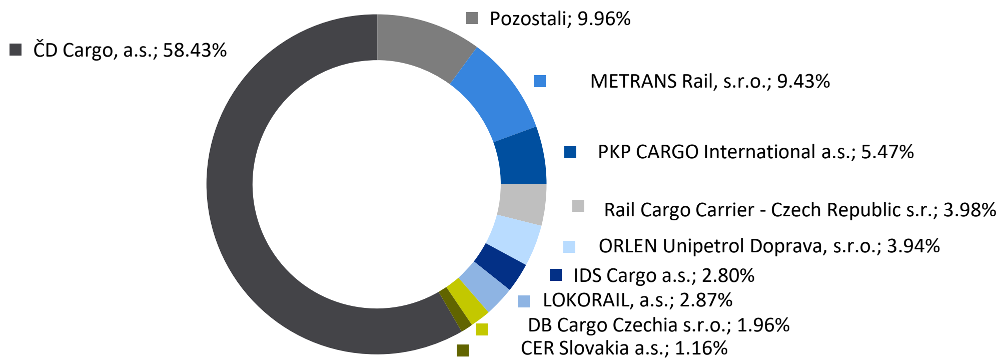
[95] SŽDC (as at 16 January 2023)
[96] PKP CARGO International's own statistics
[97] PKP CARGO International's own statistics
[98] PKP CARGO International's own statistics
[99] SŽDC
[100] SŽDC

Figure 16 PKP CARGO International's quarterly market shares in terms of freight turnover completed in the Czech Republic in 2018-2022*



** data for Q4 2022 will be available at the end of Q1 and the beginning of Q2 2023.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International.

Figure 17 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 2022 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market in terms of gross operational turnover, and its market share increased considerably to the level of 58.4% yoy (+2.1 p.p. yoy).[101] Year-over-year increases in the market share were also recorded by LOKORAIL a.s. (+0.8 p.p. yoy to 2.9%), by Metrans Rail (+0.3 p.p. yoy to 9.4%), thus having solidified its position as the second largest rail freight carrier in the Czech Republic, and slightly by DB Cargo Czechia s.r.o. (+0.1 p.p. yoy to 2.0%).[102] The list currently includes again a rail operator that was not included in 2021, namely CER Slovakia a.s. (with a share of 1.2%). On the other hand, in 2021, lower market shares were held by PKP CARGO International (-1.0 p.p. yoy to 5.5%), Rail Cargo Carrier - Czech Republic (-0.8 p.p. yoy to 4.0%), ORLEN Unipetrol Doprava (-0.6 p.p. yoy to 3.9%, the operator focuses its business on the fuel and chemicals transport segments) and IDS Cargo a.s. – an independent logistical operator operating in the Czech Republic and Slovakia (-0.03 p.p. yoy to 2.8%). A decrease in the market share was also experienced by small rail operators. As their individual shares fell below the market threshold, they are not specified by name in the statistics (-0.9 p.p. yoy to 10.0%).[103]

The list of the largest rail operators on the Czech market published by SŽDC does not include PKP CARGO S.A. The following transports performed by the Company decreased year-over-year: of hard coal imported from Poland to the Czech Republic and imports via Polish ports to the Czech Republic. Import transports of iron ore from Ukraine were also reduced, which was partly compensated by transports via Polish ports. Transports of chemicals and coke were similarly decreased. At the same time, intermodal transports were increased in Poland-Italy and Poland-Slovakia transits and timber transport in transit from Poland to Slovakia.[104]

[101] SŽDC
[102] SŽDC
[103] SŽDC
[104] PKP CARGO S.A.'s own statistics

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

The data on the transport activity conducted by the PKP CARGO Group in 12M 2021 and 12M 2022 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and companies from the PKP CARGO International Group. Transport services are rendered by 6 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., PKP CARGO International a.s., PKP CARGO International HU Zrt., PKP CARGO International SK a.s. and PKP CARGO INTERNATIONAL SI d.o.o.

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

Table 3 PKP CARGO Group's freight turnover in 12 months and Q4 2022 and in 2021

Item	2022	2021	Change 2022/2021		2022	2021	Q4 2022	Q4 2021	Change Q4 2022/ Q4 2021	
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*			*%*
Solid fuels[1]	11,690	9,583	2,107	22.0%	43%	37%	3,745	2,567	1,178	45.9%
of which hard coal	10,132	7,848	2,284	29.1%	38%	31%	3,387	2,141	1,246	58.2%
Aggregates and construction materials[2]	5,497	5,131	366	7.1%	20%	20%	1,261	1,374	-113	-8.2%
Metals and ores[3]	1,984	2,145	-161	-7.5%	7%	8%	263	466	-204	-43.7%
Chemicals[4]	1,909	2,246	-337	-15.0%	7%	9%	383	546	-163	-29.9%
Liquid fuels[5]	887	649	238	36.7%	3%	3%	212	183	29	15.7%
Timber and agricultural produce[6]	948	785	162	20.7%	4%	3%	279	216	63	29.3%
Intermodal transport	3,577	4,544	-966	-21.3%	13%	18%	614	1,129	-515	-45.6%
Other[7]	516	508	9	1.7%	2%	2%	133	122	11	8.7%
Total	**27,008**	**25,590**	**1,418**	**5.5%**	**100%**	**100%**	**6,890**	**6,603**	**287**	**4.3%**

Source: Proprietary material.

Table 4 PKP CARGO Group's freight volume in 12 months and Q4 2022 and in 2021

Item	2022	2021	Change 2022/2021		2022	2021	Q4 2022	Q4 2021	Change Q4 2022/ Q4 2021	
	(million tons)			*%*	*percentage of total (%)*		*(million tons)*			*%*
Solid fuels[1]	51.5	52.1	-0.6	-1.1%	51%	51%	14.2	13.9	0.2	1.7%
of which hard coal	46.2	46.2	0.0	0.0%	46%	46%	13.0	12.5	0.5	3.8%
Aggregates and construction materials[2]	21.0	19.8	1.2	6.1%	21%	20%	4.7	5.3	-0.5	-10.1%
Metals and ores[3]	6.5	7.1	-0.6	-8.7%	6%	7%	1.0	1.5	-0.5	-32.7%
Chemicals[4]	5.4	6.5	-1.1	-16.8%	5%	6%	1.2	1.6	-0.4	-26.3%
Liquid fuels[5]	2.8	1.9	1.0	51.7%	3%	2%	0.7	0.5	0.2	34.5%
Timber and agricultural produce[6]	3.2	2.4	0.8	32.2%	3%	2%	0.8	0.7	0.1	20.4%
Intermodal transport	8.4	10.0	-1.6	-16.3%	8%	10%	1.5	2.6	-1.1	-42.4%
Other[7]	1.8	1.8	0.0	0.1%	2%	2%	0.4	0.5	-0.1	-10.8%
Total	**100.6**	**101.6**	**-1.0**	**-1.0%**	**100%**	**100%**	**24.5**	**26.6**	**-2.0**	**-7.7%**

Source: Proprietary material.

In 12M 2022, the average haul of freight transported by rail by the PKP CARGO Group was 268 km (an increase in the haul by +17 km yoy).

Table 5 PKP CARGO Group's average distance in 12 months and Q4 2022 and in 2021

Item	2022	2021	Change 2022/2021		Q4 2022	Q4 2021	Change Q4 2022/ Q4 2021	
	(km)			%	(km)			%
Solid fuels[1]	227	*184*	43	23.4%	264	*184*	80	43.4%
of which hard coal	219	170	49	29.1%	261	171	90	52.4%
Aggregates and construction materials[2]	261	259	3	1.0%	267	261	6	2.2%
Metals and ores[3]	304	300	4	1.3%	253	302	-49	-16.2%
Chemicals[4]	354	347	7	2.2%	325	342	-17	-4.9%
Liquid fuels[5]	313	348	-34	-9.9%	304	353	-49	-13.9%
Timber and agricultural produce[6]	301	329	-29	-8.7%	339	315	23	7.4%
Intermodal transport	428	455	-27	-6.0%	412	436	-24	-5.6%
Other[7]	281	276	4	1.6%	320	263	58	21.9%
Total	**268**	**252**	**17**	**6.6%**	**281**	**248**	**32**	**13.0%**

Source: Proprietary material.

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

Key factors affecting the volume of transport in various cargo categories in 12 months of 2022:

solid fuels

- growth rate of changes occurring in the international and domestic coal market and uncertainty about directions of future events connected with the armed conflict in Ukraine influenced clients' decisions on coal deliveries in 2022, which translated into the quantity and directions of transports performed by PKP CARGO S.A.;
- in March, replenishment of stock in power plant's storage facilities before the planned introduction of Russian coal embargo;
- in subsequent months, the ban on the imports to Poland and transit via Poland of coal and coke coming from Russia and Belarus, with the concurrent increase of transports in imports via Polish ports;
- increase in the average haul of hard coal by 49 km (29.1%) in connection with the changed direction of deliveries;
- decrease in the volume of transported coke on domestic and international routes because of lower demand from metallurgical industry;
- decrease in the volume of coal transported from OKD mines;

aggregates and construction materials

- catching up on transports not completed at the end of 2021;
- favorable weather conditions at the beginning of 2022 and increased demand of clients for construction stone, intensification of works on infrastructural investments;
- greater demand for limestone from German cogeneration plants and Czech steelworks. Increased volumes of transport of cement clinker;
- decreased volumes of transports in the last quarter of 2022 because of operational difficulties of PKP CARGO S.A.;

metals and ores

- decline in the volume of transports of metals caused by the economic standing in Poland and in the world and impacting supply and demand for steel. Poland has a deficit of raw steel, which is satisfied by imports. Russia and Ukraine were ones of the most important suppliers of steel and steel products, and Ukraine, furthermore, of iron ore (80%). An important direction of imports was also Belarus. At present, sanctions have been imposed on the entire Russian and Belarusian steel and cast iron production sectors;
- decrease in the volume of transit operations involving the carriage of metal ores from Ukraine to the Czech Republic, partly offset by transit through Polish seaports;

liquid fuels

- growth of transports from Lithuania and completed transports of fuels to Ukraine;
- decreased volume of transport services provided by PKP CARGO INTERNATIONAL from Slovakia to Poland (stoppage in Slovnaft refinery in Bratislava);
- loss of fuel transports (PKP CARGO INTERNATIONAL) from the Czech Republic to Germany;
- decline in average haul by 34 km (-9.9%);

timber and agricultural produce

- rapid growth of grain transports from Ukraine to seaports in import and transit, including cross-border transports;
- decrease in the average haul by 29 km (-8.7%) caused by the change in the structure of freight routes – increased share of domestic transport and transport from sea ports, lack of timber transports from the Czech Republic to seaports;

chemicals

- suspension of production of nitrogen fertilizers in Q3 2022 because of high prices of gas;
- suspension of exports of fertilizers to Ukraine because of war and problems in exporting supplies via seaports;
- growth in average haul by 7 km (+2.2%);

intermodal

- a difficult situation on the intermodal market in the world: first of all war in Ukraine, continuation of the crisis caused by Covid-19 and the inflation pressure – those factors translated considerably into an increase in prices of intermodal transports and resulted in decreased quantities of transported cargo in this market segment;
- operational problems and reduced throughput following from repairs of the infrastructure in the area of Gdańsk and Gdynia (with the introduced priority of coal transports) and insufficient throughput of the infrastructure in connection with transports from and to Ukraine;
- decline in the volume of transports in the New Silk Road – shortage of locomotives and train drivers for the German and Dutch sections;
- loss of transports by PKP CARGO INTERNATIONAL from the port of Koper to another rail operator;

others

- increase in paper shipments in exports;
- increased volumes of military transports;
- increased volumes of gypsum transports;
- higher transports of foodstuffs.

3.3. Other services

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

3.4. Information on selling markets and sources of supply.

Key clients

The Company conducts its business within one segment only, i.e. domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the financial year ended 31 December 2022 and 31 December 2021 did not exceed 15% of total revenues from contracts with customers. There is no single geographic area (outside of Poland) which generated more than 8% of revenues from contracts with customers.

In the financial year ended 31 December 2022, as well as in the financial year ended 31 December 2021, no sales to any group represented more than 10% of total revenues from contracts with customers. The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity.

In the financial year ended 31 December 2022, the Group's revenue from any single Group client did not exceed 10% of the total revenues from contracts with customers. The Group's revenues generated by external clients by geographic area are presented in *Note 2.1 to the Consolidated Financial Statements*, and the Company's revenues – in *Note 2.1 to the Standalone Financial Statements*.

Key suppliers

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

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

Key clients

PKP CARGO S.A. transported in 2022 88.4 million tons of goods and, as the rail freight leader, we provide transport services in all segments of the market. The major sector in transport activity are solid fuels, with the share of 51% in all transports provided in 2022. In this market sector, transport services were provided for 166 clients (parent companies plus their subsidiaries) and their major commodity was hard coal. The second segment of transport activity of PKP CARGO was aggregates and construction materials, with the share of 20% in all transports provided by PKP CARGO in 2022. In the segment, transport services were provided by 89 clients (parent companies plus their subsidiaries) and the services were commissioned mainly from Lower Silesia and the area around Kielce. In 2022, liquid fuels and chemicals had a share of 9% in all the transports provided by PKP CARGO. In this sector, 105 clients provided the services (parent companies plus their subsidiaries). Transports of ores and metals are another area of PKP CARGO's activity with a share of 7% in all transports provided in 2022. In this market sector, transport services were provided by 85 clients (parent companies plus their subsidiaries). Intermodal transports were at a level of 7% share in the total transport volumes and were provided for 61 clients (parent companies plus their subsidiaries). The last established cargo category transported by PKP CARGO in 2022, with a share of 4% in all transports of PKP CARGO S.A., were agricultural produce and timber and timber products. In this market sector, transport services were provided by 70 clients (parent companies plus their subsidiaries). The highest freight volume was provided by clients of large companies and corporate groups.

3.5. Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 2018-2022 is provided below.

Table 6 Headcount in 2018-2022 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)*

Item	Headcount as at:					Change 2022-2021	% change
	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018		
PKP CARGO Group	**20,038**	**20,562**	**21,766**	**23,571**	**23,643**	**-524**	**-2.55**
including: PKP CARGO S.A.	*14,267*	*14,728*	*15,771*	*17,140*	*17,308*	*-461*	*-3.13*

Source: Proprietary material.

Table 7 Average headcount in FTEs in 2018-2022 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)*

Item	Average headcount in FTEs					Change 2022-2021
	12 months	12 months	12 months	12 months	12 months	
	2022	2021	2020	2019	2018	
PKP CARGO Group	**20,196**	**21,210**	**22,279**	**23,657**	**23,385**	**-1,014**
including: PKP CARGO S.A.	*14,464*	*15,351*	*16,185*	*17,293*	*17,135*	*-887*

Source: Proprietary material.

Table 8 Average headcount in FTEs in 2018-2022 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)*

Item	Average headcount in persons					Change 2022-2021
	12 months	12 months	12 months	12 months	12 months	
	2022	2021	2020	2019	2018	
PKP CARGO Group	**20,242**	**21,254**	**22,818**	**23,710**	**23,431**	**-1,012**
including: PKP CARGO S.A.	*14,478*	*15,360*	*16,616*	*17,309*	*17,146*	*-882*

Source: Proprietary material.

Table 9 Headcount in 2018-2022 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)*

Item	Headcount as at:					Change 2022-2021	Change %
	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018		
White-collar positions – the Group	**4,767**	**4,808**	**5,079**	**5,439**	**5,379**	**-41**	**-0.85**
including: PKP CARGO S.A.	*3,342*	*3,389*	*3,644*	*3,936*	*3,886*	*-47*	*-1.39*
Blue-collar positions – the Group	**15,271**	**15,754**	**16,687**	**18,132**	**18,264**	**-483**	**-3.07**
including: PKP CARGO S.A.	*10,925*	*11,339*	*12,127*	*13,204*	*13,422*	*-414*	*-3.65*
Total	**20,038**	**20,562**	**21,766**	**23,571**	**23,643**	**-524**	**-2.55**
including: PKP CARGO S.A.	*14,267*	*14,728*	*15,771*	*17,140*	*17,308*	*-461*	*-3.13*

Source: Proprietary material.

** Active employees do not include those who are on unpaid leaves, parental leaves or take rehabilitation benefits.*

A comparison of 2022 with 2021 reveals a significant decline in the headcount in the PKP CARGO Group by 524 people (by 461 people in PKP CARGO S.A. alone). The headcount structure in the Group was adjusted to the changing market environment.

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

3.6.1 Capital expenditures

PKP CARGO S.A.

In 2022, the Company incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections[105]) of PLN 616.2 million, and recognized right-of-use assets of PLN 45.9 million. In 2022, the Company's total capital expenditures were PLN 662.1 million, i.e. less by 16.9% compared to the performance in 2021, including capital expenditures abroad, namely those for purchasing flat wagons for transporting containers amounted to PLN 67.8 million.

Most of capital expenditures in the Company in 2022 were allocated for the execution of investment tasks associated with the rolling stock, mainly for repairs and periodic inspections of the rolling stock (the number of periodic repairs and periodic inspections performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantity of rolling stock maintained as fit for operation as required for the provision of transportation services), the purchase of 278 flat wagons for transporting containers for a total of PLN 607.0 million (or 91.7% of total capital expenditures). Moreover, the Company incurred capital expenditures in the IT area, in particular to purchase hardware and ICT equipment along with intangible assets (software) for the total amount of PLN 3.2 million, for investment construction in the amount of PLN 5.6 million, namely the construction and modernization of buildings and the acquisition of machinery and equipment and workshop and office fit-out in the amount of PLN 0.4 million. In addition, the Company incurred capital expenditures for right-of-use assets in the amount of PLN 45.9 million, including mostly real property lease agreements.

Table 10 Capital expenditures in PKP CARGO S.A. in 2018 – 2022 (PLN million)

Item	2022	2021	2020	2019	2018	Change 2022-2021	Change 2022/2021 in %
Investment construction activity	5.6	27.7	9.9	7.0	13.1	-22.1	-79.8%
Locomotive purchases	0.0	0.4	33.0	65.3	43.4	-0.4	-100.0%
Locomotive upgrades	0.3	91.2	123.4	252.0	146.3	-90.9	-99.7%
Wagon purchases	111.8	184.7	162.8	69.9	11.1	-72.9	-39.5%
Workshop machinery and equipment	0.3	4.3	1.5	8.5	6.8	-4.0	-93.0%
ICT development	3.2	11.0	7.4	11.4	12.2	-7.8	-70.9%
Other	0.1	0.0	0.2	1.2	0.7	0.1	-
Components in overhaul, including:	494.9	447.7	249.7	617.1	594.8	47.2	10.5%
Repairs and periodic inspections of locomotives	*92.3*	*111.5*	*61.5*	*162.2*	*160.2*	*-19.2*	*-17.2%*
Repairs and periodic inspections of wagons	*402.6*	*336.3*	*188.2*	*454.9*	*434.6*	*66.3*	*19.7%*
Right-of-use assets*	*45.9*	*29.5*	*20.8*	*185.4*		*16.4*	*55.6%*
Total	**662.1**	**796.5**	**608.7**	**1,217.8**	**828.4**	**-134.4**	**-16.9%**

** Expenditures for right-of-use assets do not include increases resulting from leaseback of rolling stock in the amount of PLN 13.6 million for 2022 and PLN 84.8 million for 2021.*
Source: Proprietary material.

In 2022, the Company received co-financing from the EU in the amount of PLN 45.6 million for purchasing 256 flat wagons for transporting containers and refinanced expenditures of PLN 34.7 million incurred in 2021 for purchasing 144 flat wagons for transporting containers.

PKP CARGO Group

In 2022, the Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections) of PLN 708.9 million, and recognized right-of-use assets of PLN 67.3 million. Total expenditures of the PKP CARGO Group in 2022 reached PLN 776.2 million, i.e. less by 14.5% against the performance in 2021.

The majority of the capital expenditures in the Group in 2022 were allocated for the execution of investment tasks associated with rolling stock, mainly for periodic repairs and periodic check-ups of rolling stock (the number of periodic repairs and periodic check-ups performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services) and the acquisition and modernization of

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

locomotives – for a total amount of PLN 636.3 million (i.e. 82.0% of total capital expenditures). Moreover, the Group incurred expenditures on computerization, i.e. purchases of computer hardware in the form of computers and ICT equipment as well as intangible assets (software) in the amount of PLN 5.1 million, for investment construction activity in the amount of PLN 44.4 million, chiefly to modernize container terminals, modernize and construct storage yards, repair rail infrastructure and modernize buildings and structures, including workshop buildings, and purchase and modernize machinery, plant and tools in container terminals and workshop buildings in the amount of PLN 20.1 million, to purchase office equipment and vehicles for PLN 3.0 million and right-of-use assets for PLN 67.3 million, including real estate for PLN 54.2 million, rolling stock for PLN 0.3 million and in other areas for PLN 12.8 million, mostly for leasing vehicles and purchasing tools in container terminals and workshop buildings, ICT equipment, containers financed by leasing.

Table 11 Capital expenditures in the PKP CARGO Group in 2018 – 2022 (PLN million)

Item	2022	2021	2020	2019	2018	Change 2022-2021	Change 2022/2021 in %
Investment construction activity	44.4	70.5	50.8	39.5	48.1	-26.1	-37.0%
Locomotive purchases	0.3	0.4	33.0	65.3	43.8	-0.1	-25.0%
Locomotive upgrades	12.5	99.4	132.0	258.5	147.9	-86.9	-87.4%
Wagon purchases	111.8	184.7	162.9	69.9	11.1	-72.9	-39.5%
Wagon upgrades	0.0	0.0	5.6	2.0	0.0	0.0	-
Workshop machinery and equipment	20.1	32.2	12.0	26.6	26.3	-12.1	-37.6%
ICT development	5.1	12.8	10.8	14.1	16.6	-7.7	-60.2%
Other	3.0	1.5	2.5	4.8	1.9	1.5	100.0%
Components in overhaul, including:	511.7	441.3	276.5	632.0	598.4	70.4	16.0%
Repairs and periodic inspections of locomotives	*113.1*	*115.9*	*73.7*	*167.1*	*171.7*	*-2.8*	*-2.4%*
Repairs and periodic inspections of wagons	*398.6*	*325.4*	*202.8*	*464.9*	*426.7*	*73.2*	*22.5%*
Right-of-use assets*	67.3	65.5	68.4	*237.6*		1.8	2.7%
Total	**776.2**	**908.3**	**754.5**	**1,350.3**	**894.1**	**-132.1**	**-14.5%**

** Expenditures for right-of-use assets do not include increases resulting from leaseback of rolling stock and technical equipment in the amount of PLN 16.7 million for 2022 and PLN 101.0 million for 2021.*
Source: Proprietary material.

3.6.2 Assessment of the capacity to execute investment plans

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

4. Analysis of the financial standing and assets of the Company and the PKP CARGO Group

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

Table 12 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million[106]					EUR million				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
Exchange rates (PLN/EUR)						**4.6883**	**4.5775**	**4.4742**	**4.3018**	**4.2669**
Operating revenue	4,044.8	3,127.0	3,062.0	3,601.4	3,939.2	862.7	683.1	684.4	837.2	923.2
Operating profit / loss	242.2	-235.7	-214.6	40.2	318.2	51.7	-51.5	-48.0	9.3	74.6
Profit / loss before tax	126.9	-268.4	-221.5	19.2	320.7	27.1	-58.6	-49.5	4.5	75.2
Net profit / loss from continuing operations	102.7	-223.3	-173.9	-8.3	254.0	21.9	-48.8	-38.9	-1.9	59.5
Comprehensive income	110.6	-146.1	-251.6	-37.4	228.2	23.6	-31.9	-56.2	-8.7	53.5
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	2.29	-4.99	-3.88	-0.19	5.67	0.49	-1.09	-0.87	-0.04	1.33
Diluted earnings / loss per share (PLN/EUR)	2.29	-4.99	-3.88	-0.19	5.67	0.49	-1.09	-0.87	-0.04	1.33
Net cash flow from operating activities	815.5	500.5	417.1	649.4	709.7	174.0	109.4	93.3	151.0	166.3
Net cash flow from investing activities	-698.9	-558.9	-559.1	-693.4	-536.3	-149.1	-122.1	-125.0	-161.2	-125.7
Net cash flow from financing activities	-202.4	18.9	-57.5	201.6	-246.9	-43.2	4.1	-12.9	46.9	-57.9
Movement in cash and cash equivalents	-85.8	-39.5	-199.5	157.6	-73.5	-18.3	-8.6	-44.6	36.6	-17.2
	31 Dec 2022	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2018**
Exchange rates (PLN/EUR)						**4.6899**	**4.5994**	**4.6148**	**4.2585**	**4.3000**
Non-current assets	5,948.0	6,031.2	5,948.9	6,030.5	4,902.5	1,268.3	1,311.3	1,289.1	1,416.1	1,140.1
Current assets	800.0	681.3	705.4	989.8	1,079.8	170.6	148.1	152.9	232.4	251.1
Non-current assets classified as held for sale	0.1	14.9	12.7	-	-	-	3.2	2.7	-	-
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	477.5	486.9	485.2	525.8	520.8
Equity	2,923.3	2,812.7	2,958.8	3,210.4	3,314.6	623.3	611.5	641.2	753.9	770.8
Non-current liabilities	1,985.9	2,442.9	2,646.7	2,659.0	1,652.6	423.4	531.1	573.5	624.4	384.3
Current liabilities	1,838.9	1,471.8	1,061.5	1,150.9	1,015.1	392.2	320.0	230.0	270.2	236.1

Source: Proprietary material.

[106] In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2022, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, the data are presented with greater accuracy.

Table 13 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million					EUR million				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
Exchange rates (PLN/EUR)						**4.6883**	**4.5775**	**4.4742**	**4.3018**	**4.2669**
Operating revenue	5,448.8	4,326.5	4,235.9	4,865.5	5,237.5	1,162.2	945.2	946.7	1,131.0	1,227.5
Operating profit / loss	333.3	-208.8	-186.4	143.4	277.6	71.1	-45.6	-41.7	33.3	65.1
Profit / loss before tax	191.8	-264.4	-266.9	73.5	243.8	40.9	-57.8	-59.7	17.1	57.1
Net profit / loss	148.0	-225.3	-224.3	36.0	183.9	31.6	-49.2	-50.1	8.4	43.1
Total comprehensive income attributable to the owners of the parent company	192.3	-103.2	-279.5	4.2	170.7	41.0	-22.5	-62.5	1.0	40.0
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss (pcs)	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	3.31	-5.03	-5.01	0.80	4.11	0.71	-1.10	-1.12	0.19	0.96
Diluted earnings / loss per share (PLN/EUR)	3.31	-5.03	-5.01	0.80	4.11	0.71	-1.10	-1.12	0.19	0.96
Net cash flow from operating activities	1,018.4	699.8	553.1	806.5	863.0	217.2	152.9	123.6	187.5	202.2
Net cash flow from investing activities	-772.9	-645.6	-655.1	-814.8	-612.0	-164.9	-141.0	-146.4	-189.4	-143.4
Net cash flow from financing activities	-319.5	-106.4	-145.9	111.4	-322.9	-68.1	-23.3	-32.6	25.9	-75.7
Movement in cash and cash equivalents	-74.0	-52.2	-247.9	103.1	-71.9	-15.8	-11.4	-55.4	24.0	-16.9
	31 Dec 2022	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2018**
Exchange rates (PLN/EUR)						**4.6899**	**4.5994**	**4.6148**	**4.2585**	**4.3000**
Non-current assets	6,354.1	6,458.7	6,397.4	6,503.8	5,187.2	1,354.8	1,404.3	1,386.3	1,527.3	1,206.3
Current assets	1,305.8	1,139.0	1,149.3	1,487.5	1,619.1	278.4	247.6	249.1	349.3	376.5
Non-current assets classified as held for sale	0.3	15.7	12.7	-	-	0.1	3.4	2.7	-	-
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	477.5	486.9	485.2	525.8	520.8
Equity attributable to the owners of the parent company	3,232.9	3,040.6	3,143.8	3,423.3	3,483.5	689.3	661.1	681.2	803.9	810.1
Equity attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Non-current liabilities	2,344.6	2,833.8	3,029.5	3,115.9	1,969.1	499.9	616.1	656.5	731.7	457.9
Current liabilities	2,082.7	1,739.0	1,386.1	1,452.1	1,353.7	444.1	378.1	300.4	341.0	314.8

Source: Proprietary material.

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2022:

- exchange rate in force on the last day of the reporting period: 31 December 2022: EUR 1 = PLN 4.6899; 31 December 2021: EUR 1 = PLN 4.5994,
- the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 31 December 2022: EUR 1 = PLN 4.6883, 1 January – 31 December 2021: EUR 1 = PLN 4.5775.

4.2. Information about the financial statements

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

No such items can be found in the Standalone Financial Statements and Consolidated Financial Statements in 2022.

4.2.2 Description of significant off-balance sheet items

Off-balance sheet items include, for the most part, contractual liabilities for the purchase and repair of rolling stock and other property, plant and equipment as well as contingent liabilities arising from guarantees issued at the request of the Company and the Group and from claims made against the Company and the Group in court proceedings in the case of which the probability of cash outflow is assessed as low and claims for which it is impossible to provide a reliable estimate of the payment amount to be made by the Company and the Group in the future. Off-balance sheet items are disclosed in *Notes 7.2 and 7.3 to the SFS* and *Notes 7.2 and 7.3 to the CFS* for the financial year ended 31 December 2022.

4.2.3 Rules for preparing annual financial statements

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2022 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of the standalone and consolidated financial statements. The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2022 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2022 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future.

As at the preparation date of these financial statements, there are no material circumstances indicating any substantial threat to PKP CARGO S.A.'s and the Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements. The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2022 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2022 have been prepared in accordance with the historic cost principle except for derivative financial instruments and investments in equity instruments carried at fair value.

4.2.4 Information about the agreement entered into with the audit firm

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

- Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k. (as of 1 December 2022, transformed and operating under the business name: Grant Thornton Frąckowiak Prosta spółka akcyjna) with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, registered under file no. 3654 as an entity authorized to audit financial statements, and
- Grant Thornton Polska spółka z ograniczoną odpowiedzialnością sp.k. (as of 1 December 2022, transformed and operating under the business name: Grant Thornton Polska Prosta spółka akcyjna) with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, registered under file no. 4055 as an entity authorized to audit financial statements (hereinafter referred to as "Grant Thornton").

The agreement with Grant Thornton of 5 July 2021 and covers:

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

The agreement with Grant Thornton of 14 December 2021 covers:

- evaluation of the compensation report prepared by PKP CARGO S.A. annually in 2021-2025

Table 14 Net fee charged by the audit firm (PLN)

Item	Year ended 31 December 2022	Year ended 31 December 2021
Audit of the standalone and consolidated financial statements	124,416	138,240
Other attestation services	105,767	108,630
Other services	-	-
Total	**230,183**	**246,870**

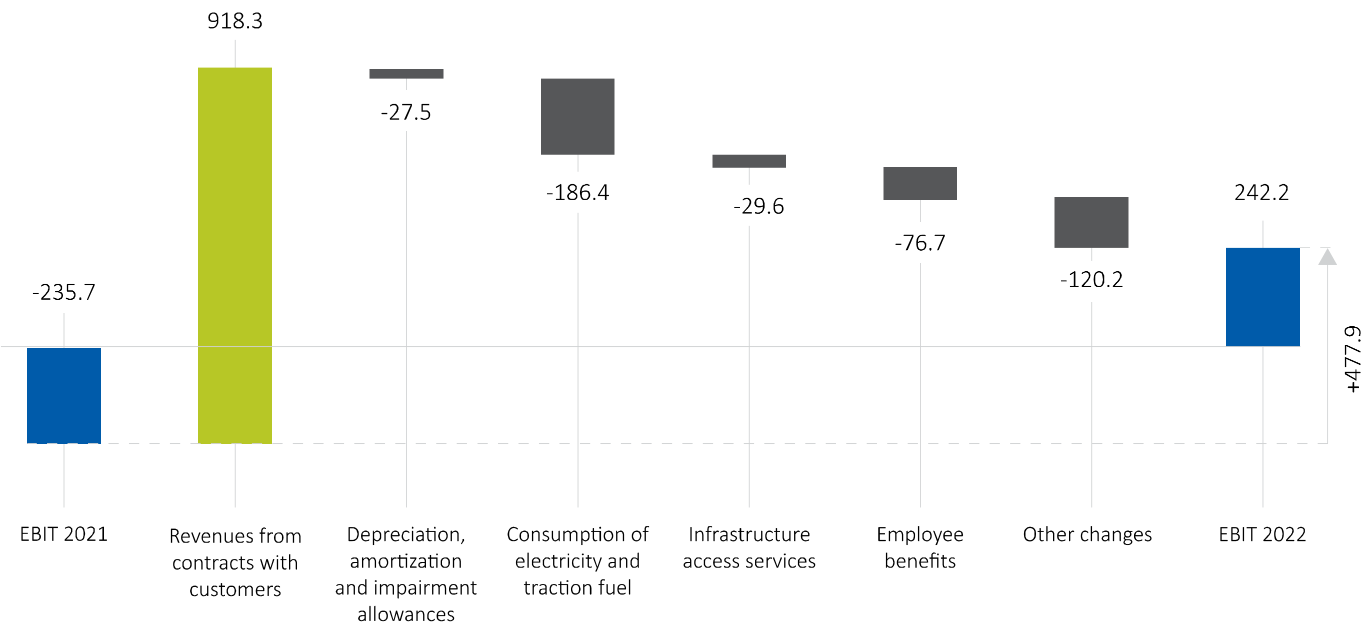
Source: Proprietary material.

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

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

In the 12 months of 2022, EBIT reached PLN 242.2 million, having gone up by PLN 477.9 million compared to the corresponding period of the previous year.

Figure 18 EBIT in the 12 months of 2022 as compared to the corresponding period in 2021 (PLN million)



Source: Proprietary material.

The most significant drivers of changes affecting EBIT in the 12 months of 2022, as compared to the 12 months of 2021, are described below:

- increase in revenues from contracts with customers (including chiefly revenue from transportation services and freight forwarding services) which resulted mostly from higher freight rates offered to clients for rail services, with the simultaneous growth of freight turnover;
- increase in depreciation costs and impairment allowances resulting for the most part from intensification of investment activities in 2022 to satisfy the needs of transport logistics;
- increase in the costs of consumption of electricity and traction fuel was caused chiefly by a strong increase in domestic prices of fuels and prices of energy contracted on the Polish Power Exchange (TGE) and higher freight turnover;
- increase in the costs of access services to the infrastructure in connection with the increase in freight turnover;
- increase in the costs of employee benefits, among others in connection with signing an agreement on raising salaries as of June 2022, increase in overtime hours done and changes to employee provisions, with a concurrent decline in the total number of employees. Detailed information on the changes in headcount is presented in section *3.5 Headcount*;
- increase in costs in the line item of other changes, including, an increase in expenses on account of rents and fees for the use of real estate and rolling stock, an increase in the value of materials sold following the increase in revenue from their sale (mainly the sale of rolling stock unnecessary for the efficient conduct of operating activities), an increase in the costs of transport services as a result of intensified transport activity and an increase in repair services and

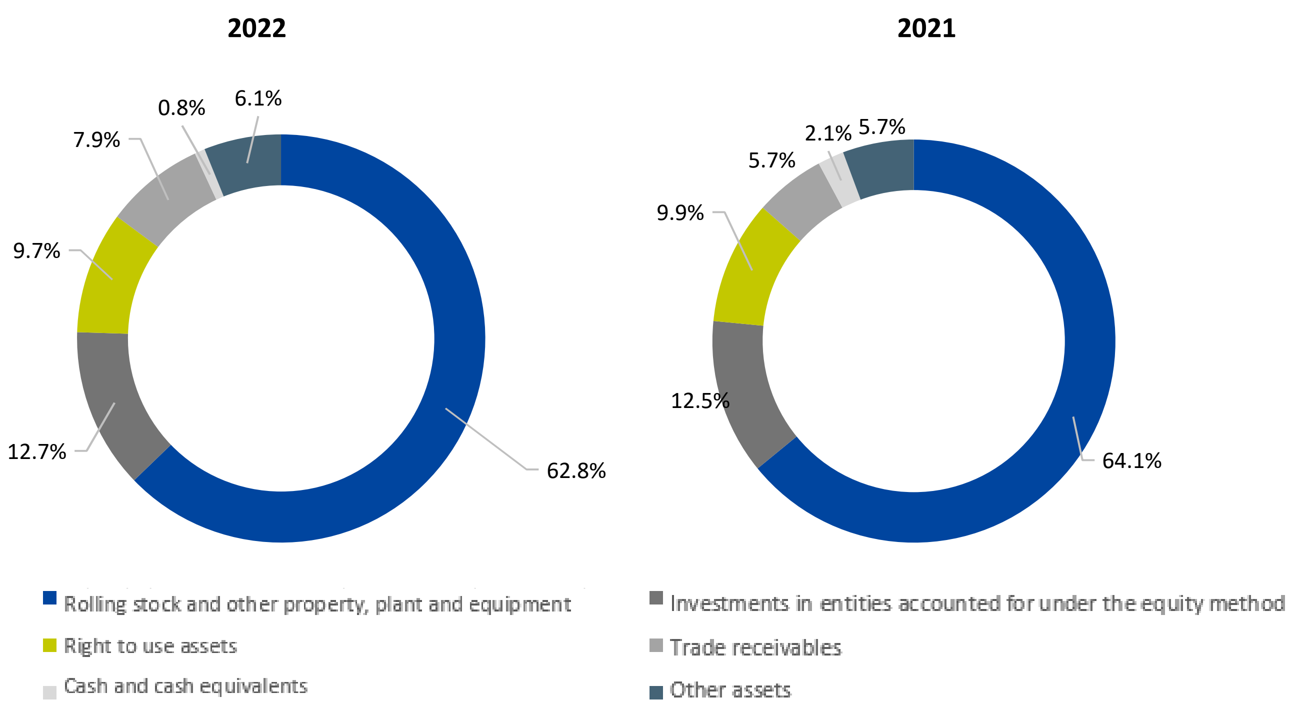
maintenance of non-current assets (related to an increase in the quantum of transport services performed), as well as an increase in the costs of the consumption of non-traction electricity, gas and water.

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

ASSETS

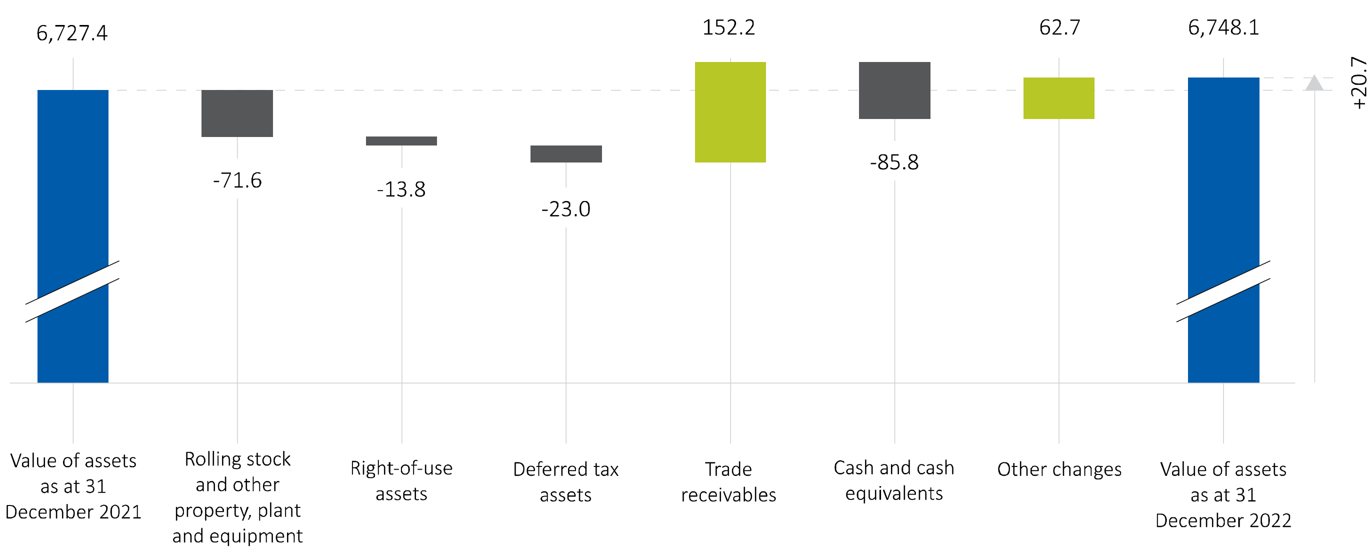
As at 31 December 2022, rolling stock and other property, plant and equipment represented the largest share in the structure of the Company's total assets, accounting for 62.8% of total assets, compared to 64.1% as at 31 December 2021. The largest share in the structure of current assets as at 31 December 2022 was attributable to trade receivables, which represented 7.9% of the Company's total assets.

Figure 19 Structure of the Company's assets – as at 31 December 2022 and 31 December 2021



Source: Proprietary material.

Figure 20 Movement in the Company's assets in the 12 months of 2022 (PLN million)



Source: Proprietary material.

The causes of the most significant events affecting the changes in the value of assets as at 31 December 2022 as compared to 31 December 2021 are discussed below:

- the decrease in the value of rolling stock and other property, plant and equipment was mainly reflected by the effect of liquidation and sale of the rolling stock not needed for operating activities;
- the decrease in the right-of-use assets was caused by the depreciation cost exceeding the value of capital expenditures;
- decline in the value of deferred tax assets predominantly as a result of settlement of 50% of tax losses incurred in previous periods in connection with achievement of a positive tax result in 2022;
- increase in the value of trade receivables related to the higher revenues from transport operations (increase in the scale of operations);
- decrease in cash and cash equivalents was a consequence of cost of acquisition of non-financial non-current assets in the amount of PLN 780.0 million, and the repayment of loans, borrowings and leasing liabilities, including interests, in the amount of PLN 469.5 million, with the concurrent proceeds from operating activities in the amount of PLN 815.5 million, proceeds from a new bank loan of PLN 141.4 million, proceeds from the sale of non-financial non-current assets in the amount of PLN 53.1 million, subsidies received in the amount of PLN 82.5 million, and cash pool proceeds in the amount of PLN 46.4 million;
- increase in other assets resulting from, among other factors, an increase in non-financial assets due to prepaid expenses (including primarily purchases of energy).

Table 15 Days in inventory in 2018-2022

Item	2022	2021	2020	2019	2018	Change 2022-2021	Rate of change 2022/2021
Days in inventory*	110.2	131.3	184.7	94.6	96.8	-21.1	-19.1%

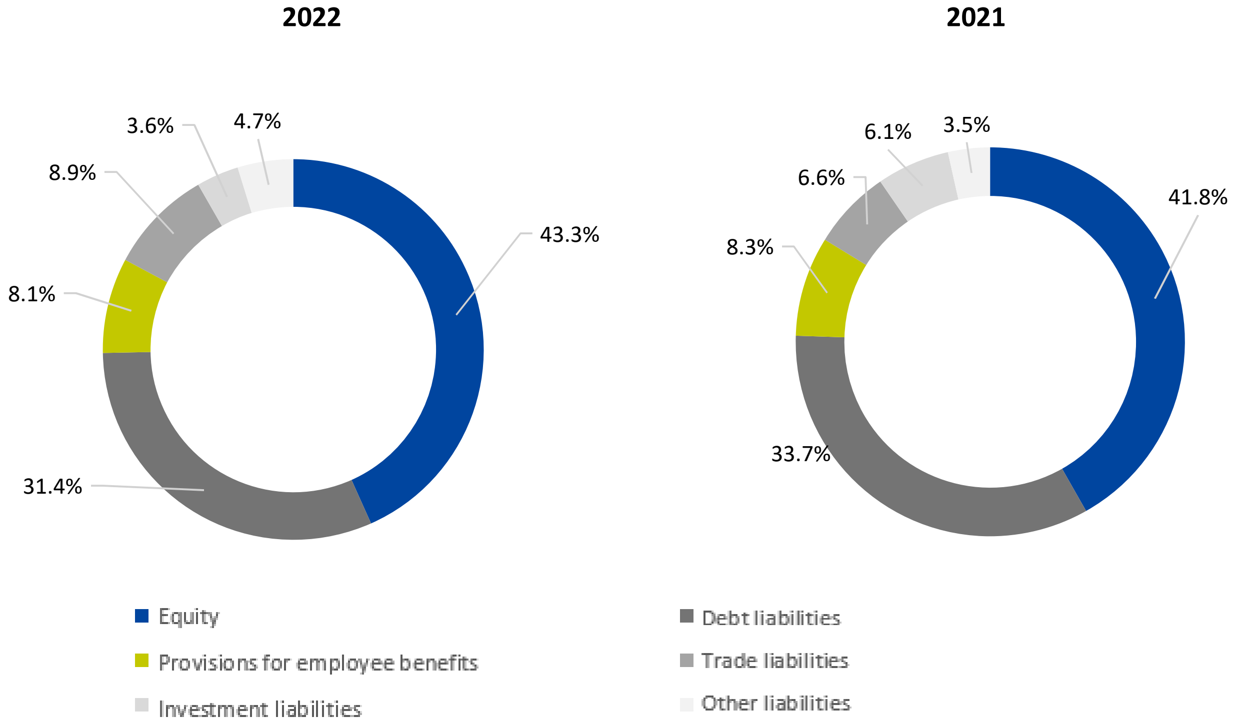
* Days in inventory calculated for 360 days and depletion of materials on a year-to-date basis since the beginning of the reporting year
Source: Proprietary material.

As at the end of December 2022, the days in inventory ratio was 110.2, down by 21 days compared to 2021 (i.e. -19.1% yoy). What contributed to the considerable decrease in the ratio was mainly the increase in the net value of materials sold by PLN 21.2 million, with the inventories of materials being higher by PLN 10.4 million as well as consumption of materials higher by PLN 7.7 million.
The level of inventories is adapted mainly to the level of the rolling stock maintenance and repair. Detailed information regarding changes to the level of inventories is presented in *Note 5.5 to the SFS*.

EQUITY AND LIABILITIES

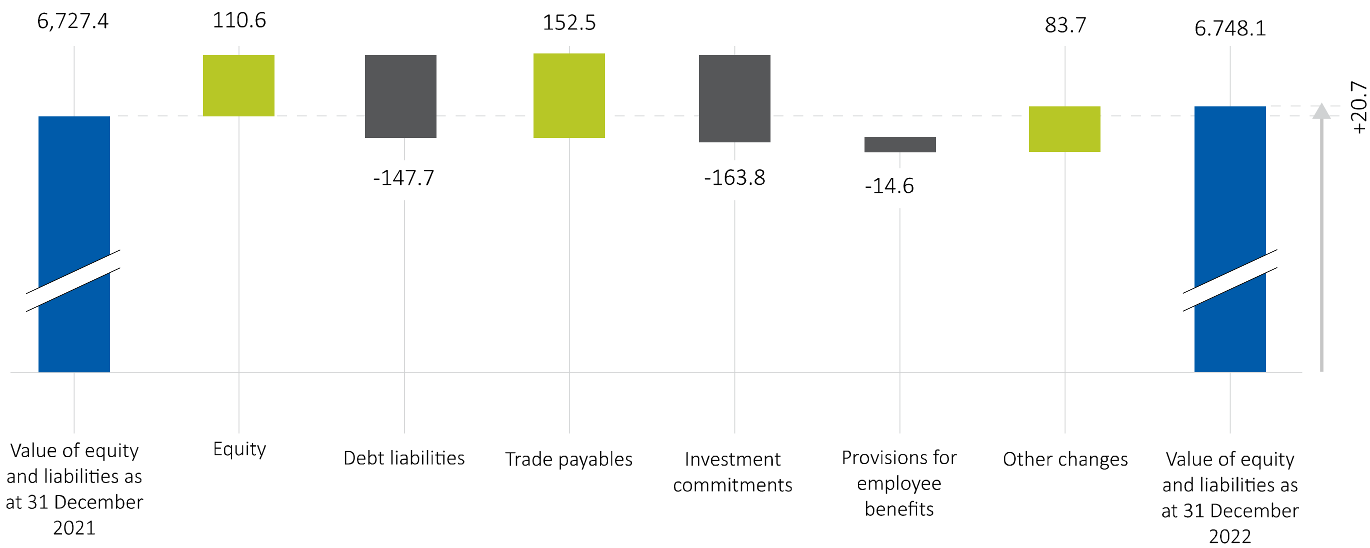
The largest share of the Company's equity and liabilities was equity, which as at 31 December 2022 represented 43.3% of total equity and liabilities, compared to 41.8% as at 31 December 2021. At the same time, debt liabilities as at 31 December 2022 accounted for 31.4% of total equity and liabilities, compared to 33.7% as at 31 December 2021.

Figure 21 Structure of the Company's equity and liabilities as at 31 December 2022 and 31 December 2021.



Source: Proprietary material.

Figure 22 Movement in the Company's equity and liabilities in the 12 months of 2022 (PLN million)



Source: Proprietary material.

The most significant changes affecting the value of equity and liabilities as at 31 December 2022, as compared to 31 December 2021, are explained below:

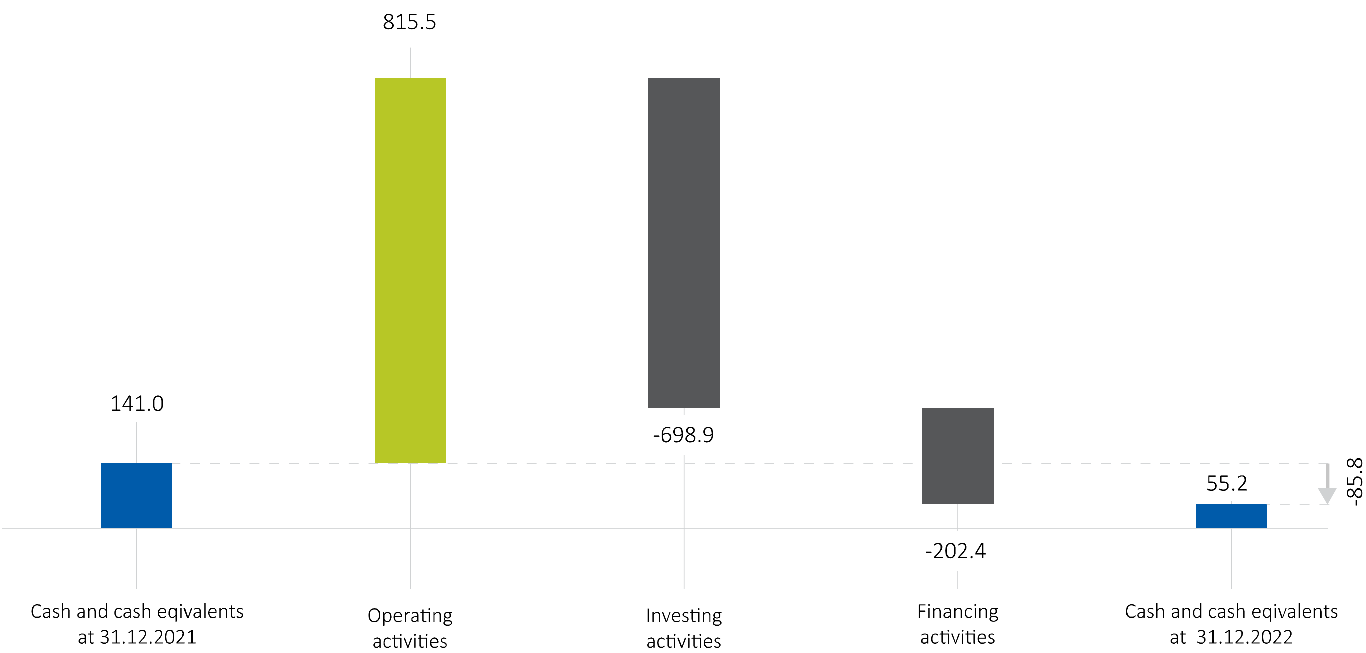
- the increase in the value of equity mainly because of the growth in retained earnings (the net profit recognized by the Company for 2022);
- the decrease in debt liabilities following mainly from principal repayments of bank loans and leases exceeding the assumed new liabilities (the effect of improving the Company's financial performance and operating results);
- the increase in trade payables as a result of the active management of working capital

- lower investment commitments, largely due to a decrease in rolling stock-related liabilities of PLN 153.3 million (a lower level of rolling stock investments at the end of 2022 than in the corresponding period of 2021). In addition, a decrease of PLN 7.5 million was recorded in investment liabilities concerning real estate;
- a decline in non-current provisions for employee benefits reflecting a sharp increase in the discount rate (from 3.5% to 6.8%), with a simultaneous reduction of the headcount;
- a growth in the sub-group of other changes is first of all a result of higher financial liabilities on account of cash pool and higher liabilities on account of subscribing for new shares in connection with increasing share capital of PKP CARGO TERMINALE Sp. z o.o and greater liabilities on account of VAT settlement.

4.3.3 Cash flow statement of PKP CARGO S.A.

The value of cash and cash equivalents as at 31 December 2022 decreased by PLN 85.8 million compared to 31 December 2021.

Figure 23 Cash flows in the Company in 2022 (PLN million)



Source: Proprietary material.

- positive cash flows from operating activities were generated, among others, with recognized gross profit of PLN 126.9 million and depreciation and impairment losses of 608.3 million PLN;
- cash flows from investing activities resulted predominantly from expenses incurred on the purchase of non-financial non-current assets in the amount of PLN 780.0 million, with simultaneous proceeds from the sale of non-financial non-current assets of PLN 53.1 million (as a result of a decision to sell assets unnecessary for the efficient conduct of operating activities) and proceeds from dividends received from the subsidiaries in the amount of PLN 25.5 million;
- cash flow on financial activities resulted chiefly from the repayment of loans and leases with interest in the amount of PLN 469.5 million, offset by PLN 141.4 million under new loans, PLN 82.5 million under subsidies and PLN 46.4 million under cash pool.

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

The table below presents PKP CARGO S.A.'s key financial and operating ratios in the period of 2018-2022. To present the Company's financial standing in a comprehensive way, alternative performance measures (APMs) have been applied. The Company presents below selected APMs – basic financial indicators such as: EBITDA margin, net profit margin, ROA, ROE, and the following basic operational indicators: average daily mileage and average daily running time of locomotives, average train weight per locomotive (resulting indirectly from the freight volume and the degree of utilization of traction vehicles), as well as the average freight turnover per employee – because the Company believes that they are the source of additional valuable information (apart from the data presented in financial statements) on financial and operational standing and they also facilitate analysis and assessment of the financial performance achieved by the Company in the years 2018-2022.

The selected ratios presented by the Company constitute standard measures and ratios commonly applied in financial analysis. Their selection was preceded by analysis of their appropriateness with regard to providing investors with useful information on financial standing, cash flows and financial effectiveness and, in the Company's opinion, this allows for optimal assessment of achieved financial performance.

The APMs applied by the Company should be analyzed only as additional information and reviewed in conjunction with the Company's financial statements.

The APMs presented by the Company were calculated in accordance with the formulas referred to below.

Table 16 Selected financial and operating ratios of PKP CARGO S.A. in 2018-2022

Item	2022	2021	2020	2019	2018	Change 2022–2021	Rate of change 2022–2021
EBITDA margin[1]	21.0%	11.0%	13.1%	17.3%	19.6%	10.0 p.p.	90.5%
Net profit margin (ROS)[2]	2.5%	-7.1%	-5.7%	-0.2%	6.4%	9.7 p.p.	-
ROA[3]	1.5%	-3.3%	-2.6%	-0.1%	4.2%	4.8 p.p.	-
ROE[4]	3.5%	-7.9%	-5.9%	-0.3%	7.7%	11.5 p.p.	-
Average distance covered per locomotive (km per day)[5]	224.9	223.0	230.2	234.3	262.9	1.9	0.9%
Average gross train tonnage per operating locomotive (tons)[6]	1,571.0	1,501.0	1,462.0	1,469.0	1,489.0	70	4.7%
Average running time of train locomotives (hours per day)[7]	14.6	15.1	14.7	15.0	16.1	-0.5	-3.3%
Freight turnover per employee (thousands tkm/employee)[8]	1,697.3	1,481.9	1,308.9	1,459.2	1,728.8	215.4	14.5%

Source: Proprietary material.

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

The drivers of the key changes to the above ratios for 2022 as compared to 2021 are described below:

- in the period of 12 months of 2022, the key profitability ratios, i.e. EBITDA margin, net result margin (ROS), ROA, ROE were significantly improved compared to the corresponding period in 2021. Detailed information on the reasons for movement in PKP CARGO's EBITDA is presented in section *4.3.PKP CARGO S.A.'s economic and financial highlights*;
- the recorded increase in the average gross train tonnage per operating locomotive attests to the optimal use of the rolling stock and successful optimization of management of traction vehicles;
- increase in the freight turnover per employee ratio was a consequence of an increase in freight turnover by 7.9% yoy coupled with a decrease in the average headcount in FTEs by 5.8% yoy.

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

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

Table 17 Time series of the statement of profit or loss and other comprehensive income of PKP CARGO S.A. in 2018-2022

	PLN million				
	2022	2021	2020	2019	2018
Revenues from contracts with customers	4,003.6	3,085.3	2,936.6	3,572.0	3,910.8
Consumption of electricity and traction fuel	-686.5	-500.1	-446.9	-527.8	-549.7
Infrastructure access services	-550.6	-521.0	-516.2	-576.9	-733.6
Other services	-408.1	-357.9	-289.5	-322.0	-430.0
Employee benefits	-1,286.3	-1,209.6	-1,239.6	-1,339.0	-1,265.2
Other expenses	-214.9	-171.3	-147.7	-182.9	-170.2
Other income and operating expenses	-6.7	19.7	103.8	0.6	9.1
Operating profit before depreciation and amortization (EBITDA)	**850.5**	**345.1**	**400.5**	**624.0**	**771.2**
Depreciation, amortization and impairment allowances	-608.3	-580.8	-615.1	-583.8	-453.0
Profit/(loss) on operating activities (EBIT)	**242.2**	**-235.7**	**-214.6**	**40.2**	**318.2**
Financial income and expenses	-115.3	-32.7	-6.9	-21.0	2.5
Profit/loss before tax	**126.9**	**-268.4**	**-221.5**	**19.2**	**320.7**
Income tax	-24.2	45.1	47.6	-27.5	-66.7
NET PROFIT/LOSS	102.7	**-223.3**	**-173.9**	**-8.3**	**254.0**
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	-6.8	9.0	-49.8	9.4	-22.5
Income tax	1.3	-1.7	9.6	-1.8	4.3
Other comprehensive income subject to reclassification to profit or loss, total	**-5.5**	**7.3**	**-40.2**	**7.6**	**-18.2**
Actuarial gains / (losses) on employee benefits	16.5	86.3	-45.4	-46.2	-9.4
Income tax	-3.1	-16.4	8.6	8.8	1.8
Measurement of equity instruments at fair value	0	0.0	-0.7	0.7	-
Other comprehensive income not subject to reclassification to profit or loss, total	**13.4**	**69.9**	**-37.5**	**-36.7**	**-7.6**
Total other comprehensive income	**7.9**	**77.2**	**-77.7**	**-29.1**	**-25.8**
TOTAL COMPREHENSIVE INCOME	**110.6**	**-146.1**	**-251.6**	**-37.4**	**228.2**
Earnings per share (PLN per share)					
Weighted average number of common shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Basic earnings per share	2.29	-4.99	-3.88	-0.19	5.67
Diluted earnings per share	2.29	-4.99	-3.88	-0.19	5.67

Source: Proprietary material.

Table 18 Time series of the statement of balance sheet situation of PKP CARGO S.A. in 2018 – 2022

	PLN million				
	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
ASSETS					
Rolling stock	3,778.1	3,827.5	3,809.2	3,892.3	3,425.7
Other property, plant and equipment	459.5	481.7	474.7	492.9	543.1
Right-of-use assets	653.1	666.9	641.5	704.0	-
Investments in related parties	858.0	840.0	840.0	807.0	805.5
Lease receivables	22.1	23.4	24.4	19.7	-
Financial assets	4.9	4.9	4.9	7.4	5.7
Other assets	36.6	28.1	22.6	39.9	35.3
Deferred tax assets	135.7	158.7	131.6	67.3	87.2
Total non-current assets	**5,948.0**	**6,031.2**	**5,948.9**	**6,030.5**	**4,902.5**
Inventories	97.7	87.3	95.0	79.2	84.2
Trade receivables	532.7	380.5	366.5	391.4	479.4
Lease receivables	1.5	1.5	2.8	1.2	-
Income tax receivables	-	1.7	1.8	50.8	2.9
Financial assets	-	-	2.3	4.8	203.4
Other assets	112.9	69.3	56.5	82.4	87.5
Cash and cash equivalents	55.2	141.0	180.5	380.0	222.4
Total current assets	**800.0**	**681.3**	**705.4**	**989.8**	**1,079.8**
Non-current assets classified as held for sale	0.1	14.9	12.7		-
TOTAL ASSETS	**6,748.1**	**6,727.4**	**6,667.0**	**7,020.3**	**5,982.3**
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	635.7	744.7	744.7	744.7	596.7
Other items of equity	-54.4	-62.3	-139.5	-61.8	-32.7
Retained earnings / (Accumulated losses)	102.7	-109.0	114.3	288.2	511.3
Total equity	**2,923.3**	**2,812.7**	**2,958.8**	**3,210.4**	**3,314.6**
Debt liabilities	1,519.6	1,872.2	1,897.6	1,920.0	999.9
Investment commitments	46.1	110.1	143.0	153.6	109.7
Provisions for employee benefits	419.7	459.9	606.1	585.4	528.8
Other provisions	0.5	0.7	-	-	14.2
Total non-current liabilities	**1,985.9**	**2,442.9**	**2,646.7**	**2,659.0**	**1,652.6**
Debt liabilities	598.8	393.9	353.7	336.5	231.3
Trade payables	598.6	446.1	215.6	233.5	292.6
Investment commitments	197.9	297.7	141.3	249.5	225.5
Provisions for employee benefits	125.5	99.9	93.7	100.1	92.6
Other provisions	7.2	17.7	13.0	33.4	19.4
Current tax liabilities	2.3	-	-	-	-
Other financial liabilities	92.6	42.6	2.7	2.2	1.7
Other liabilities	216.0	173.9	241.5	195.7	152.0
Total current liabilities	**1,838.9**	**1,471.8**	**1,061.5**	**1,150.9**	**1,015.1**
Total liabilities	**3,824.8**	**3,914.7**	**3,708.2**	**3,809.9**	**2,667.7**
TOTAL EQUITY AND LIABILITIES	**6,748.1**	**6,727.4**	**6,667.0**	**7,020.3**	**5,982.3**

Source: Proprietary material.

Table 19 Time series of the statement of cash flows of PKP CARGO S.A. in 2018-2022

	PLN million				
	2022	2021	2020	2019	2018
Net cash from operating activities	**815.5**	**500.5**	**417.1**	**649.4**	**709.7**
Net cash from investing activities	**-698.9**	**-558.9**	**-559.1**	**-693.4**	**-536.3**
Net cash from financing activities	**-202.4**	**18.9**	**-57.5**	**201.6**	**-246.9**
Net increase/decrease in cash and cash equivalents	-85.8	-39.5	-199.5	157.6	-73.5
Cash and cash equivalents at the beginning of the reporting period	141.0	180.5	380.0	222.4	295.9
Cash and cash equivalents at the end of the reporting period	**55.2**	**141.0**	**180.5**	**380.0**	**222.4**

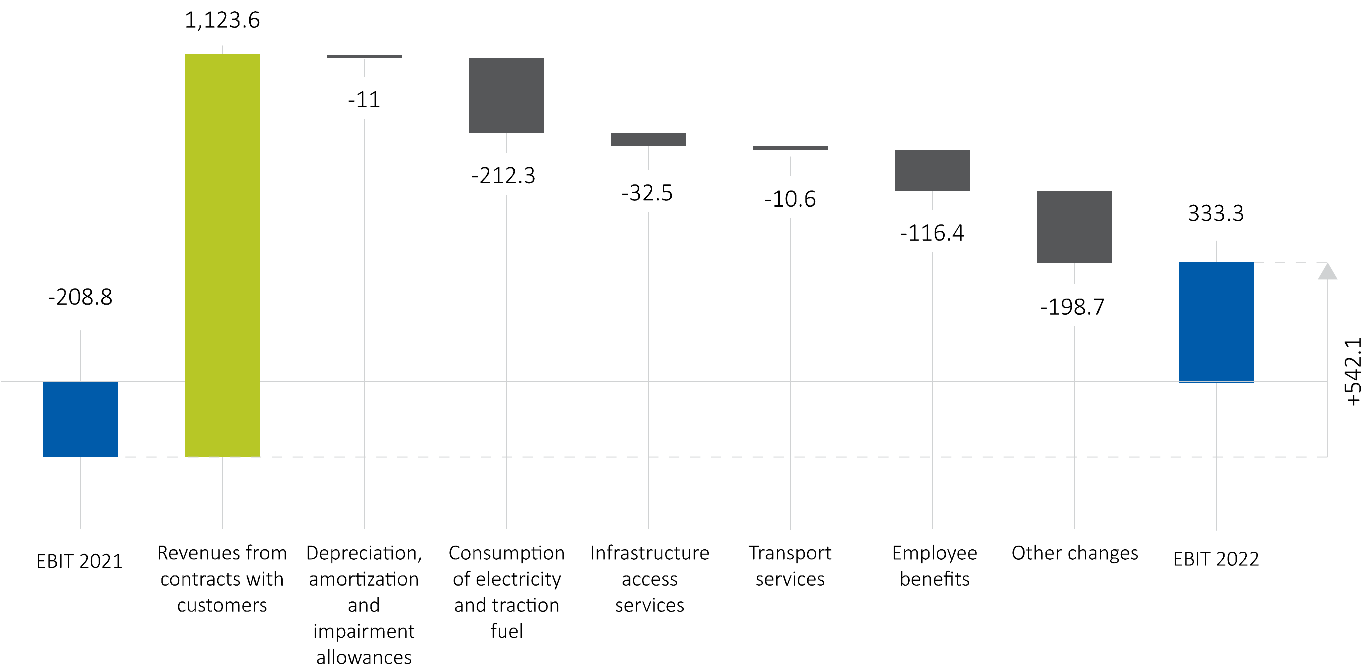
Source: Proprietary material.

4.4. Key economic and financial figures of PKP CARGO Group

4.4.1 Statement of comprehensive income of the PKP CARGO Group

During the 12 months of 2022, EBIT reached PLN 333.3 million, marking an improvement compared to the corresponding period of 2021 by PLN 542.1 million.

Figure 24 EBIT in the 12 months of 2022 as compared to the corresponding period in 2021 (PLN million)



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

The following is a description of the most significant deviations affecting EBIT in the 12 months of 2022 as compared to the 12 months of 2021:

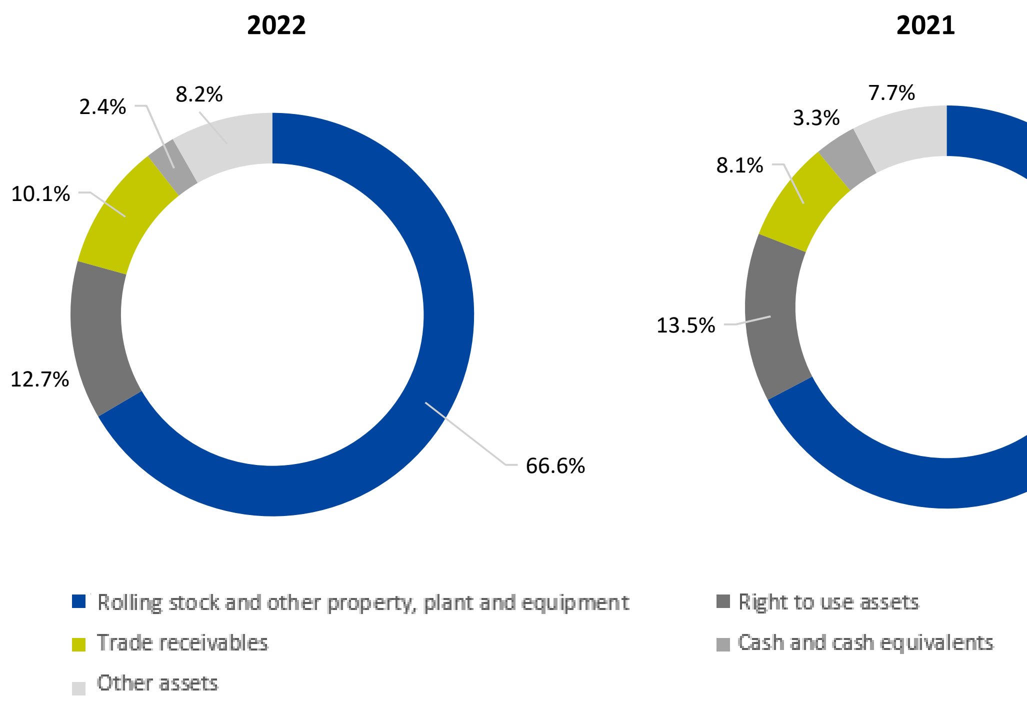
- increase in revenues from contracts with customers (including predominantly revenues from transport and freight forwarding services) as a direct consequence of the freight turnover greater by 5.5%. Furthermore, a considerable increase in freight rates was recorded in the period under analysis. The details pertaining to the PKP CARGO Group's transport services are described in section *3.2.5 PKP CARGO Group's rail transport business;*
- increase in depreciation and impairment allowances resulting from capital expenditures connected with rolling stock higher than in the previous years;
- increase in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 38.6% resulting from, among others, an increase in the energy prices and fuel prices. At the same time, a growth in freight turnover was recorded;
- increase in the costs of employee benefits, among others in connection with signing an agreement on raising salaries as of June 2022, increase in overtime hours done and changes to employee provisions, with a concurrent decline in the total number of employees; Detailed information on the changes in headcount is presented in section *3.5 Headcount;*
- increase in the costs of transport services (including, in particular, freight forwarding) correlated with greater freight turnover;
- increase in costs in the line item of other changes by PLN 198.7 million as a result of an increase in the costs of, among others, rental costs and fees for the use of real estate and rolling stock by PLN 49.3 million and land reclamation services by PLN 40 million, transshipment services by PLN 21.5 million, goods and materials sold by PLN 14.8 million and consumption of electricity, gas and water and non-traction fuel by PLN 26.3 million.

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

ASSETS

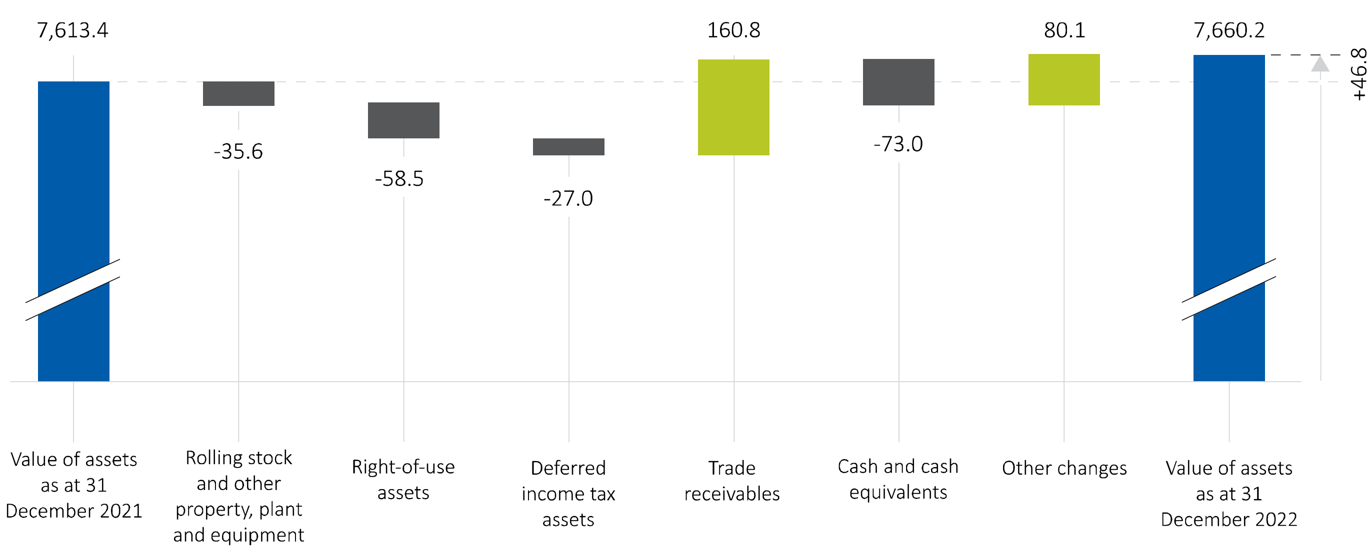
The biggest share in the PKP CARGO Group's asset structure as at 31 December 2022 was held by rolling stock and other property, plant and equipment, which in aggregate accounted for 66.6% of total assets, compared to 67.4% as at 31 December 2021. Among current assets, the biggest share in the total assets in the period was held by trade receivables.

Figure 25 Structure of the Group's assets – as at 31 December 2022 and 31 December 2021



Source: Proprietary material.

Figure 26 Movement in the PKP CARGO Group's assets in the 12 months of 2022 (PLN million)



Source: Proprietary material.

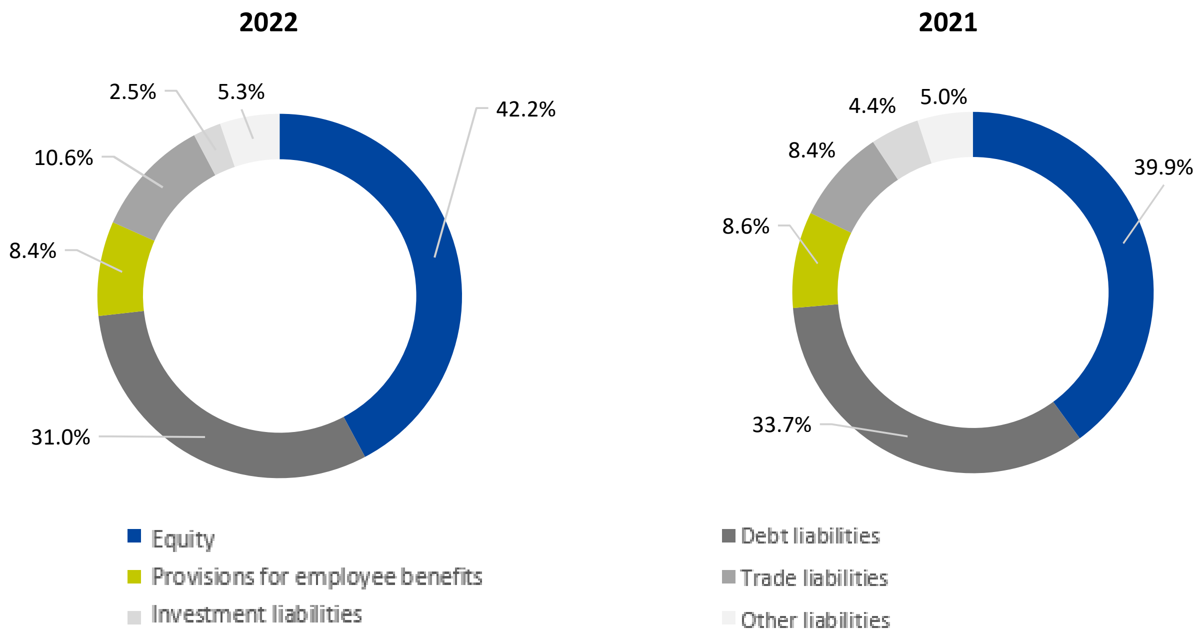
The most significant changes affecting the value of assets as at 31 December 2022, as compared to 31 December 2021, are explained below:

- the decrease in the value of rolling stock and other property, plant and equipment resulted mainly from liquidation and sale of the rolling stock not needed for operating activities;
- the decrease in the right-of-use assets was caused by the depreciation cost exceeding the value of capital expenditures;
- decline in the value of deferred tax assets as a result of settlement of some of tax losses incurred in previous periods in connection with achievement of a positive tax result in 2022;
- increase in trade receivables in connected with a larger scale of business operations and increased freight rates (increase of revenues from contracts with customers);
- decrease in cash and cash equivalents resulting predominantly from expenditures related to the acquisition of non-current assets in the amount of PLN 856.9 million and repayment of bank loans and leases with interest in the amount of PLN 553.7 million, with simultaneous proceeds from operating revenues of PLN 1,018.4 million, new loans of PLN 141.4 million, new subsidies of PLN 96.1 million and sale of non-financial non-current assets in the amount of PLN 75.9 million;
- increase in the value of other assets, mainly due to an increase in inventories by PLN 36.2 million, costs settled over time by PLN 33.1 million (chiefly prepayments for the purchase of electricity), increase in assets on account of VAT settlement by PLN 15.8 million, increase in assets on account of prepayments for the purchase of non-financial non-current assets of PLN 10.2 million as well as increase in investments in entities accounted for under the equity method by PLN 5.1 million.

EQUITY AND LIABILITIES

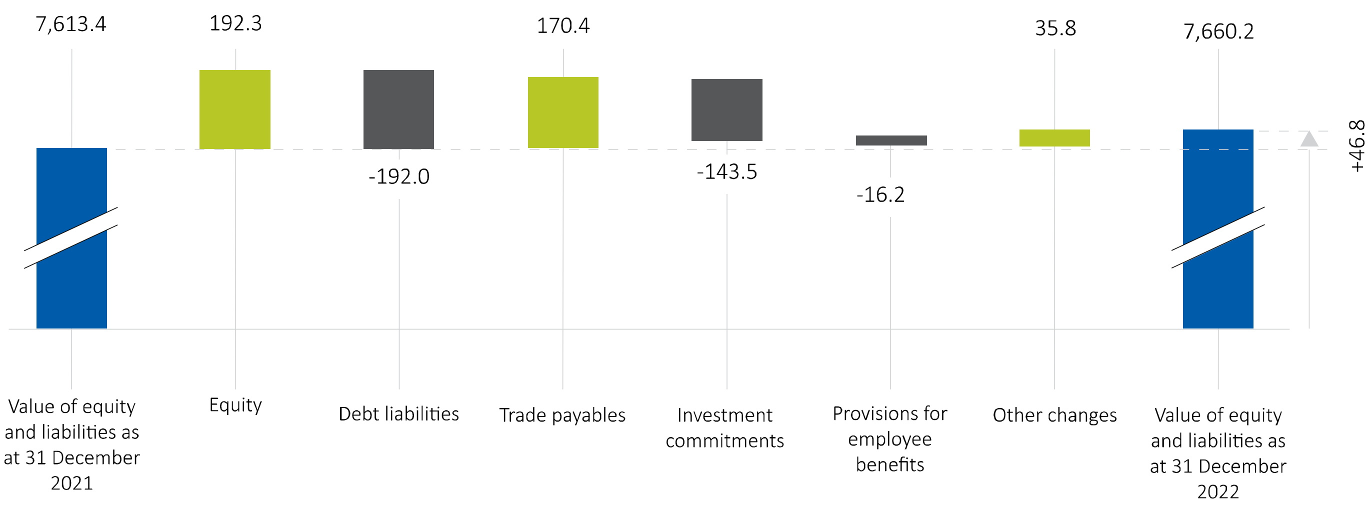
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 31 December 2022 was attributable to equity, which accounted for 42.2% of total equity and liabilities, compared to 39.9% as at 31 December 2021. In the period, debt liabilities accounted for 31.0% of total equity and liabilities, compared to 33.7% as at 31 December 2021.

Figure 27 Structure of the Group's equity and liabilities as at 31 December 2022 and 31 December 2021



Source: Proprietary material.

Figure 28 Change in the Group's equity and liabilities in the 12 months of 2022 (PLN million)



Source: Proprietary material.

The most significant drivers of changes affecting the value of the PKP CARGO Group's assets as at 31 December 2022 as compared to 31 December 2021 are discussed below:

- increase in equity mainly due to the positive net result for 2022 reported by the PKP CARGO Group (growth in retained earnings) and positive exchange differences on translation of statements of foreign entities in the amount of PLN 34.4 million;
- decrease in the value of debt liabilities resulted mainly from the repayment of principal and interest on loans and leases in the amount of PLN 553.7 million, with new loan and lease liabilities amounting to PLN 172.8 million, and an increase in leaseback liabilities by PLN 18.9 million, and a modification of existing leases by PLN 35.9 million. Detailed information on debt liabilities is presented in *Note 4.1 to the Consolidated Financial Statements*;
- increase in trade payables results from an increase in operating expenses;
- decrease in total investment commitments, including chiefly those related to rolling stock by PLN 149.1 million, with concurrent growth in investment liabilities concerning real properties by PLN 11.7 million;
- decrease in the value of provisions for employee benefits caused, among other factors, by decreases in provisions for the Company Social Benefits Fund for old-age and disability pensioners by PLN 33.8 million, as well as provisions for jubilee awards by PLN 6.8 million, with the simultaneous increase in other employee benefits by PLN 15.2 million and retirement and disability severance pays by PLN 12.3 million;
- increase in the value of other liabilities was chiefly due to increases in liabilities on account of: VAT settlements by PLN 13.4 million, settlements with employees by PLN 9.4 million and security interests (security deposits, bid deposits, guarantees) by PLN 7.5 million.

4.4.3 Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 December 2022 decreased by PLN 73.0 million compared to 31 December 2021.

Figure 29 Cash flows in the PKP CARGO Group in 2022 (PLN million)

Source: Proprietary material.

- positive cash flows from operating activities were generated, among others, with recognized gross profit of PLN 191.8 million and depreciation and impairment allowances of 733.0 million PLN;
- negative cash flows from investing activities resulted mainly from the expenses incurred on the purchase of non-financial non-current assets in the amount of PLN 856.9 million (including investments into rolling stock), with simultaneous proceeds from the sale of non-financial non-current assets of PLN 75.9 million (mostly, the sale of wagons and locomotives unnecessary for the conduct of effective operating activities);
- negative cash flow on financial activities were a consequence of repayment of loans and leases with interests in the amount of PLN 553.7 million, offset by inflows of PLN 141.4 million from new loans and PLN 96.1 million from new subsidies.

4.4.4 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the key financial and operating ratios of the PKP CARGO Group in the period of 2018-2022. To present the Group's financial standing in a comprehensive way, alternative performance measures (APMs) have been applied. The Group presents below selected APMs – basic financial indicators such as: EBITDA margin, net profit margin (ROS), ROA, ROE, and the following basic operational indicators: average daily mileage and average daily running time of locomotives, average train weight per locomotive (resulting indirectly from the freight volume and the degree of utilization of traction vehicles), as well as the average freight turnover per employee – because the Company believes that they are the source of additional valuable information (apart from the data presented in financial statements) on financial and operational standing and they also facilitate analysis and assessment of the financial performance achieved by the Company in the years 2018-2022.

The selected ratios presented by the Group constitute standard measures and ratios commonly applied in financial analysis. Their selection was preceded by analysis of their appropriateness with regard to providing investors with useful information on financial standing, cash flows and financial effectiveness and, in the Group's opinion, this allows for optimal assessment of achieved financial performance.

The APMs applied by the Company should be analyzed only as additional information and reviewed in conjunction with the Group's financial statements.

The APMs presented by the Company were calculated in accordance with the formulas referred to below.

Table 20 Selected financial and operating ratios of the PKP CARGO Group in 2018-2022

Item	2022	2021	2020	2019	2018	Change 2022–2021	Rate of change 2022–2021
EBITDA margin[1]	19.6%	11.9%	13.7%	17.7%	17.3%	7.7 p.p.	65.0%
Net profit margin (ROS)[2]	2.7%	-5.2%	-5.3%	0.7%	3.5%	7.9 p.p.	-
ROA[3]	1.9%	-3.0%	-3.0%	0.5%	2.7%	4.9 p.p.	-
ROE[4]	4.6%	-7.4%	-7.1%	1.1%	5.2%	12.0 p.p.	-
Average distance covered per locomotive (km per day)[5]	212.2	209.8	216.8	222.3	250.1	2.4	1.1%
Average gross train tonnage per operating locomotive (tons)[6]	1,546.0	1474.0	1434.0	1,447.0	1,463.0	72.0	4.9%
Average running time of train locomotives (hours per day)[7]	14.0	14.5	14.2	14.6	15.8	-0.5	-3.4%
Freight turnover per employee (thousands tkm/employee)[8]	1,337.3	1,206.5	1061.5	1,135.8	1,342.3	130.8	10.8%

Source: Proprietary material.

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

The drivers of the key changes to the above ratios for 2022 as compared to 2021 are described below:

- in the period of 12 months of 2022, the key profitability ratios, i.e. EBITDA margin, net result margin (ROS), ROA, ROE were significantly improved compared to the corresponding period in 2021. Detailed information on the reasons for movement in EBITDA of the PKP CARGO Group is presented in section *4.4 Key economic and financial figures of the PKP CARGO Group;*
- the recorded increase in the average gross train tonnage per operating locomotive attests to the optimal use of the rolling stock and successful optimization of management of traction vehicles;
- increase in the freight turnover per employee ratio was a consequence of an increase in freight turnover by 5.5% yoy coupled with a decrease in the average headcount in FTEs by 4.8% yoy.

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

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

Table 21 Time series of the statement of profit or loss and other comprehensive income of the PKP CARGO Group in 2018-2022

	PLN million				
	2022	2021	2020	2019	2018
Revenues from contracts with customers	5,390.1	4,266.5	4,075.6	4,781.6	5,183.0
Consumption of electricity and traction fuel	-762.5	-550.2	-492.7	-583.8	-615.1
Infrastructure access services	-562.5	-530.0	-517.3	-572.6	-732.0
Transport services	-361.3	-350.7	-340.5	-363.3	-463.1
Other services	-537.9	-413.9	-365.8	-408.6	-529.6
Employee benefits	-1,738.4	-1,622.0	-1,638.1	-1,737.3	-1,651.4
Other expenses	-359.5	-309.1	-264.6	-292.8	-298.9
Other income and operating expenses	-1.7	22.6	123.6	36.7	14.1
Operating profit before depreciation and amortization (EBITDA)	**1,066.3**	**513.2**	**580.2**	**859.9**	**907.0**
Depreciation, amortization and impairment allowances	-733.0	-722.0	-766.6	-716.5	-629.4
Profit/(loss) on operating activities (EBIT)	**333.3**	**-208.8**	**-184.4**	**143.4**	**277.6**
Financial income and expenses	-150.6	-60.3	-82.2	-71.6	-42.0
Share in the profit / loss of entities accounted for under the equity method	9.1	4.7	1.7	1.7	3.7
Result on the sale of shares in entities accounted for under the equity method	-	-	-	-	4.5
Profit/loss before tax	**191.8**	**-264.4**	**-266.9**	**73.5**	**243.8**
Income tax	-43.8	39.1	42.6	-37.5	-59.9
NET PROFIT/LOSS	**148.0**	**-225.3**	**-224.3**	**36.0**	**183.9**
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	-6.7	13.2	-50.8	9.9	-23.4
Income tax	1.3	-2.5	9.7	-1.9	4.4
FX differences from translation of financial statements	34.4	37.7	27.3	1.7	16.5
Other comprehensive income subject to reclassification to profit or loss, total	**29.0**	**48.4**	**-13.8**	**9.7**	**-2.5**
Actuarial gains / (losses) on employee benefits	18.9	91.0	-50.2	-52.2	-13.2
Income tax	-3.6	-17.3	9.5	10.0	2.5
Measurement of equity instruments at fair value	-	-	-0.7	0.7	-
Other comprehensive income not subject to reclassification to profit or loss, total	**15.3**	**73.7**	**-41.4**	**-41.5**	**-10.7**
Total other comprehensive income	**44.3**	**122.1**	**-55.2**	**-31.8**	**-13.2**
TOTAL COMPREHENSIVE INCOME	**192.3**	**-103.2**	**-279.5**	**4.2**	**170.7**
Net profit attributable:					
Net profit attributable to the owners of the parent company	148.0	-225.3	-224.3	36.0	183.9
Non-controlling interests					-
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the parent company	192.3	-103.2	-279.5	4.2	170.7
Non-controlling interests					-
Earnings per share (PLN per share)					
Weighted average number of common shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Basic earnings/loss per share	3.31	-5.03	-5.01	0.80	4.11
Diluted earnings/loss per share	3.31	-5.03	-5.01	0.80	4.11

Source: Proprietary material.

Table 22 Time series of the statement of financial position the PKP CARGO Group in 2018-2022

	PLN million				
	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
ASSETS					
Rolling stock	4,208.3	4,241.6	4,245.0	4,329.6	3,997.0
Other property, plant and equipment	891.1	893.4	875.6	872.4	949.9
Right-of-use assets	972.2	1,030.7	1,008.6	1,078.8	-
Investments in entities accounted for under the equity method	41.8	36.7	42.0	40.4	47.3
Trade receivables	7.3	4.2	3.0	3.0	0.7
Lease receivables	8.7	8.5	10.3	10.9	-
Other assets	48.6	40.5	35.1	55.0	56.7
Deferred tax assets	176.1	203.1	177.8	113.7	135.6
Total non-current assets	**6,354.1**	**6,458.7**	**6,397.4**	**6,503.8**	**5,187.2**
Inventories	200.8	164.6	165.8	161.0	161.7
Trade receivables	769.4	611.7	585.8	591.3	684.6
Lease receivables	0.6	0.6	0.7	0.7	-
Income tax receivables	1.6	4.5	2.9	51.4	3.0
Deposits above 3 months	-	-	-	-	201.1
Other assets	151.9	103.1	88.1	132.7	121.4
Cash and cash equivalents	181.5	254.5	306.0	550.4	447.3
Total current assets	**1,305.8**	**1,139.0**	**1,149.3**	**1,487.5**	**1,619.1**
Non-current assets classified as held for sale	**0.3**	**15.7**	**12.7**	**-**	**-**
TOTAL ASSETS	**7,660.2**	**7,613.4**	**7,559.4**	**7,991.3**	**6,806.3**
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	678.0	771.7	782.4	781.4	628.2
Other items of equity	-65.9	-75.8	-160.2	-77.7	-44.2
Exchange differences resulting from conversion of financial statements of foreign operations	176.9	142.5	104.8	77.5	75.8
Retained earnings / Accumulated losses	204.6	-37.1	177.5	402.8	584.4
Total equity	**3,232.9**	**3,040.6**	**3,143.8**	**3,423.3**	**3,483.5**
Debt liabilities	1,711.5	2,090.3	2,101.8	2,201.4	1,156.5
Trade payables	7.9	2.3	1.5	2.7	0.5
Investment commitments	46.7	111.8	145.5	157.0	109.8
Provisions for employee benefits	483.5	529.1	684.3	657.1	591.5
Other provisions	0.5	7.0	5.7	5.4	20.5
Deferred tax liability	94.5	93.3	90.7	92.3	88.5
Other liabilities	-	-	-	-	1.8
Total non-current liabilities	**2,344.6**	**2,833.8**	**3,029.5**	**3,115.9**	**1,969.1**
Debt liabilities	660.7	473.9	478.5	421.3	270.5
Trade payables	803.8	639.0	347.5	412.2	499.4
Investment commitments	143.0	221.4	133.5	181.5	177.6
Provisions for employee benefits	156.7	127.3	116.3	127.1	115.5
Other provisions	21.4	23.3	24.1	45.6	56.9
Other liabilities	297.1	254.1	286.2	264.4	233.8
Total current liabilities	**2,082.7**	**1,739.0**	**1,386.1**	**1,452.1**	**1,353.7**
Total liabilities	**4,427.3**	**4,572.8**	**4,415.6**	**4,568.0**	**3,322.8**
TOTAL EQUITY AND LIABILITIES	**7,660.2**	**7,613.4**	**7,559.4**	**7,991.3**	**6,806.3**

Source: Proprietary material.

Table 23 Time series of the statement of cash flows of the PKP CARGO Group in 2018-2022

	PLN million				
	2022	2021	2020	2019	2018
Net cash from operating activities	**1,018.4**	**699.8**	**553.1**	**806.5**	**863.0**
Net cash from investing activities	**-772.9**	**-645.6**	**-655.1**	**-814.8**	**-612.0**
Net cash from financing activities	**-319.5**	**-106.4**	**-145.9**	**111.4**	**-322.9**
Net increase/decrease in cash and cash equivalents	-74.0	-52.2	-247.9	103.1	-71.9
Cash and cash equivalents at the beginning of the reporting period	254.5	306.0	550.4	447.3	516.8
Impact exerted by FX rate movements on the cash balance in foreign currencies	1.0	0.7	3.5	-	2.4
Cash and cash equivalents at the end of the reporting period	**181.5**	**254.5**	**306.0**	**550.4**	**447.3**

Source: Proprietary material.

4.5. A description and evaluation of factors and unusual events affecting the result recorded by the Company and the PKP CARGO Group

Armed conflict in Ukraine

All Central and Eastern European countries have been affected to a greater or lesser degree by the conflict. It has disrupted a number of supply chains. The degree of this impact depends on the type of cargo. The supply chains of fuels such as coal, oil and gas have been affected significantly due to the sanctions imposed on Russia and Belarus. The conflict has also affected intermodal supply chains. In particular, intermodal deliveries from the ports of Gdynia, Gdańsk and on the New Silk Road have shrunk. We have established cooperation with Lithuanian and Ukrainian entities on routes between Ukraine and Lithuania and between Lithuania and Ukraine. Contracts with existing intermodal customers have not been terminated, none of the foreign clients of PKP CARGO S.A. or intermodal clients have been directly subjected to international sanctions. The impact of the conflict on the automotive sector may result in a shortage of components. Ukraine is one of the largest suppliers of electric wires for car manufacturers. If this product once again disappears from the market, it will result in a reduced transport volume of finished vehicles.

Currently, in the short-term and medium-term horizon, the risk associated with the operating activity of the PKP CARGO Group's companies is not particularly high. Given the current structure of cargo transports and the scope of activities of PKP CARGO Group companies, it is expected that Russia's aggression in Ukraine may cause a loss of a relatively insignificant portion of revenues from services provided, which may be replaced by services provided in other areas. Still, the possible escalation of the conflict and the potential tightening of sanctions may adversely affect the revenues of the subsidiaries of the PKP CARGO Group, especially those operating terminals on Poland's eastern border and providing freight forwarding services in that area. However, as of today there are no real indications of such a threat.

The PKP CARGO Group keeps monitoring the impact of the conflict in Ukraine and its possible consequences on transport and transport-related activities, taking suitable corrective actions. The Group entities use the opportunities associated with changes in goods flow routes by adapting their offer to the requirements of the market.

Social dialog

Under the procedure of the pending collective dispute, the Parties agreed to grant, as of 1 June 2022, cash for increasing remuneration of PKP CARGO S.A. employees:

- in the amount of PLN 400.00 for the increase of gross basic remuneration for each employee (on an FTE basis) who receives remuneration according to the Company Collective Bargaining Agreement,
- in the amount of PLN 750.00 for the increase of gross basic remuneration for each employee (on an FTE basis) who receives remuneration according to Resolution No. 498/2012 adopted by the PKP CARGO S.A. Management Board (as amended).

The entry into force, as of 1 July 2022, of additional protocol no. 13 and additional protocol no. 14 to the Company Collective Bargaining Agreement (CCBA) for Employees of the Units of PKP CARGO Spółka Akcyjna, entered in the register of company collective bargaining agreements, whose provisions:

- amend the terms of § 64 of the CCBA, under which employees employed in the equivalent working time system in positions that satisfy the requirements defined in the above provision are entitled to 8 days of additional leave in a calendar year. The new wording specifies in detail the rules for acquiring rights to the leave, amend the regulations about acquiring the right to the first leave and introduce the option of paying an employee a cash equivalent instead of an additional leave, calculated as the equivalent for holiday leave at the level of 120% if both parties are interested in such a solution,
- modify the "Table of Monthly Rates of Basic Remuneration" (Appendix no. 2 to the CCBA), increasing the maximum rates of basic remuneration by adding further 11 levels in all remuneration groups,

The decision made by the Management Board to increase cash benefits on the occasion of the Railway Employee Day in 2022, to thank the employees for diligent work and involvement in performing tasks. Each person entitled to the benefit in accordance with the CCBA received, by the remuneration payment date for November 2022, PLN 800, i.e. PLN 200 based on the CCBA and additionally PLN 600.

Price level of traction fuel and energy

The significant impact of the economic situation on the market resulted in an increase in traction fuel prices year over year. The average purchase price in 2021 was PLN 4,057.44 per m^3, and it was PLN 6,320.74 per m^3 in 2022, thus representing an increase of 55.7%. The price of electricity was determined by the ongoing energy crisis. The embargo on the import of coal from Russia, the absence of infrastructure for electricity generation from renewable sources and the turmoil in gas logistics caused a significant increase in energy prices.

Situation in the intermodal transport market

The rate of growth in the domestic intermodal transport market clearly slowed down in 2022 compared to earlier periods. Congestion at the border crossings with Ukraine and terminals where cargo is handled and the related complications prevented the parties involved from increasing the intensity of transport operations in this region. The long handling times meant that transport services were taken over by the providers of road transport services. The limited capacity of rail infrastructure for container trains to/from the seaports also exerted an impact on intensity of intermodal transport due to the increased demand for the transport of bulk cargo (mainly grain) from/to the seaports from Ukraine and the imports of heating coal to Poland.

Investments in rail infrastructure

Infrastructural investments in the area of the PKP Network performed by the Administrator in 2022, related to the modernization of rail infrastructure under the National Railway Program, were among the significant factors influencing the PKP CARGO's freight activity. The greatest transport difficulties were caused by track closures connected with, among others, continued modernization of the port infrastructure within the loading zones of the ports in Gdańsk, Gdynia, Szczecin, Świnoujście, and on sections of the access lines, which hindered efficient operation of key sidings. Furthermore, aside from the port areas, particularly burdensome difficulties were present in the Upper Silesia because of performed investments with the continued modernization of the Czechowice Dziedzice, Oświęcim, Trzebinia, Mysłowice and Jaworzno Szczakowa interchanges, further reconstruction of the Warsaw, Kraków, Opole and Łódź interchanges, as well as in the Małaszewicze and Lublin regions. Another obstacle for transports was connected with the modernization of sections of line no. 131 (the so called "coal line") and line no. 3 in the course of finishing works (E-20 transport route).

Rail infrastructure access charges

Infrastructure in Poland

Following the entry into force of the amendments to the Rail Transport Act, in particular the amendments to the Regulation of the Minister of Infrastructure and Construction of 7 April 2017 on the Provision of Rail Infrastructure (Journal of Laws of 2017, item 755, as amended) all infrastructure managers must abide by the pertinent regulations regarding the acquisition of rights to order/refuse timetables, the charging of fees for related line access and the provision of service infrastructure facilities.

On the domestic infrastructure, in the timetables for 2021/2022 price lists from the previous timetables were continued as regards access to the PKP PLK S.A. infrastructure. Depending on the market situation, private rail infrastructure operators applied pricing from earlier timetables or higher rates. Due to the epidemic situation in 2022, PKP PLK did not apply any discounts (except for the discount on basic charges for intermodal transport offered to date), whereas the CARGOTOR Sp. z o.o operator offered a 20% discount for all services until May 2022.

International infrastructure

PKP CARGO S.A. also has rail infrastructure access agreements with administrators of foreign rail networks. In all countries, price lists and settlement rules are public information and are available on the websites of infrastructure managers. In 2022, the most important activities of foreign managers included the continued operation of the program for co-financing the use of freight train routes administered by the German public infrastructure manager DB Netz. From 1 January 2022 to 30 September 2022, the German government contributed 44.90% to the base rate. Since 1 October 2022, due to the lower freight turnover, the contribution has been increased to 55.37%.

In the Czech Republic, the manager of the country's infrastructure temporarily suspended fees for unused routes. In Austria, due to the situation with COVID-19, the reimbursement of 100% of infrastructure fees to rail operators for loaded and empty trains was extended until the end of June 2022 (fees for the runs of disengaged locomotives charged without changes), and from July to December 2022 – the reimbursement of 50% of the above fees respectively.

Difficulties in respect of foreign infrastructure include introduction in Germany as from 13 December 2020 of the Act on protection of the environment against noise and ban on the passage of wagons with cast iron blocs, which will entail fines for the use of rolling stock with cast iron blocs in the future.

4.6. Information about production assets

4.6.1 Rolling stock

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

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale of rolling stock, return after lease term or purchase of rolling stock.

In 2022, the downward trend in the number of locomotives and wagons used by the Group continued. The PKP CARGO Group keeps purchasing new stock and at the same time carries out the disposal process of its oldest rolling stock. A total of 21 electric 6-axle locomotives are planned for delivery in 2023.

The most modern part of our fleet is 21 multi-system locomotives (powered by DC or AC voltage), which can cross European country borders without stopping to allow change of the power system (which gives electricity savings), and 10 modern six-axle electric Dragon locomotives (ET25 series) – 3 units – and 7 units of Dragon 2 locomotives (ET26 series) equipped with combustion modules. Out of these locomotives, 15 are brand new, purchased in the past 3 years. In the Company's rail car fleet, 4,080 are intermodal platforms (out of which 278 were purchased in 2022).

The tables below present the structure of the locomotives and wagons used in 2018-2022.

Table 24 Structure of locomotives used by the Group and PKP CARGO S.A., by traction type

Item	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	Change 2022-2021
diesel locomotives	731	850	1,103	1,261	1,286	-119
of which in PKP CARGO S.A.	*555*	*671*	*912*	*1,065*	*1,077*	*-116*
electric locomotives	816	969	968	1,079	1,066	-153
of which in PKP CARGO S.A.	*796*	*946*	*949*	*1,059*	*1,049*	*-150*
Total	**1,547**	**1,819**	**2,071**	**2,340**	**2,352**	**-272**
of which in PKP CARGO S.A.	***1,351***	***1,617***	***1,861***	***2,124***	***2,126***	***-266***

Source: Proprietary material.

Table 25 Structure of wagons used by the PKP CARGO Group and PKP CARGO S.A.

Item	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	Change 2022-2021
Wagons owned and leased	53,459	56,183	58,453	62,330	64,151	-2,724
of which in PKP CARGO S.A.	*49,312*	*51,533*	*53,619*	*57,272*	*59,127*	*-2,221*

Source: Proprietary material.

4.6.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. The majority of real estate held by the Group is used on the basis of long-term lease and rental agreements. The table below presents changes in real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2018-2022.

Table 26 Real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2018-2022

Item	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	Change 2022-2021
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,406	1,441	1,415	1,449	1,479	-35
of which in PKP CARGO S.A.	*550*	*550*	*520*	*517*	*536*	*0*
Buildings – owned, leased and rented from other entities [m^2]	722,756	728,944	693,213	723,962	738,392	-6,188
of which in PKP CARGO S.A.	*570,956*	*571,841*	*535,910*	*539,554*	*542,337*	*-885*

Source: Proprietary material.

The decrease in the size of the land and buildings used (owned, leased and rented from other entities) results from the ongoing verification of the quantum of assets necessary for the Parent Company and its subsidiaries and adjusting it to the scale and profile of conducted activity.

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

4.7.1 Information on loan and borrowing agreements executed and terminated

On 23 May 2022, the Company executed an annex to an overdraft facility agreement with Bank Polska Kasa Opieki S.A. for up to the maximum amount of PLN 100 million, which amends the loan terms in that it extends the loan availability until 24 May 2023.

On 17 June 2022, the Company executed an annex to an overdraft facility agreement with Bank Gospodarstwa Krajowego for the maximum amount of up to PLN 100 million extending the loan availability until 20 September 2022.

On 28 June 2022, the Company executed an overdraft facility agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. up to the maximum amount of PLN 100 million with the availability term until 27 June 2023.

On 19 September 2022, the Company executed an annex to an overdraft facility agreement with Bank Gospodarstwa Krajowego for the maximum amount of up to PLN 100 million extending the loan availability until 20 October 2023.

On 10 October 2022, the Company and Pekao Leasing Sp. z o.o. signed a Framework Lease Agreement with a limit of PLN 100 million. The limit is available for the term of 12 months with a 12-month extension option. The limit is available to PKP CARGO S.A. and the PKP CARGO Group companies provided that an appropriate annex is executed.

On 13 October 2022, the Company and the State Treasury - Center for EU Transport Projects the Agreement on co-financing of the Project "Modernization of freight wagons involving the replacement of cast-iron brake blocks to comply with Noise TSI" as part of Action 5.2. Development of rail transport out of TEN-T Priority Axis V Development of rail transport in Poland Operational Program Infrastructure and Environment for 2014-2020. Financing for the project will be 50% of eligible costs, not to exceed PLN 82.5 million.

On 8 November 2022, the Company and Pekao Leasing S.A. signed a Master Lease Agreement with a limit of PLN 200 million. The limit is to be available until 31 December 2023. It may be used to finance the new locomotives supplied by a consortium of NEWAG S.A. and Newag Lease sp. z o.o. S.K.A.

On 12 December 2022, a Group Company entered into the Master Lease Agreement dated 10 October 2022. The limit granted to the Company amounts to PLN 2 million.

On 19 December 2022, a Group Company entered into the Master Lease Agreement dated 10 October 2022. The limit granted to the Company amounts to PLN 5 million.

In 2022, no loan or borrowing agreement with the Company was terminated.

4.7.2 Information about granted loans

In 2022, the Parent Company did not grant any loans, and no loans were granted by its subsidiaries.

4.7.3 Information about granted and received sureties and guarantees

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

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

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

4.7.5 Assessment of management of financial resources

PKP CARGO S.A. and the Group have been efficiently managing the cash management cycle by matching the maturity of its receivables and payables. To hedge the risk of a possible shortage of cash in the short run, in 2022 PKP CARGO S.A. had four current account overdraft agreements with the total limit of PLN 400 million.

Internal financial risk management policy, allowing for optimization of the maturities and types of investment instruments and the liquidity reserve level, is an element supporting efficient management of the Company's and the Group's finances. Excess cash generated by the Group was invested in fixed rate bank deposits which were concluded with time horizons depending on the Group's liquidity needs. Decisions made with regard to bank deposits are based on maximizing the rate of return and current assessment of the financial standing of the banks.

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

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

Most financial investments made by the Company and the Group in 2022 were bank deposits, which were executed mainly for a period from a few days up to 3 months, depending on the liquidity needs.

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

In 2022, the financial standing of the PKP CARGO Group was stable and ensured operational and transportation continuity of its business activities. As at 31 December 2022, there were no negative events causing a significant deterioration of the financial standing of the PKP CARGO Group or posing a threat to its status as a going concern. Risks associated with the COVID-19 pandemic persist, and if materialized – may have an impact on the financial standing of the PKP CARGO Group. An update of the risks accompanying the COVID-19 pandemic the war in Ukraine may affect the Group's financial position in subsequent reporting periods.

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

5.1. Key information and events

- In performance of the Memorandum of Agreement concluded on 27 August 2021 between the parties to the Collective Bargaining Agreement of PKP CARGO S.A. stipulating the commencement by 31 January 2022 of talks regarding the implementation of a system-based salary raise from 1 April 2022, on 1 March 2022 the Company requested the Trade Unions representing employees of PKP CARGO S.A. Units and Head Office ("Trade Unions") to extend the pending social dialog at least until the evaluation of the Company's financial performance for 2021 and Q1 2022, and consequently to defer any potential decisions on the system-based salary raise. As the Trade Unions upheld the postulates of implementing the salary raise as of 1 April 2022, the Parties signed a protocol ending the social dialog on 1 March 2022. On 1 March 2022, a collective dispute was launched by Trade Unions.
- On 27 April 2022, as a result of the negotiations held as part of the collective dispute with the Trade Union Organizations acting as a party to the Collective Bargaining Agreement for Employees of the PKP CARGO S.A. Units, no agreement was reached, and as a consequence, pursuant to the provisions of Article 9 of the Act of 23 May 1991 on Collective Dispute Resolution (consolidated text: Journal of Laws of 2020, Item 123), a statement of differences of opinion has been drafted, which presents positions of both Parties to the demand raised by the Trade Union Organizations that a salary increase should be implemented as of 1 April 2022. The signing of this statement of differences of opinion terminated the negotiations, whereby the collective dispute moved into the stage of mediation in accordance with the regulations of the Act.
- On 24 May 2022, during the mediation meeting held as part of the procedure to resolve a collective dispute for the implementation of a system-based salary raise pending between the Parent Company and the Trade Unions that are parties to the Collective Bargaining Agreement for employees of PKP CARGO S.A. Units, a protocol was signed that provides for a salary increase to be granted to Parent Company employees as of 1 June 2022. The signing of the protocol suspends the mediations in the collective dispute until November 2022.
- On 17 August 2022, PKP CARGO S.A. and other members of the PKP Group signed an agreement for the management of a subsidiary, as referred to in Article 7 of the Commercial Company Code in the wording in effect to 13 October 2022 (hereinafter: the PKP Group Charter). The PKP Group Charter specifies, without limitation, the basic objective of the PKP Group Charter, which is to ensure the pursuit of the PKP Group's strategic interests through developing the principles and structures, which will define and set out the PKP Group's Goals and Mission and enable reliable monitoring and evaluation of the steps taken by management boards of PKP Group Members. The PKP Group's Interest is the commonality of the Parties' goals and entails balancing the interests of individual Parties and of the PKP Group. By signing the PKP Group Charter, the Company undertook to cooperate with the PKP Group Members in the Cooperation Areas, which include: internal audit and internal control, strategy, economic analyses, corporate governance, procurement, IT and telecommunications, marketing, promotion, PR activities, finance, accounting, HR management, international cooperation, legal and organizational activities, common market, property management, rail geodetic services, security, training and professional improvement and development of rail personnel. The PKP Group Charter appoints the PKP Group bodies, including the PKP Group Management Board as the executive body and the PKP Group Board as the advisory and consultancy body, with the bodies not replacing the statutory bodies of the Group Members and cooperating with the Parties such that the obligations and rights of the statutory bodies of the PKP Group Members are not infringed.
- Judgment of the Supreme Court on the alleged abuse by PKP CARGO S.A. of its dominant position on the domestic rail freight market – the Supreme Court dismissed the cassation appeal filed by PKP CARGO S.A. against the judgment of the Appellate Court and the Company was ordered to reimburse the President of the Office of Competition and Consumer Protection ("UOKiK President") PLN 540 in legal representation expenses. The dismissal of the cassation ends the proceedings in the case in a final non-appealable manner.
- On 6 October 2022, PKP CARGO Terminale Sp. z o.o. entered into a conditional agreement to co-finance the project consisting in the construction of a multimodal terminal in Zduńska Wola-Karsznice" in the amount of PLN 51.7 million. Project carried out under the Regional Operational Program of the Łódź Voivodship for the years 2014-2020.
- On 2 January 2023, PKP CARGO S.A. executed an Investment Loan Agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. up to the maximum amount of PLN 100 million with the availability term until 29 December 2023.

- On 24 January 2023, the Company signed a Memorandum of Understanding as part of mediation carried out on 18 and 24 January 2023 to resolve an industrial dispute regarding the implementation of a systemic wage increase. The Management Board and the Trade Unions agreed that as of 1 January 2023, funds will be allocated for the increase of basic remuneration of PKP CARGO S.A. employees remunerated in accordance with CBA in the average gross amount of PLN 415.00 per 1 employee (on FTE basis) and for the employees remunerated based on Resolution No. 498/2012 (as amended) of the Management Board of PKP CARGO S.A. in the average gross amount of PLN 764.00 per 1 employee (on FTE basis). Thus, the collective dispute launched by the statement of 1 March 2022 was ended.
- On 30 January 2023, the Company's subsidiary, PKP CARGOTABOR Sp. z o.o. and ALSTOM POJAZDY SZYNOWE Sp. z o.o. executed an agreement for the purchase of assets of ALSTOM's branch under liquidation. The agreement concerns the purchase of tangible assets along with related property rights to the documentation of assets and intangible assets, that is protection rights to trademarks, and property rights to the documentation of assets and other proprietary copyrights to the documentation of assets, inventories. The net value of the agreement is PLN 13.5 million plus VAT at the applicable rate.
- By the end of January, PKP CARGO announced and published the PKP CARGO Group Strategy Revision for 2019-2023. The revision reaffirmed the Group's vision and mission and modified its strategic goals. The PKP CARGO is to become number 1 in the area of the "Three Seas Initiative" and on the New Silk Road routes in the EU measured by freight turnover and freight volume by 2023 and strengthen its position in 2023–2038, and to acquire 50% share in the Polish rail freight market measured by freight turnover by 2027.
- On 20 February 2023, PKP CARGO S.A. obtained a consent from the Supervisory Board to the disposal of assets in the form of a transfer to PKP CARGOTABOR USŁUGI Sp. z o.o. of the ownership title and the perpetual usufruct right to real property, the ownership title to buildings and structures located on the land and representing property separate from the land, and the ownership title to the movable property comprising assets of the former Fabryka Wagonów Gniewczyna S.A. in Gniewczyna Łańcucka with the total net market value of PLN 29.8 million.
- On 17 March 2023, PKP CARGO S.A. executed an annex to the Overdraft Facility Agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. of 19 December 2019 for the maximum amount of up to PLN 100 million, amending the contractual terms by extending the loan availability until 19 March 2024.
- On 22 March 2023, PKP CARGO S.A. accepted twelve Dragon 2 electric locomotives manufactured by Newag S.A.
- On 30 March 2023, a PKP CARGO S.A. subsidiary, PKP CARGO TERMINALE sp. z o.o., entered into a loan agreement, acting as the borrower, with PKP CARGO S.A., acting as the lender, for up to PLN 20 million.
- On 31 March 2023, PKP CARGO S.A., NEWAG S.A. and NEWAG LEASE Sp. z o.o. S.K.A. Consortium and PKO LEASING S.A. have signed an agreement concerning financing of the purchase of locomotives. On the same day 8 lease contracts were signed to the above mentioned agreement totaling to 135,2 mn PLN.

5.2. Information on contracts of significance for the Company and the PKP CARGO Group

Execution of a contract with PKP PLK S.A.

On 29 November 2022, an Agreement on the use of throughput capacity to transport objects in the 2022/2023 train schedule was signed between PKP CARGO S.A. and PKP PLK S.A. The Agreement is in force from 11 December 2022 to 9 December 2023. Under the Agreement, PKP PLK provides the Company with access to rail infrastructure to perform transport of objects in accordance with the 2022/2023 timetable. The expected value of the Agreement in its validity term in total amounts to PLN 555.8 million net (PLN 683.6 million gross). The contract is of key importance for the pursuit of PKP CARGO S.A.'s core business. This is a regular agreement concluded by the Company on an annual basis.

Execution of agreements with PKP Energetyka S.A.

Conclusion of an agreement for purchase of electricity and distribution services between PKP CARGO S.A. and PKP Energetyka S.A. The Agreement pertains to the sale of electricity ("traction energy") and provision of Traction Energy distribution services for the needs of the transport services rendered using electrical traction. The Agreement was executed for a period from 1 January 2023 to 31 December 2024. The expected net value of the Agreement throughout its term will not exceed PLN 1,874,595,991.65 (gross value of PLN 2,305,753,069.72). The value of the Agreement and changes in energy costs will depend on the prices of contracts quoted on the Polish Power Exchange. The price of electricity sold to the Company will be calculated in accordance with the model established for 2023-2024.

Contract with ECM GROUP POLAND S.A.

On 29 July 2022, PKP CARGO Terminale sp. z o.o. executed a contract with ECM GROUP POLSKA S.A. with its registered office in Warsaw to render investor supervision services for the construction work under the investment project entitled

"Construction of a multimodal terminal in Zduńska Wola-Karsznice". The net value of the contract is PLN 1,050,000.00 (the gross value is PLN 1,291,500.00). This contract will be performed from the date of its execution until the day when the client signs the final post-guarantee acceptance report of this terminal with the construction work contractor. On 28 July 2022, an agreement was signed with Polskie Koleje Państwowe S.A. to lease land in Zduńska Wola - Karsznice for part of plots no. 1/31 and 1/53 with a total area of 116,786 m^2 for PKP CARGO Terminale sp. z o.o. to carry out an investment involving the "Construction of a multimodal terminal in Zduńska Wola-Karsznice". The estimated net value of this land lease contract is PLN 10,791,026.40 (the gross value is PLN 13,272,962.47). The contemplated duration of the lease is 10 years with an option to extend for another period.

Agreement with ZUE S.A.

On 29 July 2022, the subsidiary PKP CARGO Terminale sp. z o.o. entered into an agreement to carry out an investment project entitled Performance of construction work to carry out an investment project entitled "Construction of a multimodal terminal in Zduńska Wola-Karsznice" with ZUE S.A. with its registered office in Kraków. The estimated value of the contract is PLN 100 million, i.e. gross value of PLN 123 million. Performance deadline: by 31 October 2023. Under the subject of the agreement PKP CARGO Terminale sp. z o.o. will build a cargo transshipment location including tracks and turnouts, the terminal grounds including a parking lot and roads. This contract contemplates the possibility of PKP CARGO Terminale sp. z o.o. paying contractual damages, where failing to perform the foregoing construction work on schedule may cause the company to reimburse EU funds. The other terms and conditions of the contract do not deviate from the standard terms and conditions for construction contracts of this type.

Execution of a contract with Siemens Mobility

Execution on 11 February 2022 of an agreement with the consortium composed of Siemens Mobility Sp. z o.o. and Siemens Mobility GmbH for delivery of 5 brand new electric multi-system locomotives, together with the provision of maintenance services. The liability relates to: (i) delivery of 5 new multi-system locomotives intended for operation in Poland, Germany, Austria, Czech Republic, Slovakia and Hungary, (ii) delivery of software together with means of data transmission, and licenses for their use necessary for operation and maintenance of the locomotives, (iii) delivery of a set of brand new spare parts and sub-assemblies included in the so-called anti-breakdown kit, (iv) full maintenance of locomotives in the period from the delivery date to the date of disabling locomotives for the first periodic repair at maintenance level P4 (8 years), (v) performance of the first periodic repair in the delivered locomotives at maintenance level P4, however this is a conditional obligation and the performance of this part of the agreement by the Contractor is up to PKP CARGO, (vi) training and authorization of PKP CARGO's personnel as regards maintenance and operation of the locomotives. The schedule assumes delivery of 5 locomotives in Q1 2023 and the estimated value of the agreement will not exceed PLN 139,125,093.48. The agreement will be effective from the date of execution to the end of the maintenance period of the last locomotive to be delivered. The purchase of the multi-system locomotives is executed as part of the project entitled "Multi-system locomotives and wagons for intermodal transport", which has received co-funding from the European Union's aid funds under Measure 3.2 Development of Maritime Transport, Inland Waterways and Multimodal Connections, Priority Axis III of the Operational Program Infrastructure and Environment 2014-2020.

Signing of contracts with AZOTY Group companies

Conclusion of a master agreement on cooperation between PKP CARGO S.A. and Azoty Group companies. The Agreement sets forth the general terms and conditions of commercial cooperation between the Company and the following Azoty Group companies: Grupa Azoty S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Grupa Azoty Zakłady Chemiczne "POLICE" S.A., Grupa Azoty Zakłady Azotowe "Puławy" S.A., Grupą Azoty "FOSFORY" sp. z o.o. and Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki "SIARKOPOL" S.A., under future commercial agreements to be entered into by and between PKP CARGO and the said companies. The subject matter of the Agreement will be the provision of transport services by the Company to the said Grupa Azoty companies as part of which fertilizers and other chemicals will be carried domestically and internationally, in import and export operations, for the total freight volume of 3.44 million tons during the term of the Agreement, that is until 31 August 2024. The expected estimated net value of the Agreement during its term of validity will be PLN 208.50 million (PLN 256.50 million with VAT).

5.3. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

PKP CARGO S.A. S.A. has not published any financial forecasts for 2022.

6. Company's and PKP CARGO Group's development policy

6.1. Key risk factors and threats

6.1.1 Description of the key threats and risks

Risks resulting from the macroeconomic and geopolitical situation

- critical impact of the global macroeconomic environment (with particular emphasis on Germany and other EU countries) on the economic situation in Poland and the Czech Republic. A strong negative supply shock (the aftermath of Russia's aggression on Ukraine) reflected in a significant increase in the prices of a number of commodities on global markets, as well as an economic slowdown abroad in 2023 (in particular in the German economy), will have a negative impact on Poland's business conditions. Poland and especially the Czech Republic, as a consequence of being strongly rooted in the global supply chain and of the fact that their economies are very open, are strongly affected by any changes in trade relationships, as well as improvement or deterioration of macroeconomic conditions on the global market;
- significant uncertainty in the financial markets due to the high unpredictability of the consequences of the war in Ukraine and the potential development of this conflict (including those resulting from the sanctions imposed by both sides);
- high inflation which may entail a significant slowdown in the economies (as well as the risk of recession);
- risk of an energy crisis in Europe - the turmoil in the European energy market is still possible and plausible (this applies mainly to gas supplies, but will also involve diesel fuel, imported from Russia, among others, and such imports ended in February this year as a result of the European Union sanctions);
- economic problems of China (as the world's second largest economy), resulting from a combination of difficulties in the housing market and turmoil in the banking market, further aggravated by the "zero COVID" policy (which was eventually moderated), entail the possibility of occurrence of extremely varying scenarios, with the most realistic one seeming to be a gradual return to economic growth, which will contribute to increases in commodity prices (including energy resources, and thus another global inflation stimulus);
- geopolitical risks connected to a slow decline in U.S. influence on global supply chains and intensification of the ongoing trade war between the United States and China (one of the most recent manifestations of which was a package of laws targeting, among others, semiconductors). The war in Ukraine and the sanctions imposed by Western and some other countries on the Russian Federation and Belarus lead to significant economic implications for both sides (including a major rearrangement of supply chains) and involve substantial economic losses for companies (though at the same time an opportunity for some to make additional profits).
- risk of a material deterioration in the rate of growth of Poland's GDP in 2023: the Polish economy will be affected by, among others, the expected economic slowdown abroad, the effects of high inflation (in the form of higher cost of capital and increasing costs of business operations and production costs resulting from rising prices of materials, raw materials and energy), the ongoing turmoil in the energy and fuel markets and the suspended inflow of European funds;[107]
- increased costs of production and distribution of goods and services resulting mainly from the increase in fuel and raw material prices (which is also due, among others, to the necessity to comply with climate protection policies), aggravated by the effect of inflation, as well as limited availability and high acquisition costs of components which lead to the increases of final prices of products;
- the ban on the import of a large group of goods from Russia and Belarus (in connection with their involvement in the aggression against Ukraine) introduced by the European Union as part of a number of sanctions packages was accompanied by price caps on selected commodities, such as the price cap on Russian oil imposed as of 5 December 2022. The sanctions include a ban on imports of iron and steel products, a ban on EU coal imports as of 10 August (in Poland the import ban was imposed already in April 2022), oil imported by sea, or cement and wood products.[108]

Risks related to the economic and market environment

In 2022, the PKP CARGO Group operated in a highly uncertain environment, which was related to the COVID-19 pandemic and its impact on the global economies, but most importantly due to the war in Ukraine and its consequences. These factors were

[107] National Bank of Poland
[108] biznes.gov.pl

further reinforced by a strong impact of rising inflation and affected both the domestic rail freight market and the Company's international operations.

The war between Russia and Ukraine has significantly deepened uncertainty, which was accompanied by an increase in geopolitical tensions that in many cases escalated, at the same time aggravating the conflicts all over the world. The above was accompanied by the prolonged duration of the global COVID-19 pandemic, as well as inflationary processes exacerbated by the energy crisis. These processes have significantly contributed to an increase in the cost of capital, and thus a gradual cooling of the overheated global economy, with the potential for permanent changes in global supply chains, a decline in the level of globalization, and a reduction in production potential. The situation related to the conflict in Ukraine is still unstable, and the scale of its impact on the economy, including structural changes occurring in trade, is still unknown. Poland is described as a "frontline" country because of the presence of a logistics "hub" providing support to Ukraine, and is particularly affected by the consequences of the war. In the event of uncontrolled escalation, this conflict poses a serious threat to the country, but even if the current "temperature" of operations is maintained, it could effectively reduce the pace of economic activity in the country (due to an increase in military spending, a reduction in the scale of investment, a as well as a potential weakening of the Polish currency).

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

negative impact on the coal market

- the expected gradual decline in thermal coal consumption (i.e., its gradual loss of importance in economic life), both in Poland and the Czech Republic. The decline in the importance of hard coal will result from further decline on the supply side (lower coal production in Polish mines, declining importance of coal-based power plants) and the demand side (change of heating sources to less carbon-intensive ones, requirements to reduce the carbon footprint).[109] "Program for the hard coal mining industry in Poland" assumes a gradual further reduction in coal consumption and a phasing out of coal over the next decades. According to the assumptions, the share of hard coal in electricity generation will decrease to below 56% in 2030, and then to less than 28% in 2040. The government has undertaken to update the program in 2022 on account of the energy crisis in Europe. The EU requirements regarding economic change to address environmental concerns (based, among others, on the "European Green Deal") are critical to changes that will significantly affect rail carriers, particularly those providing hard coal and lignite transportation services;
- prices of CO_2 emission allowances constitute a growing burden in the power, heating or other industries due to the policy of deliberately reducing the number of certificates and measures to improve (i.e. reduce) emission ratios;[110]
- the plan to shut down the hard coal mining industry in the Czech Republic assumed that hard coal (mainly coking coal) mining operations will cease by the end of 2022 at the latest. Given the difficult situation in the energy market, the Czech government has decided to extend the operation of the last mine until the end of 2025.

negative impact on the steelmaking market:

- strong impact of the economic situation on the conditions prevailing in the steel market and on the performance of the whole steel production industry, whose growth will largely depend on the existing situation. The largest sector of the economy that depends on steel supplies is the construction sector (which consumes 35% of all steel) and the automotive sector (18% of consumption), making these areas highly exposed to fluctuations in the economic situation, which is currently gradually deteriorating. In the context of high inflation and rising energy costs, more blast furnaces in Europe are being shut down. If the potential recession scenario materializes, further reductions and declines in production are quite likely;
- high prices of commodities, energy carriers and emission allowances – the steep increase in the production costs of steel and steel products incurred by producers, resulting from the war in Ukraine, as well as high costs of CO2 emission allowances, high prices of electricity, gas and coke may even lead to a temporary unprofitability of metallurgical production given the continuing economic downturn in global markets, or even cause a permanent loss of production potential in Europe, including relocation of production to countries outside the Community. Due mainly to the high cost of energy, domestic producers of steel and steel products do not carry out intensive production for the country's needs, devoting their time to, among others, modernization of their infrastructure (as is the case in other EU countries), and executing a limited number of contracts. At the same time, given the limitation of its production potential (even at full capacity), the industry is not able to satisfy the domestic market demand in 100%, and the imports of steel and steel products are very important;

[109] Poland's Energy Policy until 2040, Program for the hard coal mining industry in Poland
[110] strefainwestorow.pl

- The war between Russia and Ukraine led to the disruption/breakdown of supply chains (Poland purchased ferroalloys, among others, from Russia and Ukraine). The ongoing armed conflict is also generating problems for steel importers. Ukraine and Russia used to be key suppliers of iron ore to Central and Eastern Europe and also significant suppliers to Western countries. Ukraine is re-establishing its ore exports, via Świnoujście in Poland among others, however, operating in a war economy does not allow for restoration of much of the potential (due to war destruction, lack of energy, supply problems).[111]

negative impact on the liquid fuels and chemicals market:

- strong dependence of the liquid fuels and chemicals sector on the changes in economic trends (the growth rate of production of chemicals and chemical products is correlated with the GDP growth rate). A risk exists of a decrease in production due to the economic slowdown processes currently taking place, thereby triggering a decrease in demand for the transport of components necessary for the production and transport of end products. The chemical industry is one of the businesses that drives the activities of other sectors of the Polish economy, in the event of a decline in demand globally, as well as domestically, the slowdown will affect each of these groups of entities;
- high level of market uncertainty (resulting from the war in Ukraine), continued energy crisis in Europe, as well as high inflation, drive up prices of energy raw materials, among others, at the same time, due to declining demand, the market for them may shrink;
- price increases and strong fluctuations in the raw materials market (gas, oil, among others) - the search for new supply sources that will make European economies independent of the eastern direction is underway, but the process of building the appropriate infrastructure and new supply chains requires time while the supply deficit is quite visible;
- uncertainty on the market regarding ability to maintain the required level of gas supplies (especially from the vantage point of large chemical conglomerates, which will be among the first to be affected by the potential consequences of insufficient gas supplies). Half the volume of the natural gas consumed in Poland is used by industry, of which the chemical industry consumes the most.
- the tough situation of fertilizer producers resulting from high gas prices and concerns about the availability of this energy carrier in the winter season as well as rising production costs due to high prices of CO2 emission allowances (currently gas prices account for several dozen percent share in the cost of nitrogen fertilizer production). However, thanks to subsidies provided to farmers (2.6 billion in 2022), it was possible to partially restore production volumes;[112]
- the expansion of the pipeline network (including, the second line from Gdańsk to Płock) and efforts to move away from fossil fuels in the transport sector will reduce demand for rail transport of liquid fuels (in recent years, there has been almost exponential growth in the number of electric cars in selected countries around the world, which will naturally oust combustion-engine cars);[113]
- energy transformation, required investments in environmentally friendly solutions and efforts to reduce fossil fuel consumption, including their transport (resulting, among other factors, from the scheduled ban on the registration of combustion-engine vehicles from 2035, strive for “zero emissions” in the economy).

negative impact on the construction market:

- no inflow of funds from the EU Recovery Fund, the so-called RRP, or their inflow with a long delay can effectively reduce the industry’s activity and limit investment opportunities at both the state and local government levels. The purpose of these funds is to accelerate the economic recovery after the COVID-19 pandemic and rebuild the European economy after the crisis. The funds play a crucial role in curtailing the industry potential (which is evident especially in the railway construction);[114]
- high cost of capital and reduced availability of financing sources, persistently high prices of energy resources and construction materials, and expected further reduction in investment demand (due to the slowdown in the country’s economic activity) will have a strong impact on the construction market as a whole, including the residential real estate market in particular. A possible rebound of the Chinese economy, as well as other economies, could contribute to further strong increases in the prices of commodities and materials used in construction may pose a real threat to the contracts signed in terms of their successful performance;

[111] Edialog.media
[112] Agronews.com.pl
[113] WNP.pl, Money.pl, BiznesAlert.pl
[114] gov.pl

- the government's announcement concerning the completion of major road investments by 2033: in December 2022, the Council of Ministers adopted the Government's National Road Construction Program until 2030 (with an outlook until 2033): the most important assumption of the plan is to ultimately complete all of the major road investments, which will require a partial change in the specialization of companies and their subcontractors because of a marked reduction in funds allocated to this purpose after 2033.[115]

negative impact on the cement industry:

- the risk of shortage of coal with appropriate parameters and the high cost of its purchase by cement plants can limit the current production volumes. In the previous years, the cement industry used up 90% of coal from Polish mines for its needs, and 10% came from Russia. In view of the Polish mining industry's problems in providing sufficient quantities of coal, there was a significant shortage on the market, resulting in customers being forced to seek imported coal;
- high costs of CO_2 emission allowances and increase in costs related to prices of commodities and energy carriers will translate into an increase in the prices of cement on the market. Cement production in Poland contributes to 8% of the country's GDP;[116]
- a significant share of high-emission sources in electricity generation in Poland and the large share of energy in the costs of cement production, as well as rising prices of electricity, will entail further growth of the share of energy in the cost of cement production (which will bring about a decrease in the competitiveness of domestic producers, increases in market rates and deterioration of profitability of investment projects in Poland). This will adversely affect the sector's rate of growth, and indirectly also other sectors of the Polish economy.[117]

negative impact on the equipment and machinery industry:

- high prices of energy, raw materials and components, as well as the need to secure new supply destinations (due to disruptions in supply chains and the ongoing war), coupled with a decline in investments (due to high inflation) are negatively affecting the industry's production capacity.

negative impact on the paper and wood industries:

- rising energy prices and a surge in the price of raw materials (wood, pulp, waste paper), as well as availability problems (resulting, among others, from a change in the timber selling policy of the State Forests), leads to a reduction in the scale of production in this area, as well as a strong increase in product prices;
- ban on imports of, among others, wood, lumber, and wood products from Belarus, imposed in response its support of Russia's aggression against Ukraine by the European Union in one of the first sanctions packages, constrains the production capacity of many Polish companies in the industry (including pellet producers and wood chip suppliers), especially given the fact that Belarus has been one of the largest foreign suppliers of wood to Poland in recent years due to its geographical proximity and the location of Polish production facilities.

negative impact on the intermodal industry:

- the armed conflict in Ukraine has strongly changed the global logistics, including transport routes connecting the European Union with Asia. The position of Poland as a transit country for shipments from the Far East has deteriorated. Although transport services are provided, the decline by several tens of percent is strongly affecting the entities that specialize in this market, as they had to look for alternatives, such as sea or air transport. The limitation (resulting from problems with insurance of transported cargo) may generate potentially dangerous consequences for intermodal transport through our country, in the form of emergence of rail routes alternative to the "New Silk Road", bypassing Russia (but also Poland) in favor of transports carried out via southern Europe. Market data from 2022 show that the decline in shipments reached up to 50% from time to time (which was also largely due to numerous "lockdowns" in China and shutdowns of manufacturing facilities);
- due to supporting the development of intermodal transport and augmenting it by enterprises from the road transport sector, the proper operation of the segment may be threatened due to the shortage of drivers caused by the departure of workforce from Ukraine (due to the age structure of this group and the inability to procure sufficient numbers of workers in the labor market).[118]

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[115] General Directorate for National Roads and Motorways
[116] WNP
[117] Polskicement.pl
[118] portalsamorzadowy.pl, WNP

negative impact on the automotive industry:

- the COVID-19 pandemic has had a significant impact on the automotive industry, both in the specific countries and globally, due to disturbed supply chains, including limitations in the scale of production (numerous lockdowns), as well as the lack of adequate number of workers handling transshipments or further transportation to final destinations. However, the effects of the COVID-19 pandemic still hold back the global automotive industry, which continues to suffer from disruptions to supply chains, due among others to the “zero COVID” policy pushed and eventually abandoned by China following protests;
- supplies have been strongly affected by the consequences of the war in Ukraine as the prices of raw materials have dramatically increased, with the prices now slowly returning to pre-war levels (e.g., palladium used in the production of catalysts which has become more expensive due to sanctions imposed on Russia). Ukraine used to supply a range of components and parts to automakers on the European market, which compelled them to change their sources of supply (the Czech Skoda was one of the entities that suffered production problems as a result). Also, 70% of the global production of neon gas came from Ukraine. Neon is extremely important in the production of semiconductors, the lack of which has effectively halted production in previous years.

Risk associated with the rail freight sector

- increase in the number of rail operators providing rail freight services: according to data presented by the Office of Rail Transport (UTK), there are currently 116 rail operators active on the Polish rail freight market holding an active license issued by the UTK President for the conduct of rail freight operations (as at 30 January 2023).[119] Among these companies are also three members of the PKP CARGO Group: PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and PKP CARGO International a.s.[120] In recent years, the competition on the domestic market intensified due to the growing number of market players. In 2022, the Office of Rail Transport issued 10 new rail operator licenses;[121]
- a decline in the number of locomotives and railcars: Rail carriers are reducing the number of locomotives available each year, as well as the number of railcars. This is connected with the decommissioning of the oldest and most inefficient models, which to a large extent no longer meet market requirements and often generate high operating and repair costs. Replacement of rolling stock is quite costly due to high unit prices, and also requires execution by one of the few rolling stock manufacturers that fulfill orders in consecutive years, i.e. usually rolling stock is not immediately available. That is why the carriers are very careful when it comes to optimizing the locomotives and rail cars they own. In addition, due to more and more stringent requirements for rolling stock, connected with the environment protection and the economy of use (the need to install composite inserts, automatic couplings, to adjust vehicles to new traffic management systems), railway companies are performing modernization work thanks to funds from the European Union, as well as disposing of unserviceable assets;
- declining employment in the freight sector: following a decrease in employment in 2021 (3.6% yoy), in 2022 and the following years more professionals will leave the market, and the increasing share of older age groups may lead to significant employment gaps in key freight traffic areas;[122]
- the risk of a significant increase in the price of diesel fuel in connection with the sanctions on Russia in effect since February 2022, may affect price increases throughout the economy, and therefore also on both rail and truck transport significantly increasing operating costs (which may especially impact the intermodal transport);
- increasing scale of operations by market players: the PKP CARGO Group’s rail competitors offer the full range of transport and transport-related services, including whole-train carriage of coal and coke, aggregates and other construction materials, metallurgical products, liquid fuels and chemicals. Only some entities perform dispersed transport services (i.e., single or multiple rail cars combined to form special operator trains) and extraordinary transport services (including goods crossing the gauge or requiring railcars with hollow floor). Most of them also offer services related to comprehensive forwarding and logistics services (provided independently or in collaboration with external entities as subcontractors) or provide regular operator trains (operators are increasingly interested in the intermodal market);[123]

The main competitors of the PKP CARGO Group are companies operating on the Czech market are ČD CARGO (the national carrier and the leader of the country’s transport market), Metrans Rail (an international logistics operator focused on the intermodal transport segment in the countries included in the Three Seas Initiative), Rail Cargo Carrier – Czech Republic (a subsidiary of the international carrier Rail Cargo), ORLEN Unipetrol Doprava (operator specialized in fuel transportation, a

[119] Office of Rail Transport (as at 14 December 2022), the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating in the market under an international license, including a PKP CARGO Group member, PKP CARGO International.
[120] Office of Rail Transport
[121] Office of Rail Transport
[122] Office of Rail Transport
[123] Office of Rail Transport

company of the PKN Orlen Group), LOKORAIL, and IDS CARGO.[124] As is the case on the Polish market, the services provided by competitive operators cover all key segments of the rail freight market: solid fuels, construction materials, liquid fuels, chemicals and containers (intermodal services). In recent quarters, the Czech Republic has seen a gradual decentralization trend in the country's rail freight market (the total market share of small companies is on a gradual upward path);[125]

Due to strong competition, both in the Polish and Czech rail freight markets, the PKP CARGO Group is taking measures to improve quality of services offered, comprehensive scope of the freight offer (including through the purchase of specialized rolling stock, cooperation with local operators or expanding its commercial offer with new solutions, such as operator trains), as well as further improvement and expansion of logistics services for a diverse range of customers (such as transportation using own cars).

Risks associated with operations

Risk associated with the rail infrastructure

Both in Poland and the Czech Republic, ongoing works on track infrastructure significantly affect the throughput capacity which in the case of the accumulation of modernization and renovation of major corridors and routes is a major risk factor for rail transport in terms of longer transport times, which is associated with an increase in the cost of transport and a reduction in the quality of services provided; the growing importance of low-emission rail passenger transport and increasing frequency of passenger transport may effectively inhibit the possibility of further development of freight transport by rail.

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

The upward trend of the share of the road transport market at the expense of, among others, the rail transport market. Road transport plays a key role on the Polish and Czech freight markets, which in recent years has practically taken over the majority of the market's freight volume available for transportation. Road transport is the main beneficiary of the increase in the weight of cargo, which at the same time poses a significant threat to the development of other forms of transport, including rail transport (and may lead to its marginalization due to the impending shift away from coal and the completion of major investments in road infrastructure).[126]

The constant increase in significance of road transport results from its developing competitive advantages compared to rail transport, such as in particular:

- low barriers to entry (it is easy to acquires means of transportation through lease, among others, and also the offer range is quite wide) and fixed costs incurred at the initial phase of business;
- growing disparities in the prices of energy sources for rail (electricity) and car (diesel fuel) transportation. Electricity prices have dynamically increased even several times and remain high, and the price of fuel, which is the largest unit cost of road transport, has not increased to such an extent. In this case, in order to align the operating conditions in the rail market and road transport, it is necessary to level the charges for the use of rail infrastructure and public road infrastructure (especially in terms of the charge per kilometer of distance covered), or to reduce the rates for rail carriers as a form of bonus for performance of clean transport (which would require other forms of funding for PKP PLK S.A.);
- a well-developed road network, thanks to, among others, the use of EU funds (including the motorways and expressways that are most conducive to fast freight movement) in Poland and the Czech Republic;
- low costs of access to road infrastructure in Poland (the road network where the toll applies is relatively small in relation to the whole road network in Poland);
- ability to adapt relatively easily to changing freight volumes, in addition to handling both short and long-haul operations (road transport is profitable even at relatively small volumes of transported cargo due to low fixed costs). Thanks to its low cost of entry, as well as its high flexibility, this mode of transport is also profitable over short distances, which in strictly business terms is difficult to achieve for other modes of transportation;
- significantly greater average speed of this mode of transport relative to rail transport coupled with the possibility to provide direct door-to-door transport services.

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

A significant number of contracts signed by the PKP CARGO Group are long-term and renewable. This results from the need to ensure transportation of large volumes of bulk cargo such as hard coal, aggregates, metals or ores, sufficiently in advance,

[124] SŽDC
[125] SŽDC
[126] Statistics Poland, Czech Statistical Office

while at the same time associating these transports with adequate rolling stock or human resources. This is intended to adequately plan the "pipeline" of shipments, while at the same time reassuring business partners as to the ability to perform contracts. Any changes in the shipping directions, the amount of goods available, or changes in service requirements (including accumulation of freight turnover in a short period of time) can negatively affect capacity, and at the same time the level of contract performance.

The phenomenon observed in the transport market regarding the increase in the scale of transport by some specialized companies and the acquisition of transport contracts by them from outside their target segment may adversely affect the volume of freight transport services available for acquisition on the competitive market (including by the PKP CARGO Group), including especially in the event of a strong economic slowdown or potential recession in countries with which Poland trades extensively (especially neighboring countries).

Risk associated with a shortage of trained personnel

The Company has been properly managing the risk associated with shortage of trained personnel. Actions are taken with a view to ensuring appropriate number of employees with required skills so as to support the proper pursuit of business objectives.

In 2022, the adaptation program was carried out in a stationary form or remotely (online) – in accordance with the needs and expectations of various groups of positions: administrative employees, non-administrative employees working in the Company's facilities and managerial staff. A carefully selected professional training program was aimed at ensuring that new employees are integrated into the organization and familiarized with their duties as soon as possible and to help them adapt to the working environment, which influenced the effectiveness of the performed works and minimized the risk of employee fluctuation. The rail transport industry, and in particular positions associated with rail transport safety, require an ongoing update of knowledge and acquisition of skills. This objective has been achieved through obligatory training courses delivered in the form of e.g. periodic knowledge updates, tutorials and examinations. The effect of the continuous training process was the obtaining of licenses and improvement of qualifications by the personnel.

in 2022, the Company organized traditional training and e-learning. The training platform enables a quick and safe distribution of knowledge to selected groups of participants and to any number of employees.

In 2022, a series of training events to develop competences in building relationships and team communication as well as develop skills in using MS Office was continued. These events took place in face-to-face and remote formats.

Risk of collective disputes and strike

In connection with the conclusion on 24 January 2023 of the agreement under the collective dispute resolution procedure, initiated by a letter dated 1 March 2022 between the Parties to the Company Collective Bargaining Agreement for Employees Hired by the PKP CARGO Spółka Akcyjna, as of the date of the report, there is no risk of collective disputes or strikes.

Risk of increase of salaries

It is the Company's view that there exists no risk of payroll increase as at the report publication date owing the execution on 24 January 2023 of the agreement which provides for increases of remuneration of the Company employees as of 1 January 2023. As regards the subsidiaries, no such risk has been identified, either.

Risk associated with the war in Ukraine

The war taking place directly across Poland's eastern border is affecting numerous aspects of the PKP CARGO Group's business. All Group companies keep monitoring potential consequences of existing threats and uncertainties on the market, the most critical of which include:

- suppressing the GDP growth rate in Poland and Europe, resulting in an economic downturn and, as a result, a decrease in the volume of freight operations
- risk of permanent inflation phenomena and remaining high interest rates or additional interest rate hikes
- risk of price instability on the commodity market and volatile electricity and fuel costs
- continued slump on the intermodal transport market along the east-west routes, including the New Silk Road
- adverse impact of disruptions in logistics chains on a number of industries crucial for the Group's revenue (metallurgy, construction, automobile manufacturing in the Czech Republic)
- logistic challenges associated with changes in prevailing transport routes and optimal use of rolling stock

The PKP CARGO Group has been analyzing the impact of the war and its potential effects on both freight and broader transportation support activities on an ongoing basis and has taken appropriate corrective measures.

Risks associated with COVID-19

- further development of the pandemic - globally, the epidemic continues to take its toll, the WHO has still not declared an end to the pandemic recording numerous infections all over the world. The opening of China, i.e., the end of the "zero COVID" policy, could result in the emergence of new strains of the virus, given the lack of developed immunity in much of the population, as well as emerging information about the poor medical quality of local vaccines, which could affect the emergence of new mutations of the COVID-19 virus (potentially more infectious, or resistant to existing vaccines). The emergence of such mutations may force the authorities to tighten the previously loosened or lifted restrictions across Europe;

- risk associated with volatility in industry production of key segments from the perspective of rail transport (e.g., restrictions in the automotive segment occurring due to continued difficulties in the semiconductor market, including strong restrictions in Asian countries);
- risk of permanent rearrangements within international supply chains or a change in demand for industrial products on a national and international scale;
- consolidation of changes in the economic behavior of the population brought about by the COVID-19 pandemic (e.g. concerning a decrease in mobility) may result, for example, in a permanent reduction in demand for certain types of services;[127]
- risk of potential inability to maintain the scale and level of customer service.

The state of epidemic threat has caused an accumulation of the number of employees who, after the state of epidemic is lifted, will have to undergo periodic medical tests over a short period of time. Due to the limited possibilities of administering such tests by Railway Occupational Medicine clinics, this would be associated with a risk of their delayed performance.

At PKP CARGO S.A., the number of employees directly associated with rail traffic safety and the operation of certain rail vehicles who perform their duties taking advantage of the statutory extension of medical examinations is significant. The average waiting time for examinations, varies and, depending on the location, ranges from 1 to even several months. In addition, the lack of medical examiners and thus the referral of employees to other facilities to complete the examinations is affecting the length of time of performance.

Financial risks

Liquidity risk

The Group is exposed to liquidity risk ensuing from the ratio of current assets to net current liabilities (current liabilities less short-term provisions). In 2022, the Group's liquidity remained stable. To ensure an additional source of funds required to secure its financial liquidity, the Group used external financing sources, such as a current account overdraft facility. Information on credit facilities undrawn as at 31 December 2022 is presented in *Note 4.1 Reconciliation of debt liabilities* to the Consolidated Financial Statements for 2022. Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2022, 8 Group companies.

Market risk - FX risk

The Group is exposed to market risks associated with fluctuations of FX rates. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short–and medium-term. The Parent Company manages the market risk ensuing from the aforementioned factors based on internal procedures which define the measurement rules of individual exposures, parameters and the time horizon. The principles of market risk management are implemented by designated organizational units under the supervision of the Parent Company's Management Board.

Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivatives are used only to limit the risk of a change in the carrying amount and the risk of cash flow changes. Derivative instrument transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures.

In 2022, the Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables with the maturity up to 1 month and payables expressed in foreign currencies are mostly short– and long-term liabilities on account of investment loan agreements with maturities over 5 years. The balance sheet valuation of receivables and some current and non-current liabilities long-term liabilities expressed in foreign currencies, settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates. Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions. For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. The Parent Company used

[127] National Bank of Poland

hedge accounting for all EUR loans and Forward transactions. These transactions were effected by the Parent Company. Details are presented in *Note 6.2 CFS.*

Interest rate risk

The Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. In 2022, interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M. The interest rate risk in lease contracts is executed through revaluation of lease installments in one-month periods. In 2022, interest on loan agreements were accrued according to the WIBOR O/N, WIBOR 1M, WIBOR 3M and EURIBOR 3M reference rate plus the banks' margin. The interest rate risk in loan agreements was executed through revaluation of loan installments in monthly, quarterly and semi-annual periods.

Credit risk

The Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received. In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. As part of its internal policy, the Company makes application of the deferred term of payment conditional on acceptability of the counterparty's condition and positive history of cooperation. Receivables from business partners are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered. Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from its customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes. The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector. The maximum exposure to credit risk is represented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through safeguards established in favor of the Group (in the form of bank/insurance guarantees, guarantee deposits, etc.).

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

The principles of market risk management are implemented by designated organizational units under the supervision of the Parent Company's Management Board. Financial risk in the PKP CARGO Group is managed with partial use of derivative instruments which are used only to limit the risk of a change of the balance sheet values and the risk of cash flow changes. In 2022, the Company applied cash flow hedge accounting using financial instruments, mainly investment loans in EUR. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly likely cash flow denominated in EUR.

6.1.3 Information on financial instruments with respect to the risk: price changes, credit risk, risk of significant cash flow disruptions and risk of loss of financial liquidity that the Company is exposed to

As at 31 December 2022, the liquidity position of the PKP CARGO Group was stable and ensured operational and transportation continuity of its business activities.

To secure ongoing liquidity, the Group undertakes measures aimed at ensuring the availability of tools supporting the financing of operating and investing activities in the medium term (current account overdraft and cash pool agreements). In the course of managing the liquidity position, the levels of trade receivables and payables are monitored on an ongoing basis.

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

Economic standing

The largest share in the PKP CARGO Group's freight volume continues invariably to consist of bulk cargo, including hard coal, aggregates, coke, ores and metals, chemicals and chemical products, and liquid fuels. The economy interest in these commodities (including the power sector, the construction industry and the steel industry) has affected the demand for railway transport services and, thereby, the transport performance and financial results of companies of the PKP CARGO Group. In 2022, the volume of industrial output in Poland rose by 10.2% yoy, preceded by a +14.8% yoy decline in 2021. Although industrial output (especially industrial processing) has remained relatively resilient to negative phenomena in the economy and performed the role of a stability agent, the impact of the environment has led to a reduction in the level of industrial activity due to a number of domestic and global factors (the key ones including inflation, falling demand and rising energy costs). Despite the still relatively good business climate, a gradual reduction in the rate of growth of production was apparent, due to a decline in the volume of new orders, as well as a significant deceleration in international trade. The impact of external factors and the return of the Polish and Czech economies to an upward trajectory will be the main elements of the potential degree of decline and the rate of return of growth in industrial production, and consequently, the scale of transport carried out by the Companies of the PKP CARGO Group over the next quarters.

Situation on the energy fuel market

Due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy for the PKP CARGO Group. The overall economic situation in the sector will continue to affect the 's freight volumes and the freight transport market. In a longer perspective, a trend to use more efficient energy sources can be observed, such as gas and green energy. Therefore, over the next decade, the demand for coal will be consistently going down. Nevertheless, coal transport will continue to be the basic cargo category in transport carried by the PKP CARGO Group and the situation in this market will have a significant effect on the results and market shares achieved by the Company and the Group. In 2022, the main destination of distribution changed from border points with Russia (Kaliningrad Oblast), Belarus or Ukraine to transportation from seaports or LNG terminal inland.

Situation in the raw materials and aggregates market

Demand for aggregates and other construction materials in Poland is driven by large infrastructural investment projects executed within the framework of the "National Road Construction Program" and the "National Railway Program". It may be expected that these production sectors should exert a favorable impact on the performance of the whole construction sector in the coming period. Optimistic but realistic assumptions predict a recovery from the downward trend and entry into an upward trend due to anticipated activity in the civil engineering industry. As in the case of hard coal, the hitherto main East-West direction is being replaced by North-South traffic routes.

Situation in the intermodal transport market

The position of Poland as a transit country for shipments from the Far East has deteriorated. Although transport services are provided, the decline by several tens of percent is strongly affecting the entities that specialize in this market, as they had to look for alternatives, such as sea or air transport. The limitation (resulting from problems with insurance of transported cargo) may generate potentially dangerous consequences for intermodal transport through our country, in the form of emergence of rail routes alternative to the "New Silk Road", bypassing Russia (but also Poland) in favor of transports carried out via southern Europe.

Rail infrastructure

In 2023, the line capacity limitations and the disruptions related to infrastructural investments are expected to remain at the 2022 level, due among others to delays of subsequent modernizations of rail infrastructure to be completed at the execution final stage of the National Railway Program. On 28 November 2022, a contract was signed with PKP PLK S.A., effective from 11 December 2022 to 9 December 2023. The estimated net value of the contract is PLN 555.8 million (PLN 683.6 million gross).

Technical regulations related to rolling stock

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

Social dialog

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

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

PKP CARGO Group's Strategy for 2019-2023

The PKP CARGO Group Strategy has been developed for the period 2019 – 2023. However, due to the very significant changes in the social, market, geopolitical environment that occurred in the years 2020-2022, there was an urgent need to update the strategy. In 2022, the "PKP CARGO Group Strategy Revision for 2019 – 2023" was adopted. The PKP CARGO Strategy Revision focuses on 2023 and on preparing the starting point for the development of the PKP CARGO Group Long-Term Growth Plan for 2024 – 2028.

The hitherto mission and vision of the Group were reaffirmed in the "PKP CARGO Group Strategy Revision for 2019 – 2023".

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

Mission Offering comprehensive logistics services on the freight and intermodal services market in a way to make it the first choice.

The strategic objectives were modified.

Become number 1 in the area of the "Three Seas Initiative" and on the New Silk Road routes in the EU measured by freight turnover and freight volume by 2023 and strengthen this position in 2023 – 2038.

Gain 50% of the Polish rail freight market by 2027 measured by freight turnover.

More emphasis was placed on the Group's organic growth in the way it would pursue its strategic goals. As part of the organic growth of the Group, the ambitious goal of recovering domestic market share by 2027 was adopted. The Company does not exclude acquisitions to increase market share, but that will depend on geopolitical and economic developments. Three pillars of growth were assumed in order to reach the sought for parameters:

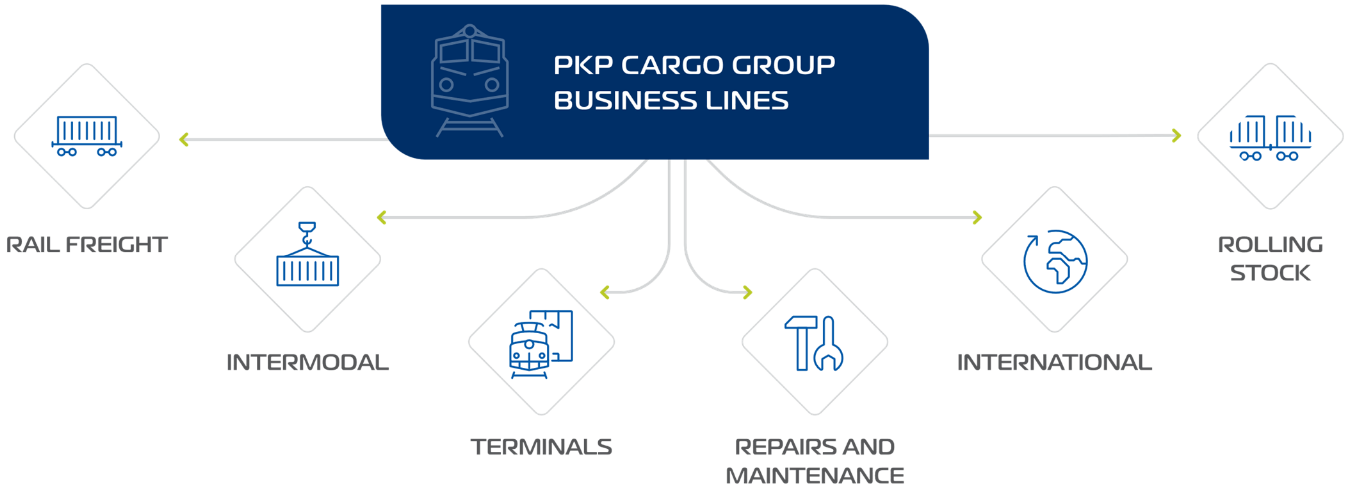
GROWTH PILLARS
Key drivers

SALES
- Intensive commercial activities
- Logistics package development
- High efficiency in sales and customer care process

PROCESSES
- Constant improvement of freight transport and maintenance processes
- Digitalisation

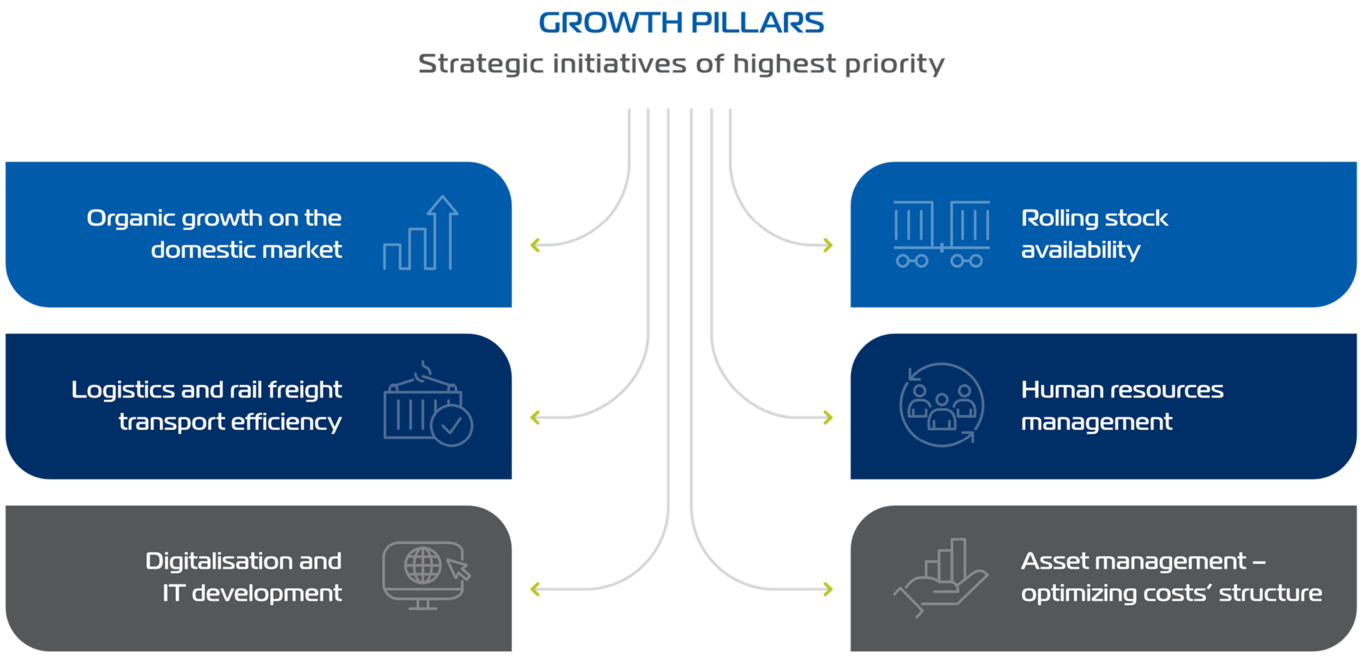
STRUCTURE
- Optimizing and adaptation of company's structure and resources to market environments and economic challenges

The activities of the PKP CARGO Group are aimed at developing a wide range of logistics services including freight, terminal services, distribution and warehousing, and support services. It is required to intensify digitization which gives more opportunities for comprehensive service and to reach the customers. An important element of this model of operation is the ability to use the company's own transshipment terminals which are being upgraded and new ones are built (e.g., the intermodal terminal in Karsznice). Also, freight-related processes are being improved in terms of planned changes in the organization as well as the implementation of IT solutions. A systematic modernization and profiling for the planned development of owned rolling stock, including multi-system locomotives, will be an important factor ensuring the efficiency of transport. All of the above activities can be performed in a reliable manner thanks to the structure based on six business lines to take advantage of the unique expertise of the Group companies and the geographic distribution of operations:



Further work is underway to organize the division of business lines in terms of increasing the efficiency of processes along the lines, taking advantage of synergies and reducing operating costs.

The key strategic initiatives on which forces and resources will be focused were identified in the "Strategy Revision":



The above strategic initiatives represent a continuation and further development of activities already underway. The initiatives are aimed at a strong internal strengthening of PKP CARGO so that in the coming years the Company can successfully regain its share in the domestic market as well as lead in the development of effective logistics in the area of the "Three Seas Initiative".

7. Other key information and events

7.1. Information on PKP CARGO S.A. shares

7.1.1 Investor Relations

PKP CARGO S.A., as a public company listed on the Warsaw Stock Exchange, makes communication efforts in order to present a reliable picture of the Company's. A matter of priority in the Company's communication conducted within framework of its investor relations endeavors is to present to investors a reliable picture of the Company, including its financial standing, to provide equal access to information to all market participants.

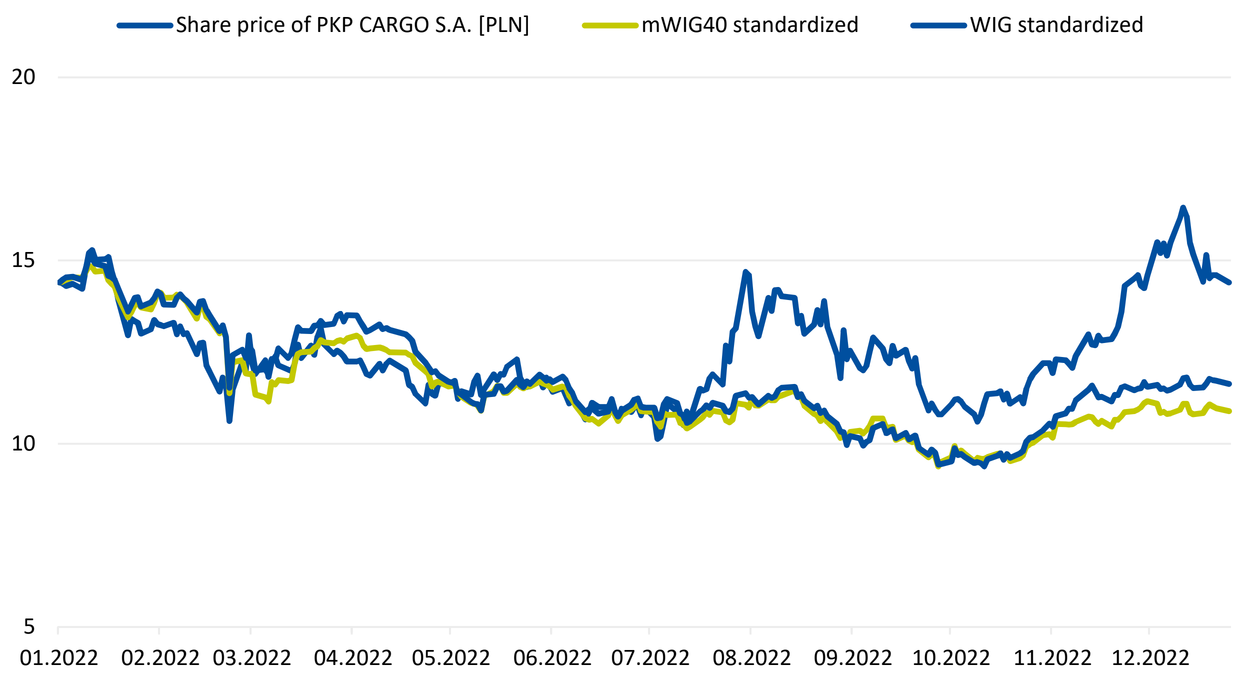
At the beginning of the year, the Company did not communicate much with the market, while in the second half of 2022 the actions taken included meetings with capital market participants, including two conferences to recapitulate the Company's financial performance and individual meetings with market representatives.

Moreover, the Company provides stakeholders with information through its corporate website, including a professional investor relations page, maintained and updated in two languages, Polish and English, in order to disseminate information among both Polish and foreign market participants.

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

As part of the activities of the Investor Relations team in 2023, the Company plans extensive communication with the market and participation in conferences in Poland and abroad. The strategy for Investor Relations at PKP CARGO assumes reaching out to individual investors and organizing the Investor Day. We are committed to transparent and open communication, with both domestic and foreign market participants.

Figure 30 Stock exchange quotes for PKP CARGO S.A. in 2022



Source: Proprietary material.

Table 27 Recommendations for PKP CARGO S.A. issued in 2022

Date of issue/update	Recommendation	Target price (PLN)	Price on the date of issue (PLN)	Institution
14 November 2022	Hold	12.40	12.07	Santander Biuro Maklerskie
29 November 2022	Hold	15.60	14.50	PKO BP Securities.

Source: Proprietary material.

In 2022, between 3 January and 30 December 2022, the price of PKP CARGO S.A. shares increased from PLN 14.40 to PLN 14.50 (+0.7%). The lowest share price was recorded on 5 July 2022 (PLN 10.13 PLN), and the highest on 14 December 2022 (PLN 16.20). In 2022, the WIG index and mWIG40 indices decreased by 18.0% and 22.8%, respectively. Throughout the year, the price of PKP CARGO shares remained stable, with a downward trend in the first half of 2022 and an upward trend in the second half of 2022.

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

Polskie Koleje Państwowe S.A., with a holding of 33.01%, remains the main shareholder of PKP CARGO S.A. PKP S.A.'s operations focus on two areas: asset management and supervision of PKP Group companies. In the area of control over companies, special attention is paid to effective supervision to ensure the highest quality of transport and logistics services for passengers and cargo. Polskie Koleje Państwowe S.A. is the parent company of the PKP Group, which has been operating as a holding company since 2022. The State Treasury, represented by the minister responsible for transportation, is the sole shareholder of PKP S.A. In 2021, PKP S.A. as a stand-alone entity reported a net profit of approx. PLN 74 million.

7.1.2 Issue of securities and use of proceeds from the issue

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

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

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

7.1.4 Acquisition of treasury stock

In 2022, PKP CARGO S.A. did not effect any purchase or sale of its treasury stock.

7.1.5 Information on the employee share plan control system

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

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

7.1.6 Shares held by management board and supervisory board members

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board and Supervisory Board as at the delivery date of this report

Table 28 PKP CARGO S.A. shares held by Management Board members as at the report delivery date

Name	Number of PKP CARGO S.A. shares held by Management Board member as at the delivery date of this report	Par value of shares as at the delivery date of this report [PLN]
Dariusz Seliga	0	0
Jacek Rutkowski	0	0
Marek Olkiewicz	0	0
Maciej Jankiewicz	0	0
Zenon Kozendra	46	2,300

Source: Proprietary material.

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board as at the date of submission of this report

Table 29 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by the Supervisory Board member as at the delivery date of this report	Par value of shares as at the delivery date of this report [PLN]
Władysław Szczepkowski	0	0
Andrzej Leszczyński	0	0
Henryk Grymel	70	3,500
Tomasz Pietrek	46	2,300
Marek Ryszka	0	0
Paweł Sosnowski	0	0
Jarosław Stawiarski	0	0
Jarosław Ślepaczuk	0	0
Michał Wnorowski	0	0
Izabela Wojtyczka	0	0
Grzegorz Dostatni	0	0

Source: Proprietary material.

According to the Company's knowledge, no members of the issuer's Management Board or Supervisory Board, as at 31 December 2022 or as at the delivery date of this report, hold any shares or ownership interests in PKP CARGO S.A.'s related parties.

7.1.7 Dividends paid or declared

On 29 June 2022, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 5/2022 on covering the net loss disclosed in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended on 31 December 2021 drafted in accordance with EU IFRS. In view of the reported loss, the request for dividend payment has become irrelevant.

7.2. Information on transactions with related parties

No entity from the PKP CARGO Group entered into any transactions with related parties in 2022 on conditions other than arm's length terms. Also after the balance sheet date, no such transactions were concluded.

Detailed information on transactions with related parties is presented in **Note 7.1 to the SFS** and **Note 7.1 to the CFS**.

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

PKP CARGO S.A. and its subsidiaries did not participate in any major proceedings pending before courts, arbitration bodies or public administration authorities in cases concerning liabilities or receivables of PKP CARGO S.A. or its subsidiaries, except for those disclosed in the consolidated financial statements, in other provisions **(Note 5.10 to the CFS)** and contingent liabilities **(Note 7.3 to the CFS)**.

7.4. Major achievements in research and development

In 2022, PKP CARGO S.A. established cooperation with DB and conducted tests, in Poland, of a trial-run train fitted with Digital Automatic Coupling (DAC), enabling the digitalization and automation of transport operations. The tests were conducted in areas considered crucial for the Company's operations, specifically: at classification or marshalling yards, in relation to the carriage of bulk cargo and on thermal coal tippers.

7.5. Information about compensation system in effect

7.5.1 General information about the compensation system adopted by the Parent Company

In PKP CARGO S.A., compensation rules are established in accordance with the generally applicable laws and internal regulations in force in the Company. The compensation system is comprised of the following:

- The Company Collective Bargaining Agreement for Employees Hired by the Units of PKP CARGO S.A. (CBA),
- Bonus regulations of individual Units,
- Resolutions of corporate bodies of PKP CARGO S.A. to establish and introduce the rules for compensating key management, staff of the Company's Head Office, as well as employees in managerial and independent positions in the Company's standalone units.

A major portion of the Company's employees, approx. 83%, is remunerated in accordance with the provisions of the Company Collective Bargaining Agreement under which these employees are eligible for compensation components, benefits, performances and other entitlements that are not provided for in the generally applicable regulations or are regulated in a less favorable manner. These employees' compensation consists of fixed and variable components, while their type and level vary depending on the position held, competences of the employee and nature of the tasks performed. In addition, employees remunerated under the Company Collective Bargaining Agreement are eligible for monthly bonus paid according to the Units' bonus payment rules. The bonus fund includes a pool of funds earmarked for payment of bonuses for ongoing performance of tasks and for payment of bonuses for the employee's individual achievements.

Pursuant to the delegation contained in the Company Collective Bargaining Agreement, the employees of the Company's Headquarters and the employees in managerial and independent positions in the Company's Units, who in 2022 represented over 17% of total number of employees, receive their compensation based on the principles defined in the Resolution adopted by PKP CARGO S.A. Management Board, i.e. based on the individual wage coefficient assigned to a given job position and the average monthly salary in the enterprise sector published by Statistics Poland (GUS). In addition, the compensation system includes other benefits and perks: jubilee award, disability or retirement severance pay, coal allowance in the form of cash equivalent, rights to transportation benefits, a benefit paid on the occasion of the Railway Employee Day, additional holidays awarded to employees in certain positions.

In connection with the IPO of PKP CARGO S.A.'s shares on the Warsaw Stock Exchange, on 2 September 2013 the Employee Guarantee Package ("Package") was adopted by the signatories of the Company Collective Bargaining Agreement, which has a significant impact on the performance of the Company's HR policy. The Package introduced several solutions that were beneficial to PKP CARGO S.A. employees, including, among others, the following:

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

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

In pursuit of the objectives formulated in the Company's strategy and taking into account the rapidly changing market environment, actions have been taken to implement legal and organizational solutions related to the employee compensation system.

Work is underway to amend the CBA with respect to all areas covered by it, with a particular emphasis on solutions aiming to streamline compensation rules, taking into particular consideration their role as incentives and increasing the effectiveness of work organization.

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

Furthermore, all employees of the Company have access to a broad range of social welfare benefits under an offering defined in the social benefits bylaws. The social benefit offer is updated on a yearly basis, in consultation with the Social Partner, in order to meet employees' needs in this respect to the greatest extent possible.

The Company's employees also have the opportunity to benefit from co-financed medical packages and join a cost-attractive group insurance and ECS.

In addition, owing to the positions held or functions discharged in the organization, the employees may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card, tools and technical equipment necessary to discharge the duties.

7.5.2 Value of compensation and fringe benefits of Management Board and Supervisory Board members

Management Board

In accordance with the "Compensation policy for members of the PKP CARGO S.A. Management Board and Supervisory Board", the Company concludes management services contracts and non-competition agreements for the period of performance of a Management Board function.

On 13 January 2022, the Supervisory Board of PKP CARGO S.A. adopted Resolution No. 7/VII/2022 on the secondment of Mr. Władysław Szczepkowski, a PKP CARGO S.A. Supervisory Board Member, to act temporarily in the capacity of the President of the PKP CARGO S.A. Management Board, and Resolution No. 8/VII/2022 on concluding a management services and non-competition agreement with Mr. Władysław Szczepkowski seconded to act temporarily in the capacity of President of the Management Board of PKP CARGO S.A.

On 13 January 2022, the Supervisory Board adopted Resolution no. 6/VII/2022 to appoint, as of 03 February 2022, Mr. Marek Henryk Olkiewicz to the position of Management Board Member in charge of Operations for the joint 7th and 8th terms of office. On 27 January 2022, the Supervisory Board adopted Resolution No. 10/VII/2022 on concluding a management services and non-competition agreement with Mr. Marek Henryk Olkiewicz appointed the Management Board Member in charge of Operations of PKP CARGO S.A.

As a result of the selection procedures, the following persons were appointed:

- Mr. Dariusz Seliga to the position of President of the PKP CARGO S.A. Management Board – by Resolution No. 33/VII/2022 of 13 April 2022 for the joint 7th and 8th terms of office – as of 13 April 2022
- Mr. Maciej Jankiewicz to the position of Management Board Member in charge of Finance of PKP CARGO S.A. – by Resolution No. 39/VII/2022 of 22 April 2022 for the joint 7th and 8th terms of office – as of 25 April 2022
- Mr. Jacek Rutkowski to the position of PKP CARGO S.A. Management Board Member in charge of Commerce – by Resolution No. 37/VII/2022 of 22 April 2022 for the joint 7th and 8th terms of office – as of 25 April 2022
- Mr. Zenon Kozendra to the position of Management Board Member – Employee Representative of PKP CARGO S.A. – by Resolution No. 35/VII/2022 of 13 April 2022 for the joint 8th term of office.

On 22 April 2022 the Supervisory Board adopted:

- Resolution No. 40/VII/2022 on concluding a management services and non-competition agreement with Mr. Dariusz Seliga appointed the President of the Management Board of PKP CARGO S.A.
- Resolution No. 41/VII/2022 on concluding a management services and non-competition agreement with Mr. Maciej Jankiewicz appointed the Management Board Member in charge of Finance of PKP CARGO S.A.
- Resolution No. 42/VII/2022 on concluding a management services and non-competition agreement with Mr. Jacek Rutkowski appointed the Management Board Member in charge of Commerce of PKP CARGO S.A.
- Resolution No. 43/VII/2022 on concluding a management services and non-competition agreement with Mr. Zenon Kozendra appointed the Management Board Member – Employee Representative of PKP CARGO S.A.
- Resolution No. 44/VII/2022 on concluding a management services and non-competition agreement with Mr. Marek Henryk Olkiewicz appointed the Management Board Member in charge of Operations of PKP CARGO S.A.

The basic terms and conditions of the management contracts and non-competition agreements are as follows:

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

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

Management Board Members are entitled to a Bonus for the achievement of management objectives specified by the Supervisory Board. Such objectives should be determined no later than by the end of April of the financial year in which they are expected to be achieved.

The directions for the principles governing the disbursement of compensation to Members of the PKP CARGO S.A. Management Board and the rules for granting other benefits in a manner that ensures the pursuit of the adopted business strategy of PKP CARGO S.A. are described in the Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board adopted under Resolution No. 23/2020 of the Ordinary Shareholder Meeting of PKP CARGO S.A. of 29 June 2020, as amended.

The table below presents total compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2022.

Table 30 Compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2022 (PLN)

Name	Compensation	Severance pays, indemnities, non-competition	Other revenue subject to taxes and social security contributions	Subsidiaries	Total
Current Management Board members					
Dariusz Seliga	412,800.00	0	8,256.79	0	**421,056.79**
Maciej Jankiewicz	352,600.00	0	8,457.11	0	**361,057.11**
Marek Olkiewicz	467,266.67	0	4,958.85	0	**472,225.52**
Jacek Rutkowski	352,600.00	0	6,160.23	0	**358,760.23**
Zenon Kozendra	516,000.00	0	11,678.20	0	**527,678.20**
Former Management Board members					
Władysław Szczepkowski*	163,200.00	0	6,532.01	0	**169,732.01**
Czesław Warsewicz	0	192,000.00	0	0	**192,000.00**
Leszek Borowiec	0	172,000.00	0	0	**172,000.00**
Witold Bawor	0	172,000.00	2,580.00	0	**174,580.00**
Piotr Wasaty	0	172,000.00	0	0	**172,000.00**

** A PKP CARGO S.A. Supervisory Board Member delegated to act temporarily in the capacity of President of the Management Board of PKP CARGO S.A.*
Source: Proprietary material.

Supervisory Board

In accordance with the Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board are not employed by the Company (except for Supervisory Board Members – representatives of employees who cannot be the Company's employees).

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

- for a member discharging the function of Supervisory Board Chairperson – 2.75,
- for a member not discharging the function of Supervisory Board Chairperson – 2.37.

Compensations of the Supervisory Board Members do not constitute a significant item in the costs of the Company's operations and do not significantly affect its financial performance.

The table below presents total compensation and fringe benefits of the Company's Supervisory Board Members in 2022.

Table 31 Compensation and fringe benefits for PKP CARGO S.A. Supervisory Board Members in 2022 (PLN)

Name	Position	Compensation for discharging a function in the Supervisory Board PKP CARGO S.A.	Other compensation (PKP CARGO S.A.)	Subsidiaries
Current Supervisory Board Members				
Władysław Szczepkowski	Supervisory Board Chairman	115,523.69	0	0
Andrzej Leszczyński	Vice-Chairman of the Supervisory Board	63,317.56	0	0

Henryk Grymel	Supervisory Board Member	63,317.56	85,070.50	0
Tomasz Pietrek	Supervisory Board Member	66,862.94	83,105.91	0
Marek Ryszka	Supervisory Board Member	63,787.21	0	0
Paweł Sosnowski	Supervisory Board Member	126,150.60	0	0
Jarosław Stawiarski	Supervisory Board Member	60,601.70	0	0
Jarosław Ślepaczuk	Supervisory Board Member	65,305.02	72,083.32	0
Michał Wnorowski	Supervisory Board Member	63,787.21	0	0
Izabela Wojtyczka	Supervisory Board Member	126,150.60	0	0
Grzegorz Dostatni	Supervisory Board Member	54,001.15	0	0
Former Supervisory Board members				
Krzysztof Mamiński	Supervisory Board Chairman	0	0	0
Marcin Kowalczyk	Vice-Chairman of the Supervisory Board	63,207.99	0	0
Krzysztof Czarnota	Supervisory Board Member	66,285.74	66,258.16	0
Zofia Dzik	Supervisory Board Member	62,273.90	0	0
Dariusz Górski	Supervisory Board Member	63,207.99	0	0
Jerzy Sośnierz	Supervisory Board Member	64,613.54	78,746.22	0
Tadeusz Stachaczyński	Supervisory Board Member	63,751.24	46,988.57	0
Antoni Duda	Supervisory Board Member	63,578.99	0	0

Source: Proprietary material.

Information on liabilities resulting from old age pensions and benefits of a similar nature for former persons on managing and supervising functions and on any liabilities incurred in connection with these pensions, with a specification of the total amount for each category of authority

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

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

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

Department Directors and Unit Directors

The Company's key managers may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card, tools and technical equipment necessary to discharge the duties of a given position, and the right to medical care.

The Company's key managers may be subject to a ban on conducting any business competitive to that of PKP CARGO S.A. after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. and other members of the PKP CARGO Group.

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

No material changes in the Company's compensation policies were introduced in 2022.

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

The Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board in effect from June 2020 enabled the Company to generate value for its shareholders in the following aspects:

- confirms compliance with applicable laws and the standards for WSE-listed companies,
- ensures the pursuit of the adopted business strategy of PKP CARGO S.A. while guaranteeing the Company's security,
- means that the compensation rules defined therein are not set on an ad hoc basis but are a set of permanent, transparent and independent compensation rules contributing to the stability of the enterprise.

8. Representation on the application of corporate governance

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

The Company applies the corporate governance rules described in the document entitled "Best Practice of WSE Listed Companies 2021" (hereinafter referred to as the "Code of Best Practice 2021") adopted by the Board of the Warsaw Stock Exchange on 29 March 2021, which entered into force on 1 July 2021 and replaced the previous set of corporate governance rules. The wording of the "Code of Best Practice 2021" to which the Company has been subject since 1 July 2021 is available on the website of the Warsaw Stock Exchange at

https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/DPSN21_BROSZURA.pdf).

The Company makes every effort to ensure that both the recommendations and the principles contained in the Code of Best Practice 2021 are implemented. The last update of the Information on the application of recommendations and principles by the Company was published on 29 July 2021 and is available on the Company's website in the Investor Relations/Corporate Governance/Good Practice Principles tab.

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

The Company complies with the recommendations and rules laid down in the "Best Practice of WSE Listed Companies 2021", except for the following 13 detailed rules: 1.3.1., 1.4.1., 1.4.2., 1.5., 2.1., 2.2., 2.11.6., 3.6., 3.10., 4.8., 4.9.1., 6.2., 6.4.

1.3.1. environmental factors, including measures and risks relating to climate change and sustainable development;

This principle has not been applied.

Explanation: The PKP CARGO Group's Strategy for 2019-2023 does not address environmental/climate issues in detail. The Company has taken steps to update the strategy.

1.4.1. explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;

This principle has not been applied.

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

1.4.2. present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.

This principle has not been applied.

Explanation: The Company does not publish the value of the equal pay index for its employees. The remuneration rules are defined in intra-company regulations and they do not differentiate employees in terms of gender. The remuneration amount depends on the competence and qualifications as well as the position or function of the employee.

1.5. Companies disclose at least on an annual basis the amounts expensed by the company and its group in support of culture, sports, charities, the media, social organizations, trade unions, etc. If the company or its group pay such expenses in the reporting year, the disclosure presents a list of such expenses.

This principle has not been applied.

Explanation: The Company publishes information on its sponsorship and charitable activity in its annual report, but it does not disclose its expenses on this account. Nevertheless, the provisions of the Articles of Association obligate the Management Board to present, at least once a year, an expense report to the Supervisory Board pertaining to its sponsoring, charitable, social communication and public relations activities.

2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

This principle has not been applied.

Explanation: The Company has not developed a formal diversity policy applicable to the Company's authorities and there are no internal regulations that specify the minimum target participation of minority groups.

2.2. Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.

This principle has not been applied.

Explanation: The Company has not developed a formal diversity policy; however, all processes, especially recruitment (also relating to the Company's authorities), take into consideration such diversity aspects as gender, education, age and professional experience. There are no internal regulations that specify the minimum target participation of minority groups.

2.11.6. information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.

This principle has not been applied.

Explanation: The Company has not developed a formal diversity policy applicable to the Company's authorities.

3.6. The head of internal audit reports organizationally to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee.

This principle has not been applied.

Explanation: The head of internal audit operates within the structure of a department, whose director reports directly to the President of the Management Board. The head of internal audit reports functionally to the Supervisory Board Audit Committee.

3.10. Companies participating in the WIG20, mWIG40 or sWIG80 index have the internal audit function reviewed at least once every five years by an independent auditor appointed with the participation of the audit committee.

This principle has not been applied.

Explanation: In connection with the adopted cost-saving measures, the Company has temporarily abandoned the review of the audit function performed by an independent auditor.

4.8. Draft resolutions of the general meeting on matters put on the agenda of the general meeting should be tabled by shareholders no later than 3 days before the general meeting.

This principle has not been applied.

Explanation: The Company intends to propose to the Shareholder Meeting to adopt the provisions that would allow this principle to be applied.

4.9.1. candidates for members of the supervisory board should be nominated with a notice necessary for shareholders present at the general meeting to make an informed decision and in any case no later than 3 days before the general meeting; the names of candidates and all related documents should be immediately published on the company's website;

This principle has not been applied.

Explanation: The Company intends to propose to the Shareholder Meeting to adopt the provisions that would allow this principle to be applied.

6.2. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term standing of the company measured by its financial and non-financial results as well as long-term shareholder value creation, sustainable development and the company's stability.

This principle has not been applied.

Explanation: The Company has in place an incentive system for Management Board Members – the bonus is contingent, among other criteria, on the attainment of the objectives correlated with the Company's annual business plan and the projection of the PKP CARGO Group's financial results; the Company, however, does not have an incentive system for key managers (senior management).

6.4. As the supervisory board performs its responsibilities on a continuous basis, the remuneration of supervisory board members cannot depend on the number of meetings held. The remuneration of members of committees, in particular the audit committee, should take into account additional workload on the committee.

This principle has not been applied.

Explanation: A Supervisory Board Member is entitled to monthly compensation regardless of the number of meetings of the Supervisory Board or committees appointed by the Supervisory Board. The remuneration of Members of Committees does not take into account additional workload on the committee. The Supervisory Board intends to submit a motion to the Shareholder Meeting to increase the compensation of Chairpersons of Supervisory Board Committees.

8.3. Description of the primary attributes of the internal control and risk management systems used in the Company and the PKP CARGO Group in respect of the process of preparing standalone and consolidated financial statements

Uniform accounting policy

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

Uniform consolidation packages of subsidiaries

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

Bookkeeping

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

Procedures for the closing of ledgers and authorization of financial statements

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

Supervision by the Audit Committee

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

Audit and review of financial statements

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

8.4. Shareholders holding directly or indirectly significant blocks of shares

Table 32 Shareholder structure of PKP CARGO S.A. for shareholders holding significant blocks of the Company's shares as at 31 December 2022

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A.	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE	4,418,443	9.87%	4,418,443	9.87%
Aviva OFE	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	23,245,909	51.90%	23,245,909	51.90%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material.

Table 33 Shareholder structure of PKP CARGO S.A. for shareholders holding significant blocks of the Company's shares as at the report publication date

Shareholder	Number of shares	% of equity	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A.	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE	4,418,443	9.87%	4,418,443	9.87%
Grupa Funduszy Allianz (Allianz Group of Funds)*	3,691,689	8.24%	3,691,689	8.24%
Generali PTE	2,696,440	6.02%	2,696,440	6.02%
Other shareholders	19,196,151	42.86%	19,196,151	42.86%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

**Allianz OFE, Allianz DFE and Drugi Allianz OFE*
Source: Proprietary material.

8.5. Holders of securities giving special controlling rights

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

8.6. Exercise of voting rights at the Shareholder Meeting

Right to participate in the Shareholder Meeting and voting rights

A shareholder exercises the right to participate in the Shareholder Meeting and voting rights at Shareholder Meetings. The Company's shareholders may participate in the Shareholder Meeting and exercise their voting right in person or by proxy. A shareholder wishing to participate in a Shareholder Meeting by proxy must grant the proxy powers in writing or in electronic form. The Company provides a form of proxy document in the notice on convening the Shareholder Meeting. Moreover, the Company should be notified about granting proxy powers in electronic form using the means of electronic communication specified in the announcement on convening the Shareholder Meeting. A Company shareholder holding shares registered in more than one securities account may appoint separate proxies to exercise the rights attached to shares registered in each of his/her/its accounts.

If a Management Board Member, a Supervisory Board Member, the liquidator, an employee of the Company, or a member of a corporate body or an employee of the Company's subsidiary or cooperative acts as a proxy at a Shareholder Meeting, then the proxy document may authorize such a person to represent the shareholder at a single Shareholder Meeting only. The proxy is obligated to disclose to the Company's shareholder any circumstances indicating the existence or possibility of a conflict of interest. In such a situation, it is not permitted for the proxy to grant the proxy powers to others.

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

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

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

Moreover, pursuant to § 13 Section 1 of the Company's Articles of Association, for the purposes of restricting the voting rights, the votes of the shareholders connected by a parent or subsidiary relationship are added up. The shareholders whose votes are accumulated and reduced are jointly referred to as a "Grouping". An accumulation of votes involves adding up the votes held by individual shareholders comprising a Grouping. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Grouping.

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

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

Statutory restrictions on the transferability of shares

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

- the obligation to notify the Polish Financial Supervision Authority and the Company applies to anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a company and, as a result of a reduction in this shareholding, reached 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90%, respectively, or less of the total number of votes; (iii) has changed his/her/its previously held share greater than 10% of the total number of votes by at least 2% of the total number of votes in a public company whose shares are admitted to trading on an official stock market (as at the Prospectus Date, the market in question is the main market of the Warsaw Stock Exchange); (iv) has changed his/her/its previously held share greater than 33% of the total number of votes in a public company by at least 1% of the total number of votes;
- the obligation to announce a call to subscribe for the sale or conversion of shares in the event of: (i) the acquisition of shares entitling the holder to exercise more than 50% of the total number of votes at the Shareholder Meeting;
- the prohibition of the acquisition or sale, for one's own account or for a third party, of any financial instruments, based on confidential information;
- the prohibition of the acquisition or sale of financial instruments during the lock-up period by the persons referred to in the Act on Trading in Financial Instruments;
- the parent company, within the meaning of Article 4 Section 1 Item 4 of the Commercial Company Code, is required to inform a subsidiary of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

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

Contractual restrictions on the transferability of shares

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

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

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

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

8.8. The rules for appointing and dismissing managers and their powers, in particular the right to make decisions on issuing or redeeming shares

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

The recruitment procedure for the position of Management Board member is conducted on the basis of:

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

The Bylaws for Appointing Management Board Members in PKP CARGO S.A. define in particular the qualifications that will be evaluated when selecting candidates for respective positions in the Management Board, including those following from the Act on the Rules for Managing State Property of 16 December 2016 (Journal of Laws of 2021, Item 1933, consolidated version of 26 October 2021, as amended).

Pursuant to § 18 and § 25 Section 3 Item 2 of the Articles of Association, the PKP CARGO S.A. Management Board is authorized, with the consent of the Supervisory Board, in accordance with the rules laid down in the provisions of the Commercial Company Code, to pay shareholders an interim dividend towards the dividend expected at the end of the financial year.

The Company's executives are not authorized to make any decisions on the issue or redemption of shares.

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

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

Any amendment to the Articles of Association requires a resolution of the Shareholder Meeting. Moreover, the adoption of a resolution on amendments to § 26 Section 3 or 4 and § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing at least 50% of the total number of votes in the Company plus 1 vote.

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

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

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

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

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

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

The Extraordinary Shareholder Meeting may be convened by a shareholder whose stake in the total number of votes in the Company is greater than 33%. In such a case, the shareholder convening the Extraordinary Shareholder Meeting appoints the Chairperson of the Shareholder Meeting.

The Shareholder Meeting adopts the Bylaws of the PKP CARGO S.A. Shareholder Meeting laying down a detailed procedure of conduct for its meetings. Draft Bylaws of the Shareholder Meeting are presented by the Company's Management Board. It is permitted to participate in the Shareholder Meeting by means of electronic communication, provided that the notice of convocation of the Shareholder Meeting contains information about such a possibility.

8.11. Description of the functioning of PKP CARGO's management, supervisory and their committees, along with an indication of the composition of such bodies and changes in them during the last financial year

MANAGEMENT BOARD

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

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

Management Board's powers

The Management Board manages the Company's day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the Shareholder Meeting or the Supervisory Board. Two Management Board Members acting jointly or a Management Board Member acting with a commercial proxy are authorized to make statements of will on behalf of the Company.

The PKP CARGO S.A. Management Board temporarily entrusted supervisory duties over the organizational units in the Company's Head Office to:

1. From 19 January to 13 April 2022, by Resolution No. 12/2022:

Mr. Władysław Szczepkowski – seconded by the PKP CARGO S.A. Supervisory Board, pursuant to Resolution No. 7/VII/2022 of 13 January 2022 to act in the capacity of President of the Management Board of PKP CARGO S.A. for a period not longer than 3 months, falling within the scope of responsibilities of the following functions:

- PKP CARGO S.A. Management Board Member in charge of Commerce,
- PKP CARGO S.A. Management Board Member in charge of Finance,
- PKP CARGO S.A. Management Board Member in charge of Operations until 2 February 2022,

excluding the organizational units entrusted to Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative,

Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative, for a period not longer than 3 months over the following units:

- HR Management Department at the PKP CARGO S.A. Head Office,
- ICT Department at the PKP CARGO S.A. Head Office,
- Procurement Department at the PKP CARGO S.A. Head Office.

2. From 13 April to 25 April 2022, by Resolution No. 114/2022:

Mr. Dariusz Seliga – President of the PKP CARGO S.A. Management Board, falling within the scope of responsibilities of the following functions:

- PKP CARGO S.A. Management Board Member in charge of Commerce,
- PKP CARGO S.A. Management Board Member in charge of Finance, excluding the organizational units entrusted to Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative,

Mr. Zenon Kozendra, PKP CARGO S.A. Management Board Member – Employee Representative:

- ICT Department at the PKP CARGO S.A. Head Office,
- Procurement Department at the PKP CARGO S.A. Head Office.

3. Since 14 June 2022, the PKP CARGO S.A. Management Board, by Resolution No. 182/2022, entrusted to the President of the PKP CARGO S.A. Management Board with temporary formal and substantive supervision of matters falling within the scope of responsibilities of the PKP CARGO S.A. Management Board Member in charge of Finance, which follows from the scope of operations of the Procurement Department at the PKP CARGO S.A. Head Office.

Operation of the Management Board

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

According to the Management Board Bylaws, in the event of conflicting interests of the Company and personal interests of a Management Board Member, his/her spouse, relatives and next of kin (up to the second degree) or a potential conflict of interest in this regard, the Management Board Member should immediately inform the remaining Management Board members thereof, and the President of the Management Board is also required to inform the Supervisory Board, and to refrain from participating in the discussion and voting on the adoption of a resolution in the matter where the conflict of interests has occurred and may request that this fact be recorded in the minutes of the Management Board meeting.

Diversity Policy

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

The Company's Articles of Association define the rules of appointing the Management Board and electing one Management Board member by employees. Pursuant to § 14 Section 10 of the Company's Articles of Association, a Management Board member is obligated to satisfy the requirements specified in Article 22 of the Act on the Rules for Managing State Property.

Table 34 Composition of the PKP CARGO S.A. Management Board

Name	Position	Period in office	
		from	to
Dariusz Seliga	President of the Management Board	13 April 2022	to date
Marek Olkiewicz	Management Board Member in charge of Operations	3 February 2022	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Maciej Jankiewicz	Management Board Member in charge of Finance	25 April 2022	to date
Jacek Rutkowski	Management Board Member in charge of Commerce	25 April 2022	to date
Władysław Szczepkowski	temporary discharge of the duties of President of the Management Board	18 October 2021	13 January 2022
		13 January 2022	12 April 2022

Source: Proprietary material.

Subject to the reservation arising under Resolution No. 12/2022 adopted by the PKP CARGO S.A. Management Board of 19 January 2022, and Resolution No. 114/2022 adopted by the PKP CARGO S.A. Management Board on 14 April 2022, and taking into consideration Resolution No. 182/2022 of 14 June 2022, the internal allocation of tasks and functions discharged by Management Board members, resulting from the provisions of the Management Board Bylaws, is as follows:

President of the Management Board – the scope of the President's activity includes directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's business, in particular:

- business strategy,
- safety of business and internal audit,
- purchase and sale of assets.

Special powers of the President of the Company's Management Board include performance of the Company's defense tasks resulting from the regulations on general defense obligation.

Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular:

- finance management,

Special powers of the Management Board Member in charge of Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.

Management Board Member in charge of Commerce – the scope of duties of the Management Board Member in charge of Commerce covers responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's business, in particular:

- commercial policy,
- sales of transportation services.

Management Board Member in charge of Operations – the scope of activity of the Management Board Member in charge of Operations includes caring for the effective execution of the Company's business and technological processes and overseeing the management of specific areas of the Company's activity, in particular in the following areas:

- execution of transports,
- maintenance of rolling stock.

Management Board Member – Employee Representative – the scope of activity of the Management Board Member – Employee Representative includes overseeing the management of specific areas of the Company's activity, particularly in the following areas:

- real estate management and administration,

- management of human resources and relations with social partners in specified areas.

DARIUSZ SELIGA — PRESIDENT OF THE MANAGEMENT BOARD

Mr. Dariusz Seliga is a graduate of the faculty of administration at the Paweł Wlodkowic University College in Płock. He completed a course of post-graduate study in Kozminski University in Warsaw and the National Defense University of Warsaw and he completed a Railway Sector Executive MBA. He completed his 4-year doctorate course of study at the National Defense University of Warsaw.

He has many years of experience in serving in companies' management boards and supervisory boards. Since 2004, he worked in the Warsaw local government administration as a Representative of the City Mayor. In 2005, he became the mayor of the Włochy district of Warsaw, and then he was elected to be a member of parliament in the Republic of Poland's Sejm in the fifth, sixth and seventh terms of office.

He has been affiliated with the rail industry for many years. In 2016, he became the President of the Management Board of PKP CARGO CONNECT Sp. z o.o., a company belonging to the PKP CARGO Group. Since 2019 he has been affiliated with PKP CARGO INTERNATIONAL a.s. (Czech company belonging to PKP CARGO S.A.), initially as a Management Board member, and since 2021 as the President of the Management Board.

MACIEJ JANKIEWICZ — MANAGEMENT BOARD MEMBER IN CHARGE OF FINANCE

Mr. Maciej Jankiewicz graduated from the Cardinal Stefan Wyszyński University, the Warsaw School of Economics and the Poznań University of Technology. He received an Executive MBA having participated in a two-year international program validated by the Paul Cezanne University in Marseille. He also completed third level studies (doctoral studies) at the War Studies University. During his studies, he expanded his knowledge of management, company law, national security and psychology.

His professional experience includes the restructuring of business entities and corporate groups, the initiation and coordination of activities to establish corporations (including in the financial industry) and the development and implementation of recovery programs measured by sales results and significant improvement of financial performance. His experience also includes the preparation of grant applications and obtaining and settling EU grants, including in the R&D area.

Mr. Maciej Jankiewicz has over twenty years of experience in holding managerial positions and serving as a member of statutory corporate bodies. He has acted in managerial and supervisory roles in various companies, including: Centrum Doradztwa i Informacji Difin sp. z o.o., Pocztowo-Bankowe PTE S.A., Post Media Service sp. z o.o., BDM Grupa Inwestycyjna S.A., Wojskowe Przedsiębiorstwo Handlowe sp. z o.o., Polskie Radio S.A., Pocztylion-Arka PTE S.A., Centrum Bankowo-Finansowe Nowy Świat S.A., Poczta Polska S.A. He has also been in charge of CSR activities.

MAREK OLKIEWICZ — MANAGEMENT BOARD MEMBER IN CHARGE OF OPERATIONS

Mr. Marek Olkiewicz is a graduate of the Warsaw University of Technology and the Częstochowa University of Technology and MBA, DBA and LL.M post-graduate courses of study.

He has been associated with the rail sector since the beginning of his professional career. He has more than thirty years of experience in the sector, including 15 years in managerial positions at PKP Polskie Linie Kolejowe S.A., as Vice-President – Operations Director, Deputy Director and Director of the Rail Lines Unit in Łódź. From 2017 to 2021, he served as a Board Member at the Association of PKP Rail Employers and sat on the supervisory boards of other commercial law companies.

Mr. Marek Olkiewicz is a specialist in transportation and management. He has gleaned experience in all of the key areas of operational management – ranging from running train traffic, to logistics, finance and human resources and to the management of geographically and organizationally distributed structures.

JACEK RUTKOWSKI — MANAGEMENT BOARD MEMBER IN CHARGE OF COMMERCE

Mr. Jacek Rutkowski is a graduate in law at the Silesian University in Katowice and an Executive MBA in the Marseille Graduate School of Management (course held by the University of Gdańsk) and post-graduate studies in corporate finance management at the WSB University in Poznań.

He has more than 25 years of professional experience, including more than 16 years in the rail industry. He served as President of the Management Board of Cargotor sp. z o.o. in 2016-2018. He was President of the Management Board of PKP CARGO Centrum Logistyczne Małaszewicze sp. z o.o. from 2018 to 2019 and he has been President of the Management Board of PKP CARGO TERMINALE sp. z o.o. since 2019.

He also has experience in cooperating with domestic institutions overseeing the rail industry and with EU institutions. He has written restructuring and optimization programs pertaining to the functioning of commercial law companies.

ZENON KOZENDRA — MANAGEMENT BOARD MEMBER – EMPLOYEE REPRESENTATIVE

Mr. Zenon Kozendra is a graduate of the Higher School of Public Administration in Kielce. He completed postgraduate studies in the organization of management at the Kozminski University.

He has been associated with PKP since 1985. From 2005 to 2008, Zenon Kozendra was the Management Board Member responsible for Employee and Administrative Affairs at PKP CARGO and since 2008 he has served as the Personnel Strategy Representative of the PKP CARGO Management Board In 2001-2005, Mr. Kozendra was a member of the PKP CARGO Supervisory Board. From 2006 to 2008, he served as a Board Member at the Association of Rail Employers. In 2016-2022, he held the position of Vice-President of the Main Council of the Association of Rail Employers.

Moreover, Zenon Kozendra sat on the supervisory boards of the following companies: PKP CARGO SERVICE – as Chairman of the Supervisory Board in 2006-2007, PKP CARGO WAGON Kraków – as Chairman of the Supervisory Board in 2007-2008, PKP CARGO TABOR Karsznice – as Member of the Supervisory Board in 2010-2014, PKP S.A. – as Member of the Supervisory Board in 2014-2016, CARGOTOR – as Chairman of the Supervisory Board in 2016-2018. Since 2019, he has served as Chairman of the PKP CARGOTABOR Supervisory Board and Chairman of the PKP CARGO Terminale Supervisory Board.

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Vice-Chairperson) appointed for a joint term of office. The number of Supervisory Board members in a specific term of office is set by PKP S.A. (in the 7th and 8th terms: 11 members). The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

The Supervisory Board conducts constant supervision over the Company's operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Company Code or other statutes, include granting consent for the payment of an interim dividend by the Management Board towards the anticipated end-of-the-year dividend, appointing and dismissing the President and other Members of the Management Board, setting the number of Management Board Members, subject to §12(2)(3) of the Articles of Association of PKP CARGO S.A., granting consent for the establishment or liquidation of a Company branch, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting.

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson. Resolutions of the Supervisory Board are adopted by a simple majority of votes. If an equal number of votes is cast "for" and "against", the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board Members or the Management Board require the consent of the Supervisory Board Chairperson. The Supervisory Board may adopt resolutions without holding a meeting, by following a written procedure or using means of direct remote communication. Decisions in this respect are made by the Supervisory Board Chairperson at his/her own initiative or at a written motion of a Management Board Member or Supervisory Board Member.

In accordance with the Supervisory Board Bylaws, in the event of conflicting interests of the Company and personal interests of a Supervisory Board Member, his/her spouse, family or relatives (to the second degree next of kin) and personal relations, the Supervisory Board Member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes of the Supervisory Board meeting.

Diversity Policy

PKP S.A. shall be entitled to appoint and dismiss members of the PKP CARGO S.A. Supervisory Board in a number equal to half the composition of the Supervisory Board (if such number is not an integer, it shall be rounded down to the nearest integer) plus one.

The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board. The Bylaws of running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal, as adopted by the Supervisory Board with Resolution No. 1804/VI/2019 of 21 January 2019 (as amended), were amended by Resolution No. 12/VII/2022 of 2 February 2022. Failure to elect the Supervisory Board members representing employees does not prevent the Supervisory Board from being appointed or from adopting effective resolutions.

The independent members of the PKP CARGO S.A. Supervisory Board fulfill the independence criteria for Supervisory Board members defined by the European Commission in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (EU.OJ.L.05.52.51) and the additional requirements set forth in the Best Practices of Companies Listed on WSE 2021 forming an attachment to Resolution No. 13/1834/2021 adopted by the Warsaw Stock Exchange's Board on 29 March 2021, §21 of the Articles of Association and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089, as amended).

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

Table 35 Composition of the PKP CARGO S.A. Supervisory Board

Name	Position	Period in office	
		from	to
Władysław Szczepkowski	Supervisory Board Chairman Supervisory Board Member	12 July 2022 26 June 2019	to date to date
Andrzej Leszczyński	Supervisory Board Vice-Chairman Supervisory Board Member	12 July 2022 29 June 2022	to date to date
Henryk Grymel	Supervisory Board Member	29 June 2022	to date
Tomasz Pietrek	Supervisory Board Member	29 June 2022	to date
Marek Ryszka	Supervisory Board Member	29 June 2022	to date
Paweł Sosnowski	Supervisory Board Member	26 June 2019	to date
Jarosław Stawiarski	Supervisory Board Member	7 July 2022	to date
Jarosław Ślepaczuk	Supervisory Board Member	29 June 2022	to date
Michał Wnorowski	Supervisory Board Member	29 June 2022	to date
Izabela Wojtyczka	Supervisory Board Member	16 July 2020	to date
Grzegorz Dostatni	Supervisory Board Member	28 July 2022	to date

Krzysztof Mamiński	Supervisory Board Chairman Supervisory Board Member	1 July 2019 26 June 2019	29 June 2022 29 June 2022
Marcin Kowalczyk	Supervisory Board Vice-Chairman Supervisory Board Member	25 January 2021 14 January 2021	29 June 2022 29 June 2022
Krzysztof Czarnota	Supervisory Board Member	26 June 2019	29 June 2022
Zofia Dzik	Supervisory Board Member	26 June 2019	29 June 2022
Dariusz Górski	Supervisory Board Member	26 June 2019	29 June 2022
Jerzy Sośnierz	Supervisory Board Member	26 June 2019	29 June 2022
Tadeusz Stachaczyński	Supervisory Board Member	26 June 2019	29 June 2022
Antoni Duda	Supervisory Board Member	21 August 2020	29 June 2022

Source: Proprietary material.

Władysław Szczepkowski – Supervisory Board Chairman

Mr. Władysław Szczepkowski graduated in law from the Faculty of Law and Administration in the Department of Theory of the State and Law of the Nicolaus Copernicus University in Toruń in 1992. From 1992 to 2005, he pursued his career in banking where he was involved in financial analysis and corporate restructuring projects; he also worked for legal departments.

From 2005 to 2007, he was the President of the PKP CARGO S.A. Management Board. From 2010 to 2016, he worked for companies of the PGNiG Group. From September 2016 to March 2017, he was employed by Przewozy Regionalne sp. z o.o. Since the beginning of March 2017, he has been working for PKP S.A., currently as the Director – PKP S.A. Management Board Representative for Corporate Affairs. Since 2000, he has been entered in the list of legal counsels.

Since 2017, he has been a member of the PKP CARGO S.A. Supervisory Board; from October 2021 to April 2022 he was the acting President of the PKP CARGO S.A. Management Board.

Andrzej Leszczyński – Supervisory Board Vice-Chairman

Mr. Andrzej Leszczyński has been professionally involved in corporate governance, restructuring and equity transactions in companies with State Treasury shareholding for over 20 years. He is a graduate of the Cybernetics Department at the Military University of Technology and postgraduate studies at the Warsaw School of Economics.

Currently, he is a deputy director of the Corporate Governance Department at the Ministry of State Assets, responsible for the performance of corporate governance tasks, among others, in relation to companies of significant importance to the state economy. Previously, for many years, he was linked to the Ministry of State Treasury and the Ministry of Economic Development and Technology, where he worked on various specialist and management positions involving broad oversight over the effective use of State Treasury assets.

He has many years of experience as a member and chairman of supervisory bodies of commercial law companies, including, among others, Krajowa Spółka Cukrowa S.A., Katowicki Holding Węglowy S.A., H.CEGIELSKI-POZNAŃ S.A., Fabryka Łożysk Tocznych Kraśnik S.A., Stocznia Remontowa NAUTA S.A., as well as defense industry entities. Currently he is a chairman of the Supervisory Board of Exatel S.A.

Henryk Grymel – Supervisory Board Member

Mr. Henryk Grymel graduated from the Commercial Secondary School in Katowice. He joined the rail industry in 1982: as a warehouse worker at the PKP's Katowice-Piotrowice Car Section, then as a warehouse manager, senior warehouse worker and unit warehouse manager.

Since 1 April 2011, he has served as Deputy Department Head at PKP CARGO S.A.'s Southern Unit in Katowice. Since 1980, he has been a member of the Solidarity Trade Union. An energetic social and trade union activist. Since 2006, Chairman of the National Council of the National Rail Workers Section of the Independent Self-Governing Trade Union "Solidarity". Since 2019, Chairman of the Council of the National Transport Workers Secretariat of the Independent Self-Governing Trade Union "Solidarity" and member of the National Committee.

Tomasz Pietrek – Supervisory Board Member

Mr. Tomasz Pietrek has been professionally associated with the rail industry for 32 years. He started his professional career in 1990 at the Rail Vocational School in Tarnowskie Góry. In 2010, he graduated from a technical secondary school as an electrical technician specializing in power electronics. A diesel and electric traction train driver at the Silesian Unit of PKP CARGO S.A. in Tarnowskie Góry.

He has acquired extensive experience in representing the interests of staff vis-à-vis employers. Chairman of the Inter-Company Trade Union of Train Drivers in Tarnowskie Góry.

Participated in numerous negotiations, including on working out the collective bargaining agreement in the Company. For many years, he served as Chairman of the Freight Transport Sector at the Trade Union of Train Drivers. Currently serving as Vice-Chairman of the Trade Union of Polish Train Drivers of the 9th term of office. He completed a training course for Supervisory Boards members.

Marek Ryszka – Supervisory Board Member

Mr. Marek Ryszka is a graduate of the Forest Department of the Warsaw University of Life Sciences. He has also completed specialized postgraduate studies: the Inter-University Study of Assessment and Valuation of Natural Resources at the Warsaw University of Life Sciences and the Warsaw School of Economics, Environmental Protection Policy – Ecology, as well as Management and Risk Management at the Academy of Finance in Warsaw. He also completed a Master of Business Administration (MBA) program. He participated in numerous courses and trainings, e.g. in project management and implementation of EU funds.

He has many years of broad professional experience in the area of environmental protection and management. Until November 2019, he served as Vice-President of the Management Board of the National Fund for Environmental Protection and Water Management; previously he was also an acting President of the Management Board of NFOŚiGW. In 2017-2019, he was President of the Management Board of the Voivodship Fund for Environmental Protection and Water Management in Warsaw. In 2015-2018, he also served as Deputy Chairman of the Supervisory Board of the National Fund for Environmental Protection and Water Management.

From 2013 to 2017 he was Director of the Independent Public Health Care Facility in Sulejówek. He also worked at the Warsaw City Hall as Head of the Environmental Protection Department and chief specialist at the Infrastructure and Investment Department. In the National Fund for Environmental Protection and Water Management, he was Director of the Nature Protection and Ecological Attitudes Formation Department. He was also a member of the Academic and Social Council of the “Janów Forests” Promotional Forest Complex.

As an environmental expert in the Ministry of Economy and in the Institute for Fuels and Renewable Energy he evaluated applications for co-funding and examined protests in the field of renewable energy sources under the Operational Programme Infrastructure and Environment 2007-2013.

Under the Operational Programme Infrastructure and Environment 2014-2020, he acts as an environmental expert in the Ministry of Energy and in the Oil and Gas Institute - National Research Institute. He evaluates projects under sub-measures: 1.1.2 Supporting projects relating to the construction and reconstruction of grids enabling connection of energy generation units from renewable sources and 1.4.1 Supporting the construction of smart power grids – pilots and demos – under Priority I Reduction of the economy emissivity, as well as measure 7.1 Development of smart systems for energy storage, transmission and distribution under Priority VII Improvement of energy security of the Operational Programme Infrastructure and Environment 2014-2020.

He is a member of the Academic and Social Council of the “Janów Forests” Promotional Forest Complex. Mr. Marek Ryszka has been awarded many medals, including the Honorary Badge “For Merit in Environmental Protection and Water Management” granted by the Minister in charge of the environment, dated 31 March 2017; the Honorary Badge “For Merit in Energy” granted by the Minister in charge of energy, dated 31 May 2021; the “Medal of the Centenary of Regained Independence” granted by the order of the President of the Republic of Poland Andrzej Duda, dated 19 May 2020.

As of 30 June 2021, the President of the Republic of Poland Andrzej Duda appointed Marek Ryszka to participate in the work of the National Development Council – the Council for Environment, Energy and Natural Resources to the President of the Republic of Poland. He serves as the chairman of the Convention of Presidents of Voivodship Funds for Environmental Protection and Water Management.

Paweł Sosnowski – Supervisory Board Member

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

In 1992-2006, he was associated with Totalizator Sportowy sp. z o.o., and in 1998-2002 he rendered his services to the State Fund for the Rehabilitation of the Disabled. In parallel, he also lectured at the Faculty of Administration and Social Sciences of the Warsaw University of Technology and cooperated with the Department of Administrative Law and Local Self-Government at the Cardinal Stefan Wyszyński University in Warsaw.

In 2003-2007, he served as Deputy Mayor of the Wawer District of Warsaw and Chief Specialist in the Legal Department of the Warsaw City Hall. In 2007, he also served as Deputy County Construction Supervision Inspector in the County Construction Supervision Inspectorate for the Capital City of Warsaw.

Since 2007, he has worked for the General Counsel to the Republic of Poland. In 2000-2002, he was a member of the Supervisory Board of LIGIA sp. z o.o., in 2003-2006, Supervisory Board Chairman of Towarzystwo Budownictwa Społecznego "WOLA" sp. z o.o. and in 2017-2018 he was a member and secretary of the PKP S.A. Supervisory Board.

Jarosław Stawiarski – Supervisory Board Member

Mr. Jarosław Stawiarski was born on 3 October 1963 in Kraśnik. He is a seasoned local government official, civil servant and politician. He is a graduate in history from the Humanities Faculty of the Maria Curie-Skłodowska University in Lublin, post-graduate studies in management at the University of Warsaw and post-graduate studies in the management of education at the Baltic Higher School of Humanities in Koszalin.

In his home town he served as a school teacher and principal, a city council member and deputy mayor. He was a member of parliament for four terms of office. He was a Secretary of State in the then Ministry of Sport and Tourism for three years.

In his capacity as deputy minister he was responsible for financial support for sporting infrastructure. He supervised the National Stadium, the Central Sports Center and the Institute of Sport. He is a member of the executive board of the European Committee of Regions (CoR) and the chair of the President's Council on Local Government affairs.

He was selected to serve as Marshal of Lubelskie Voivodship on 21 November 2018. His great passion is for sports. Privately and professionally. He always attends the most important events. He supports and roots for Polish national teams in various disciplines.

Jarosław Ślepaczuk – Supervisory Board Member

Mr. Jarosław Ślepaczuk earned his MA degree from the College of Education in Częstochowa and completed postgraduate studies at the Faculty of Material Engineering and Transport – Organization and Management of Human Resources – at the Silesian University of Technology.

He has been employed in PKP's structures since September 1993. While continuing his family traditions, he got his first professional hands-on experience as a switchman at the Tarnowskie Góry PKP station. Currently, he works as a shipment organizer at PKP CARGO S.A.'s Silesian Unit. Since 2002, he has served as an alderman for a local government – currently for the Tarnowskie Góry City Council as Vice-Chairman of the Audit Committee.

Since 2000, he has served as Chairman of the Trade Union of Silesian Rail Workers at PKP CARGO S.A.'s Silesian Unit, and since 2020 as Chairman of the CARGO Sectoral Council operating within the structures of the Trade Union Federation of Rail Workers in Warsaw.

Michał Wnorowski – Supervisory Board Member – independent member

Mr. Michał Wnorowski is an expert in corporate governance. Member of the Association of Independent Non-Executive Directors.

Currently, an independent member of supervisory boards and a member of audit committees of the following companies listed on the stock exchange: Alumetal, Medicalgorithmics, Polwax, Tower Investments. Previously, he sat among others on supervisory boards and audit committees of: Arteria, Voxel, Develia, Robyg, Enter Air, EMC Instytut Medyczny, Braster, Travelplanet.pl, Elektrobudowa, Armatura Kraków, ARM Property.

He has been associated with the financial market since 1995. In 2012-2016, he was Investment Director Managing the Long-Term Equity Portfolio of the PZU Group, where he was responsible for the largest equity investment projects and for coordinating investments in this asset class across the PZU Group.

Previously, he was Director of the Analysis and Corporate Governance Team at the PZU Group, responsible among others for the analysis and selection of companies for investment portfolios and for subsequent oversight over portfolio companies. He has experience in investment project management, market analysis, business analysis and valuation, securities portfolio management, and supervision over merger and acquisition processes. He is a graduate of the Warsaw School of Economics and the Kraków University of Economics.

Izabela Wojtyczka – Supervisory Board Member – independent member

Ms. Izabela Wojtyczka holds a master in economics degree from the Global Economic Interdependence Department at Warsaw School of Economics, the Department of Political Science and International Studies at the University of Warsaw and a scholarship holder from the Pázmány Péter Catholic University in Budapest. She holds the Executive Master of Business Administration (MBA) degree and an international project management certificate from the PRINCE2 Foundation.

She serves as Vice-President of the Management Board of PZU Centrum Operacji S.A. In the past, she was associated with the Ministry of Entrepreneurship and Technology, Polskie Górnictwo Naftowe i Gazownictwo Obrót Detaliczny sp. z o.o. (PGNiG OD), the Polish Institute of International Affairs and various non-governmental organizations. In 2020-2021, she was the Deputy Director of the Ownership Supervision Reform Department in the Ministry of State Assets, responsible for preparing a reform, the most far-reaching for 20 years, of the Commercial Company Code in Poland.

Grzegorz Dostatni – Supervisory Board Member

Mr. Grzegorz Dostatni graduated from the Faculty of Law and Administration at the University of Gdańsk, the National School of Public Administration, Polish-Dutch European Study Program organized by the University of Warsaw and the Maastricht University, doctoral studies in the Faculty of Law and Administration at the University of Warsaw. He is a doctor of law and an attorney at law. During his career he has worked with the government administration: among others, he served as the Deputy Director of the Legal Department in the Ministry of Finance and the Director of the Legal Department in the Prime Minister's Office. At present, he is the Director of the Legal Department in the Ministry of State Assets. He has served as a supervisory board member in Bank Gospodarstwa Krajowego and PZU Życie S.A., among other companies.

SUPERVISORY BOARD AUDIT COMMITTEE

The Supervisory Board's Audit Committee is appointed by the Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Audit Committee members, including its Chairperson, meet the independence criteria specified in § 20 and § 21 of the Company's Articles of Association and in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, Item 1089, as amended). At least one Member of the Audit Committee has qualifications in the area of accounting or audit of financial statements and at least one Member of the Audit Committee has knowledge and skills in the specific industry in which the Company operates. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the firm authorized to audit financial statements, also when it provides to the Company other services than financial audit and review, assessing the independence of a statutory auditor and giving consent for it to provide permitted financial audit services, recommending a firm authorized to audit financial statements to the Shareholder Meeting to perform financial audit activities in the Company, in compliance with the policies in force in the Company: Policy and Procedure for the selection of an audit firm to audit the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group and Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network.

Table 36 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board

Name	Position	Period in office	
		from	to
Michał Wnorowski	Committee Chairman Committee Member	23 August 2022 12 July 2022	to date
Jarosław Ślepaczuk	Committee Member	12 July 2022	to date
Izabela Wojtyczka	Committee Member	12 July 2022	to date
Dariusz Górski	Committee Chairman Committee Member	1 July 2019	29 June 2022
Zofia Dzik	Committee Member	1 July 2019	29 June 2022
Władysław Szczepkowski	Committee Member	24 August 2020	29 June 2022

Source: Proprietary material.

In 2022, the Audit Committee held 9 meetings and took 3 votes using means of direct remote communication. In 2022, the Audit Committee adopted 11 resolutions.

Members of the Audit Committee of the Supervisory Board's 7th term of office who fulfilled the statutory independence criteria:

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

Members of the Audit Committee of the Supervisory Board's 8th term of office who fulfilled the statutory independence criteria:

- Michał Wnorowski,
- Izabela Wojtyczka.

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

The following members of the Audit Committee of the Supervisory Board's 7th term of office had the knowledge and skills in the area of accounting or auditing of financial statements:

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

The following members of the Audit Committee of the Supervisory Board's 8th term of office have the knowledge and skills in the area of accounting or auditing of financial statements:

1. Michał Wnorowski: graduate of the Warsaw School of Economics and the Cracow University of Economics with more than 20 years of professional experience in the management of investment projects, market and financial analysis, business analysis and valuation and management of investment portfolios in large financial institutions;
2. Izabela Wojtyczka: Master of Economics – Warsaw School of Economics.

A member of the Audit Committee of the Supervisory Board's 7th term of office with the knowledge and skills in PKP CARGO S.A.'s specific industry was:

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

A member of the Audit Committee of the Supervisory Board's 8th term of office with the knowledge and skills in PKP CARGO S.A.'s specific industry is:

1. Izabela Wojtyczka – Member of the PKP CARGO S.A. Supervisory Board since 16 July 2020.
2. Jarosław Ślepaczuk: earned his MA degree from the College of Education in Częstochowa and completed postgraduate studies at the Faculty of Material Engineering and Transport – Organization and Management of Human Resources – at the Silesian University of Technology; 30 years of experience in rail sector enterprises; since 2000, he has served as Chairman of the Trade Union of Silesian Rail Workers at PKP CARGO S.A.'s Silesian Unit, and since 2020 as Chairman of the CARGO Sectoral Council operating within the structures of the Trade Union Federation of Rail Workers in Warsaw.

In accordance with the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019, Item 1421, as amended), the Supervisory Board's Audit Committee, by Resolution No. 9/2019 of 15 April 2019, established the Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network and the "Policy and procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.

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

1. In accordance with the Articles of Association of PKP CARGO S.A., the audit firm is selected by the Shareholder Meeting of PKP CARGO S.A. from among entities participating in the Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. The selection is made on the basis of a recommendation submitted by the Audit Committee.
2. When issuing a recommendation and when selecting an audit firm, the Audit Committee and the Shareholder Meeting, respectively, are required to pay special attention to:
   - the need to maintain the independence and objectivity of the audit firm and the auditor – the scope of services provided during the most recent financial years by the audit company itself as well as by its related parties and network members to the Company or its parent company or entities controlled by PKP CARGO S.A. is a matter of detailed analysis;
   - experience in auditing standalone and consolidated financial statements of public interest entities of a similar size to that of the Company and the PKP CARGO Group and listed on the Warsaw Stock Exchange;

- experience in auditing companies with a similar business profile to that of the Company;
- professional qualifications and experience of persons directly involved in the conduct of the audit/review of the Company and selected subsidiaries of PKP CARGO S.A.;
- the ability to provide the required range of services within the specified period, including the ability to ensure the stability of the team;
- the availability of qualified specialists in of specific issues related to financial statements, such as tax analysis, hedge accounting, measurement of derivatives, IT systems;
- costs of the audit.

3. The selection of an audit firm must be made sufficiently in advance to enable the execution of the audit contract early enough to enable the audit firm to prepare for the interim review.
4. Verification and monitoring of the independence of the statutory auditor and the audit firm are carried out at every stage of the procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.
5. The audit firm is selected based on the principle of rotation of audit firms and key statutory auditors.
6. The first contract for a statutory audit is entered into with an audit firm for a period not shorter than two years with an option to extend the contract by subsequent periods of at least two years, in consideration of the rules of rotation of audit firms and key statutory auditors in compliance with the applicable laws.
7. The audit firm selection process is conducted in accordance with the adopted "Policy and Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group".

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

1. The selection procedure is initiated by the Audit Committee of the Supervisory Board which lays down detailed guidelines regarding the requirements to be satisfied by the audit firm responsible for conducting audits of standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group as well as the selection criteria.
2. The request for proposals is sent out to audit firms in accordance with Article 130(3)(2)(a) of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019, item 1421, as amended).
3. The Audit Committee prepares a recommendation for the Shareholder Meeting in accordance with the provisions of the Policy, taking into consideration the conclusions of the annual report of the Audit Oversight Commission referred to in Article 90 Section 5 of the said Act, the analysis of proposals submitted by audit firms, documentation of the procurement procedure and the report.

The Audit Committee has adopted the following rules governing the provision of additional services by audit firms, including their related parties or members of their network (hereinafter: the audit firm) responsible for auditing standalone financial statements of the Company and consolidated financial statements of the PKP CARGO Group:

1. Besides the audit/review of the financial statements, the audit firm may provide the following services to: (i) the Company, or (ii) entities controlled by PKP CARGO S.A. (hereinafter: controlled entities), or (iii) the parent company of PKP CARGO S.A. (hereinafter: the parent company):
    - conducting due diligence procedures regarding the economic and financial standing and preparation of comfort letters in connection with the issue prospectus, carried out in accordance with the national standard of related services (agreed procedures);
    - assurance services regarding pro forma financial information, result forecasts or estimates given in the issue prospectus;
    - audits of historical financial information, referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004;
    - verification of consolidation packages;
    - confirmation of the fulfillment of the terms of loan agreements based on an analysis of the financial information provided in the financial statements;
    - assurance services regarding corporate governance, risk management and corporate social responsibility reporting;
    - auditor's opinion on financial statements or other financial information addressed to supervisory authorities, the supervisory board or another supervisory body of the Company or the shareholders, not covered by the scope of the statutory audit, and intended to support those bodies in the performance of their statutory duties.

2. Provision of the services referred to in point 1 is possible only within a scope not related to the tax policy of the Company, its parent entity or subsidiaries, after the Audit Committee of the Supervisory Board has assessed the threats and warranties regarding the independence of the audit firm.
3. The execution of an agreement for the provision of additional services by the audit firm requires in each case the consent of the Audit Committee at the request of the pertinent company's Management Board. The consent of the Audit Committee referred to in the preceding sentence is required for the audit firm to execute an agreement with the Company, with each controlled entity and with the parent company.
4. The Company presents to the Audit Committee of the Supervisory Board, at least annually, a list of all additional services provided by the audit firm to PKP CARGO S.A., its parent entity and the entities controlled by the Company.

In 2022, the Supervisory Board's Audit Committee did not adopt any resolutions expressing the consent for the following audit firms to execute a contract for the provision of services other than audit services:

a) Grant Thornton Frąckowiak Prosta spółka akcyjna (formerly: Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k.) with its registered office in Poznań, entered in the list of audit firms kept by the Polish Audit Supervision Agency under file no. 3654, and

b) Grant Thornton Polska Prosta spółka akcyjna (formerly: Grant Thornton Polska spółka z ograniczoną odpowiedzialnością sp.k.) with its registered office in Poznań, entered in the list of audit firms kept by the Polish Audit Supervision Agency under file no. 4055.

By Resolution No. 13/2020 of 21 September 2020, the Audit Committee of the PKP CARGO S.A. Supervisory Board recommended to the Shareholder Meeting with regard to:

audit of:

- standalone financial statements of PKP CARGO S.A. for 2021-2025;
- consolidated financial statements of the PKP CARGO Group for 2021-2025;

review of interim condensed:

- standalone financial statements of PKP CARGO S.A. in 2021-2025;
- consolidated financial statements of the PKP CARGO Group in 2021-2025;

that one of the following entities be selected as the audit firm for PKP CARGO S.A.:

1. Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Poznań, entered in the list of audit firms kept by the National Board of Statutory Auditors under file no. 3654, NIP: 778-14-76-013 (hereinafter: "Grant Thornton Frąckowiak");
2. PKF Consult spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw, entered in the list of audit firms kept by the National Board of Statutory Auditors under file no. 477, NIP: 521-052-77-10 (hereinafter: "PKF Consult");

at the same time, the Audit Committee of the PKP CARGO S.A. Supervisory Board specified the audit firm Grant Thornton Frąckowiak as its preferred candidate for the auditor, as its proposal was evaluated the highest during the procurement procedure.

In recommending the selection of Grant Thornton Frąckowiak, the Audit Committee of the PKP CARGO S.A. Supervisory Board took into account, without limitation, the specific needs of the PKP CARGO Group as a public interest entity and the outcome of the group procurement procedure.

Moreover, the Audit Committee declared that the said recommendation fulfilled the requirements of:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019, item 1421, as amended),
- "Policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A." adopted by Resolution No. 9/2019 of the Audit Committee of the PKP CARGO S.A. Supervisory Board of 15 April 2019;

and is free from any third party influence and that PKP CARGO S.A. has not entered into any agreements containing clauses that would confine the Shareholder Meeting's discretion in selecting an audit firm to certain categories or lists of audit firms.

After the selection of Grant Thornton Frąckowiak as the Company's audit firm for 2021-2025 by Resolution No. 2/2020 of the PKP CARGO S.A. Extraordinary Shareholder Meeting of 16 November 2020, the PKP CARGO S.A. Ordinary Shareholder Meeting adopted Resolution No. 28/2021 of 28 June 2021 changing the selection of the audit firm, designating as the provider of the following services:

audit of:

- standalone financial statements of PKP CARGO S.A. for 2021-2025;
- consolidated financial statements of the PKP CARGO Group for 2021-2025;

review of interim condensed:

- standalone financial statements of PKP CARGO S.A. in 2021-2025;
- consolidated financial statements of the PKP CARGO Group in 2021-2025.

the following audit firms:

1. Grant Thornton Frąckowiak Prosta spółka akcyjna (formerly: Grant Thornton Frąckowiak spółka z ograniczoną odpowiedzialnością sp.k.) with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, 61-131 Poznań, KRS 0000369868, NIP 7781476013, entered in the list of audit firms kept by the Polish Audit Supervision Agency under file no. 3654;
2. Grant Thornton Polska Prosta spółka akcyjna (formerly: Grant Thornton Polska spółka z ograniczoną odpowiedzialnością sp.k.) with its registered office in Poznań at ul. abpa Antoniego Baraniaka 88E, 61-131 Poznań, KRS 0000407558, NIP 7822545999, entered in the list of audit firms kept by the Polish Audit Supervision Agency under file no. 4055.”.

NOMINATION COMMITTEE

The Nomination Committee is appointed by the Supervisory Board. It consists of three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company’s Articles of Association, to discharge the function of Nomination Committee Chairperson. The Nomination Committee members are appointed for a term corresponding to the Supervisory Board’s term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company’s Management Board Members and over the process of assessment and appointment of the Company’s Management Board Members, and supports the attainment of the Company’s strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and compensation for the Company’s employees, including in particular the Company’s Management Board Members and upper level management.

Table 37 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board

Name	Position	Period in office	
		from	to
Izabela Wojtyczka	Committee Chairwoman	12 July 2022	to date
	Committee Member	21 September 2020 12 July 2022	29 June 2022 to date
Paweł Sosnowski	Committee Member	18 October 2021 12 July 2022	29 June 2022 to date
Władysław Szczepkowski	Committee Member	12 July 2022	to date
Zofia Dzik	Committee Chairwoman	1 July 2019	29 June 2022

Source: Proprietary material.

STRATEGY COMMITTEE

The Strategy Committee is appointed by the Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company’s Articles of Association. The Strategy Committee members are appointed for a term corresponding to the Supervisory Board’s term of office. The Strategy Committee supports the Supervisory Board in its supervision over the establishment of the strategy as well as the proper pursuit of the strategy and annual and long-term activity plans for the Company and its Group.

Table 38 Composition of the Strategy Committee of the PKP CARGO S.A. Supervisory Board

Name	Position	Period in office	
		from	to
Władysław Szczepkowski	Committee Chairman	23 September 2020 12 July 2022	29 June 2022 to date
	Committee Member	1 July 2019 12 July 2022	29 June 2022 to date
Henryk Grymel	Committee Member	12 July 2022	to date

Andrzej Leszczyński	Committee Member	12 July 2022	to date
Tomasz Pietrek	Committee Member	12 July 2022	to date
Michał Wnorowski	Committee Member	12 July 2022	to date
Antoni Duda	Committee Member	21 December 2020	29 June 2022
Dariusz Górski	Committee Member	1 July 2019	29 June 2022
Paweł Sosnowski	Committee Member	21 September 2020	29 June 2022

Source: Proprietary material.

8.12. Description of the Company's and the PKP CARGO Group's sponsoring, charitable or other similar activities

PKP CARGO S.A. and members of the PKP CARGO Group focus on pro-social activities consistent with the Group's mission and growth strategy and the values represented by PKP CARGO S.A. The conduct of long-term social programs is a priority activity undertaken by these entities.

Based on an analysis of initiatives and programs executed to date and a diagnosis of the needs of the PKP CARGO Group's business and social environment, the following sponsorship activities were devised:

- Initiatives for the development of the logistics sector,
- Science and education, including cooperation with institutions of higher education and scientific centers,
- Culture and arts,
- Safety and security,
- Sports – with priority given to activities aimed at the promotion of sports and a healthy lifestyle among youths.

Charitable support activities are focused on environmental protection and ecology (including supporting the initiatives related to ecology of transport), science and education, culture and art, safety and equalization of social differences.

In 2022, the PKP CARGO Group provided support to a group of employees and pensioners in financing their treatment and rehabilitation. Donations were provided to individuals remaining in a challenging financial situation. Also, the Group provided financial and material support to employees participating in various sports and recreational events. The sponsorship activity of PKP CARGO S.A. and other PKP CARGO Group companies focused on supporting the organization of significant historical and sports events and gatherings significant for the rail workers community. An example of this is the celebration of the 42nd anniversary of the Lublin July 1980, sponsorship of the Solidarity Cycling Race and Olympians, co-funding of the Railway Employee Day celebrations, and sponsorship of conferences, meetings and debates organized by trade unions as PKP CARGO's stakeholders.

9. Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts.

Other than the information presented in this Management Board Report on the activity of the PKP CARGO Group, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial performance, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

10. Non-financial information

Pursuant to Article 49b(9) and Article 55(2c) of the Accounting Act, the Company and its Group do not prepare a statement on non-financial information due to the preparation of a separate report on non-financial information (Sustainable Development Report) in accordance with §70(1)(5) and §71(1)(5) of the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent.

This Management Board Report on the Activity of the PKP CARGO Group has been prepared by the PKP CARGO S.A. Management Board.

Management Board
Dariusz Seliga President of the Management Board
Marek Olkiewicz Management Board Member
Jacek Rutkowski Management Board Member
Maciej Jankiewicz Management Board Member
Zenon Kozendra Management Board Member

Warsaw, 4 April 2023