



PKP CARGO Group

Towards sustainability



INTEGRATED REPORT
2022

Letter from the CEO

Dear Stakeholders,

I have the great honor to share with you the integrated report of the PKP CARGO Group. The report coalesces information about the Group's financial and non-financial performance, enabling readers to understand how closely these two aspects of our business are interconnected and inseparable.

Not only does this type of reporting provide us with a platform to present the Group's comprehensive results, but it also enables stakeholders to get a grasp of existing dependencies from the perspective of inter-reliant categories of capital. This approach permits us to focus greater attention on future activities and prospects for continued growth in the broadly construed sustainability context and enables us to initiate a discussion on the nature of the anticipated sustainable development of the PKP CARGO Group, particularly in the context of the need to combine as fruitfully as possible the pursuit of the Group's business objectives with relevant social and environmental considerations. We consider this report to serve the purpose of a starting point for the Group's preparation of a functional sustainability strategy and as an invitation for our stakeholders to reflect and share their opinions on what the PKP CARGO Group's future should look like in a new sustainable economy.

At the same time, I know for a fact that the sustainability mindset has been imprinted in our business strategy for years and is deeply rooted in the growth vision shared by all members of our Group. Our commitment to sustainability coupled with social and environmental corporate responsibility are deep-rooted attitudes that prevail over any non-recurring socially beneficial initiatives or specific-purpose initiatives, such as, for instance, the planting of trees. Our sustainability-based approach touches the core of the Group's business model, taps into the existing potential of all enterprises involved, including all members the PKP CARGO Group, and exerts a favorable impact on our environment. As a Group, we unwaveringly pursue our business strategy, while focusing on the Three Seas Initiative region and the European section of the New Silk Road. We make a tangible contribution to the integration and economic development of this part of Europe. Just as visionary politicians once came up with the concept of the Coal and Steel Community, which the business community picked up on and developed by successfully putting into practice the free flow of merchandise on the



nascent European market, so today we, by transporting thousands of tons of products, have the opportunity to turn into reality the idea of integration of the Central European region. Moreover, by offering primarily logistics services using electric traction, including intermodal transport services, we fulfill the market's expectations regarding the provision of sustainable transport options. Unlike electric mobility services in road transport, our business does not require gigantic investments in research and development endeavors. Electric traction enables the carriage of cargo with lower direct eCO₂ emissions and does not require any investment in high-capacity batteries. Once green and clean energy is supplied to such traction, it may serve as a platform for transporting freight in a manner free not only of direct emissions, but also of any emissions in general. All this is technologically feasible already today.

We must and are intent on convincing both our employees, without whom the transformation of the PKP CARGO Group has no chance of success, and the financial markets of the veracity of these claims. Our objective is to demonstrate to them the undiscovered potential of rail logistics services towards a better, sustainable future of Europe, including the Three Seas Initiative.

Kindly familiarize yourselves with the following material and do not hesitate to share your observations with us in order to help us better design our future activities in the sustainability area.

Respectfully,
Dariusz Seliga
President of the PKP CARGO S.A. Management Board

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1

The PKP CARGO Group and its environment in the sustainability context

GRI: 2-6

The PKP CARGO Group is Poland's largest rail logistics operator. It holds a key position on the markets of the Three Seas Initiative region. It also enjoys a substantial and well-established position on the European Union's freight transport market. In addition to a robust infrastructural background, its competitive advantage stems from the capital of trust that has been accumulated over the years of

cooperation with Poland's leading ports of Gdańsk, Gdynia, Szczecin and Świnoujście as well as strategic partnerships with rail operators from countries such as Lithuania, Latvia and Romania. The Group's relational capital and ability to effectively cooperate with local ports and operators is a resource that is not shared by competitive foreign companies with no track record on Central European markets.

PKP CARGO GROUP IN NUMBERS

- > **PLN 5,390.1 million**
in revenues from contracts with customers
- > More than **20,000** jobs
- > EBITDA of **PLN 1,066.3 million**
- > Freight turnover of **27 billion tkm**
- > Net profit of **PLN 148.0 million**
- > **100,6 m tonnes** freight volume
- > **1,547** locomotives
53,459 wagons
- > Customer emission savings of nearly **2.9 million tons of CO₂** annually
- > **25** transshipment terminals
- > Carbon footprint of provided transport services of **0.01849 kg eCO₂/tkm**

Members of the PKP CARGO Group in organizations

GRI: 2-28

PKP CARGO S.A. or its subsidiaries participate in the activities of the following national and international organizations:

- » **International Union of Railways** (Union Internationale des Chemins de fer - UIC), including:
 - Agreement on freight Train Transfer Inspection (ATTI) (UIC subgroup)
 - UIC WUSG study group (wagon users)
 - UIC Sustainable Development Platform
- » **Organization for Cooperation of Railways** (Организация сотрудничества железных дорог - OSŽD)*
- » **Community of European Railway and Infrastructure Companies** (CER)
- » **International Rail Transport Committee** (CIT)
- » **International Coordinating Council on Trans-Eurasian Transportation** (CCTT)
- » **Forum Train Europe** (FTE)

- » **Center for Railway Energy Efficiency** (CEEK)
- » **International Federation of Freight Forwarders Associations** (FIATA)
- » **Polish Chamber of Freight Forwarding and Logistics** (PISiL)
- » **National Chamber of Maritime Economy** (KIZM)
- » **Polish-Ukrainian Chamber of Commerce** (PUIG)
- » **Polish Association of Listed Companies** (SEG)
- » **Association of Individual Investors** (SII)
- » **Association of Rail Employers** (ZPK)
- » **Association for the Promotion of Sports, Tourism and Culture "Kolejarz"** [Railwayman]

Furthermore, PKP CARGO S.A. participates in joint endeavors on the development of AVV – General Contract of Use for Freight Wagons. AVV is neither an association nor an organization but this project is very important for the Company, which is a signatory of the AVV Contract since 2006 and for this has been paying the annual membership fee.



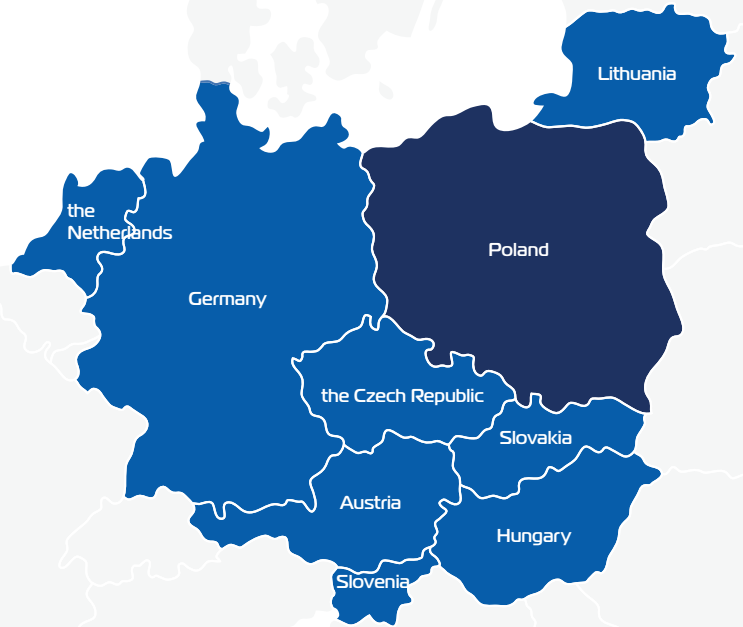
*Cooperation necessitated by the significance of transit transport in the directions East-West-East, especially transport services from/to China (at present, in accordance with a regulation issued by PKP S.A. and in agreement with MI DTK, the PKP CARGO Group, since February 2022 until further notice, has not been taking part in any activities of the workgroups (due to the war in Ukraine).

Business model and areas of activity

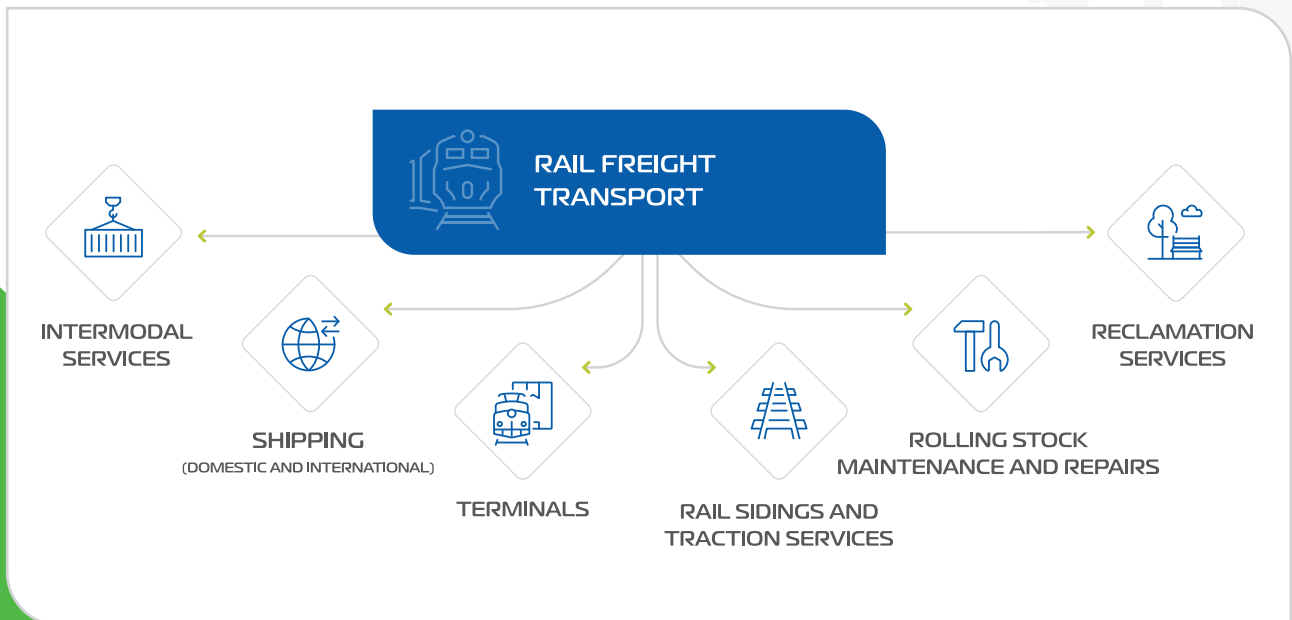
GRI: 2-6

The PKP CARGO Group is a rail freight operator offering comprehensive logistics services in Poland and across the European Union. It also provides intermodal, freight forwarding (domestic and international), terminal, siding and traction services as well as repair and maintenance of rolling stock and land reclamation services.

By integrating such a broad spectrum of activities, the PKP CARGO Group is capable of providing its customers with rail logistics services in a comprehensive manner and, at the same time, owing to its solid competence base, it is also capable of carrying out various indispensable activities without resorting to the assistance of third-party contractors. This significantly reduces the degree of risk associated with relying on external service providers. Of relevance in this context are the Group's own sidings and transshipment terminals (conventional, container and conventional-container) and its ability to repair and service the rolling stock using solely its own resources. The Group's terminals for intermodal transport alone, with a total area of over 70 hectares, are capable of accommodating over 1,200 thousand TEUs at any given time. This provides the Group with significant independence compared to the transshipment capacity of other market players and from competitors specializing in the repair of rolling stock.



The PKP CARGO Group holds licenses for the provision of rail freight services in the following 9 EU countries: **Lithuania, Slovakia, Slovenia, Austria, the Czech Republic, Germany, the Netherlands, Hungary and Poland.**





Promising area for the Group's business going forward, held an 8% share in the overall quantum of transport services.

In 2022, liquid fuels and chemicals had a share of 8% in all transport services rendered by PKP CARGO. Transport of ores and metals is another area of PKP CARGO's business, accounting for a 6% share. In 2022, intermodal transport, which is a promising area for the Group's business going forward, held an 8% share in the overall quantum of transport services. The last distinguished cargo category for the freight transported by PKP CARGO in 2022, with a 3% share in all transport services provided by it, was agricultural produce, timber and timber products.

The large share of (solid and liquid) fossil fuels in the total freight volume already today reduces the PKP CARGO Group's Taxonomy indicators, because the transport of such fuels, despite the fulfillment of all other technical criteria, rules out the possibility of classifying the respective portion of revenues, capital expenditures and operating expenses as Taxonomy-aligned. As a result, in 2022, only the following portions of the PKP CARGO Group's consolidated revenue, capital expenditures and operating expenses were considered Taxonomy-aligned:

- » 34.0% of total revenues,
- » 30.8% of capital expenditures (CAPEX),
- » 15.2% of operating expenses (OPEX) related to products or services,

while more than 90% of freight turnover is performed using electric traction which does not generate any direct emissions. In turn, where the use of electric locomotives is impossible due to the absence of traction, they are often substituted by electro-diesel locomotives the operation of which might also be considered Taxonomy-aligned,¹ that is consistent with Commission Delegated Regulation (EU) 2021/21392. At the same time, a mere change in the type of transported freight would translate into a significant improvement in the PKP CARGO Group's image. Such a change poses a challenge from the business perspective, but it would not entail shifts of a magnitude dramatic enough to translate into the need to incur significant investments, contrary to what would be the case in other industries.

Forecasts regarding the rate of growth in sectors most frequently served by the PKP CARGO Group and, consequently, prospects for the Group's revenues from the services provided to each of them are presented in detail in the "Management Board report on the activity of PKP CARGO S.A. and the PKP CARGO Group for 2022" (pp. 14-26).

¹ Activity 6.2 Freight rail transport is considered to be Taxonomy-aligned if it complies with one of the following criteria: (a) the trains and wagons have zero direct tailpipe CO₂ emission; (b) the trains and wagons have zero direct tailpipe CO₂ emission when operated on a track with necessary infrastructure, and use a conventional engine where such infrastructure is not available (bimode). At the same time, however, the trains and wagons are not dedicated to the transport of fossil fuels, which in turn excludes a major portion of the PKP CARGO Group's business.

² Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

PKP CARGO Group's Strategy for 2019–2023

GRI: 2-22

The PKP CARGO Group Strategy has been developed for the period 2019–2023. Due to the major changes in the social, market and especially geopolitical environment that occurred in 2020–2022, an urgent need appeared to update the adopted Strategy. As a result, 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 previously adopted 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 manner making us the operator of first choice for customers.

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, as 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, as measured by freight turnover.



More emphasis was placed on the Group’s organic growth in the way it would pursue its strategic objectives. As part of this growth, the ambitious goal of recovering domestic market share by 2027 was adopted. The Company does not rule out acquisitions to increase its market share, but that will depend on geopolitical and economic developments.

Strategic growth pillars and change drivers

There are three growth pillars set up in order to achieve the goals:

 <p>SALES</p> <ul style="list-style-type: none"> » Intensive commercial activities » Logistics package development » High efficiency in sales and customer care process 	 <p>PROCESSES</p> <ul style="list-style-type: none"> » Constant improvement of freight transport and maintenance processes » Digitalisation 	 <p>STRUCTURE</p> <ul style="list-style-type: none"> » Optimizing and adaptation of company’s structure and resources to market environments and economic challenges
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The PKP CARGO Group carries out activities aimed at developing a broad range of logistics services, including products related to:

- » transport of freight,
- » terminal services,
- » distribution and storage,
- » support services.

The widespread digitalization offers the opportunity to provide comprehensive services and be more effective at acquiring customers. An important element of this model of operation is the ability to use the company’s own transshipment terminals, some of which are being upgraded, while new ones are being built. Also, freight-related processes are being improved in terms of planned changes in the organization and the IT area. A regular modernization and profiling of rolling stock, including multi-system locomotives, for the provision of specific services will be an important factor ensuring the efficiency of transport.

Strategic initiatives of the highest priority

The revised Strategy brought up the following key importance initiatives:

<p>Organic growth on the domestic market</p> 	 <p>Rolling stock availability</p>
<p>Logistics and rail freight transport efficiency</p> 	 <p>Human resources management</p>
<p>Digitalisation and IT development</p> 	 <p>Asset management – optimizing costs’ structure</p>

The above strategic initiatives represent a continuation and further development of activities already underway. They are aimed at a significant internal strengthening of the PKP CARGO Group so that in the coming years it may successfully regain its share in the domestic market and lead the way in the development of effective logistics in the Three Seas Initiative area by offering low-emission logistics services.

The growth directions referred to in the business development strategy are aligned with sustainability principles. As a result, it would be difficult to separate the business strategy from the sustainability strategy, because, in the case of the PKP CARGO Group, these approaches are mutually complementary.

In the sustainability context, the Group takes into account the following considerations in particular:

- » supporting social and economic development and integrating the region
- » offering sustainable transport services

The first of these objectives is a manifestation of a citizenship-focused mindset, that is the feeling of belonging in one's own community and society. As a Polish company, PKP CARGO S.A. and its subsidiaries intend to support the Polish economy and its goals. In parallel, contributing to the integration of the region under the umbrella of the Three Seas Initiative and the New Silk Road directly translates into new business development prospects which the PKP CARGO Group has been making efforts to tap into for several years. This is, for instance, why the Group puts great emphasis on investments in the development of intermodal transport services, thereby bringing the economies of this part of Europe closer together and opening them to business relations with the Far East. Such relations provide the PKP CARGO Group with an opportunity to diversify its revenue portfolio. They have the potential to significantly reduce the share of those of the currently prevailing cargo categories, including the transport of fossil fuels (e.g. thermal coal), that look ever less promising.

At the same time, the PKP CARGO Group has a lot to offer when it comes to sustainable transport services, namely low-emission and emission-free domestic and international transport of freight. As of today, owing to the logistics services provided by the Group, approximately 2.9 billion tons of CO₂ annually will be prevented from getting

released into the atmosphere. The advantage stemming from the capability of offering logistics services with a low carbon footprint opens up a window of opportunity for completely new business options.

In order to attain the said growth objectives, the PKP CARGO Group must ensure the availability of all kinds of resources, including human and financial capital.

The Group should be both:

- » a responsible employer,
- » a stable, trustworthy and transparent market participant.

Without a team that has the ability to develop the necessary business competences and feels secure within the Group in terms of employee compensation, stability and safety (OSH), the organization will be unable to undergo the necessary transformation. Nor will it be possible to turn the PKP CARGO Group into a modern logistics operator acting as a leader on the Three Seas Initiative and New Silk Road markets. Nor will it be feasible to offer customers low-emission or emission-free and environmentally safe transport of freight in all other respects. From the vantage point of a long-term growth strategy, people and their competences are the most important factors. Without them, neither new rolling stock, nor transshipment terminals, nor access to financing will be relevant. In turn, the possibility of upgrading assets, including the modernization and optimization of the rolling stock, and the establishment of a comprehensive network of transshipment terminals capable of effectively handling freight flows, require trust from market participants – namely from financial markets, which will ensure the provision of project financing, and from counterparties and business partners. Just as, from today's perspective, the PKP CARGO Group's unique asset exists in the form of long-term relationships with key seaports in the region and operators in neighboring countries, so will the Group's future position depend on its credibility in the eyes of new business partners. The capital of trust, built with both financial partners and the broadly construed market, serves as a prerequisite for future success. Accordingly, it is necessary to invest the organization's attention in ensuring mechanisms and procedural solutions that will guarantee the transparency and top standards of governance.

The two objectives described above, that is acting as a responsible employer and a stable, trustworthy and transparent participant in the freight transport market, constitute the necessary conditions for the success of our ambitious business objectives.



Shareholder structure

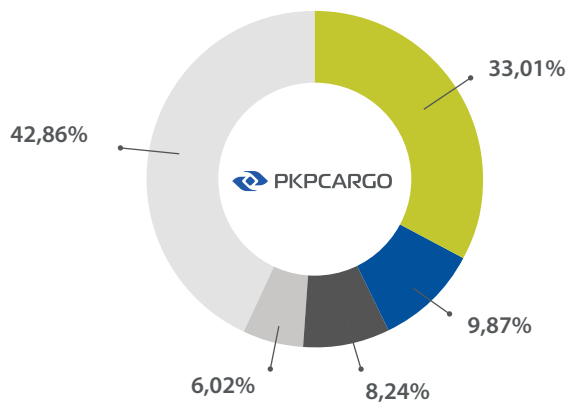
GRI: 2-1

PKP CARGO S.A. is a public company listed on the Warsaw Stock Exchange since October 2013. It will soon celebrate the 10th anniversary of its presence on the Warsaw Stock Exchange. It is the first and so far the only member of the PKP Group (Poland's leading rail operator group) that has decided to go public.

Its stock is included in the WIG40, WIG-ESG, mWIG40TR, WIGPoland, mWIG40, WIG and CEEplus indices.

- PKP S.A.
- Nationale-Nederlanden OFE
- PTE Allianz Polska
- Generali PTE
- Other shareholders

As at the date of publication of the Integrated Report, PKP CARGO S.A.'s shareholders are:



Structure of the PKP CARGO Group

GRI: 2-1, 2-2, 2-6

The PKP CARGO Group, operating with the ambition to provide its customers with comprehensive transport services, is comprised of a number of strictly specialized companies, each of which possesses certain narrowly defined business competences. These competences serve as strongly focused centers of competence, enabling the Group to manage its operations and business offering in an efficient and successful manner.

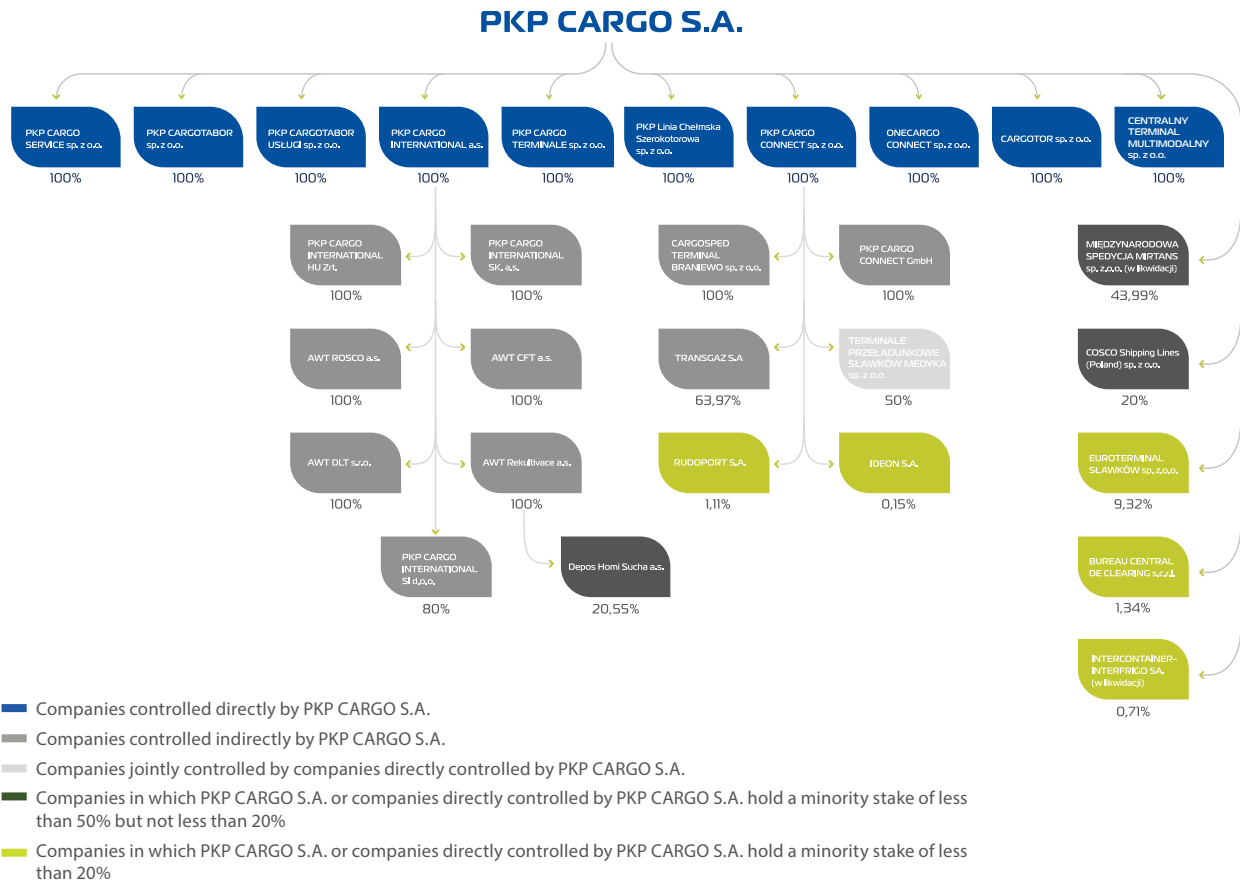
The Group owns a total of 20 subsidiaries and several parallel businesses that complement its core business model.

ORGANIZATION OF THE PKP CARGO GROUP

GRI: 2-1, 2-2, 2-6

The structure of the whole PKP CARGO Group includes 20 subsidiaries, 10 of which are directly controlled by PKP CARGO S.A., 10 are indirectly controlled and one is co-controlled by a company fully controlled by PKP CARGO S.A. Another three companies are those in which PKP CARGO S.A. or controlled companies hold a minority share of less than 50%, but not less than 20%. The last group consists of five companies in which PKP CARGO S.A. or directly controlled companies hold a minority share of less than 20%.

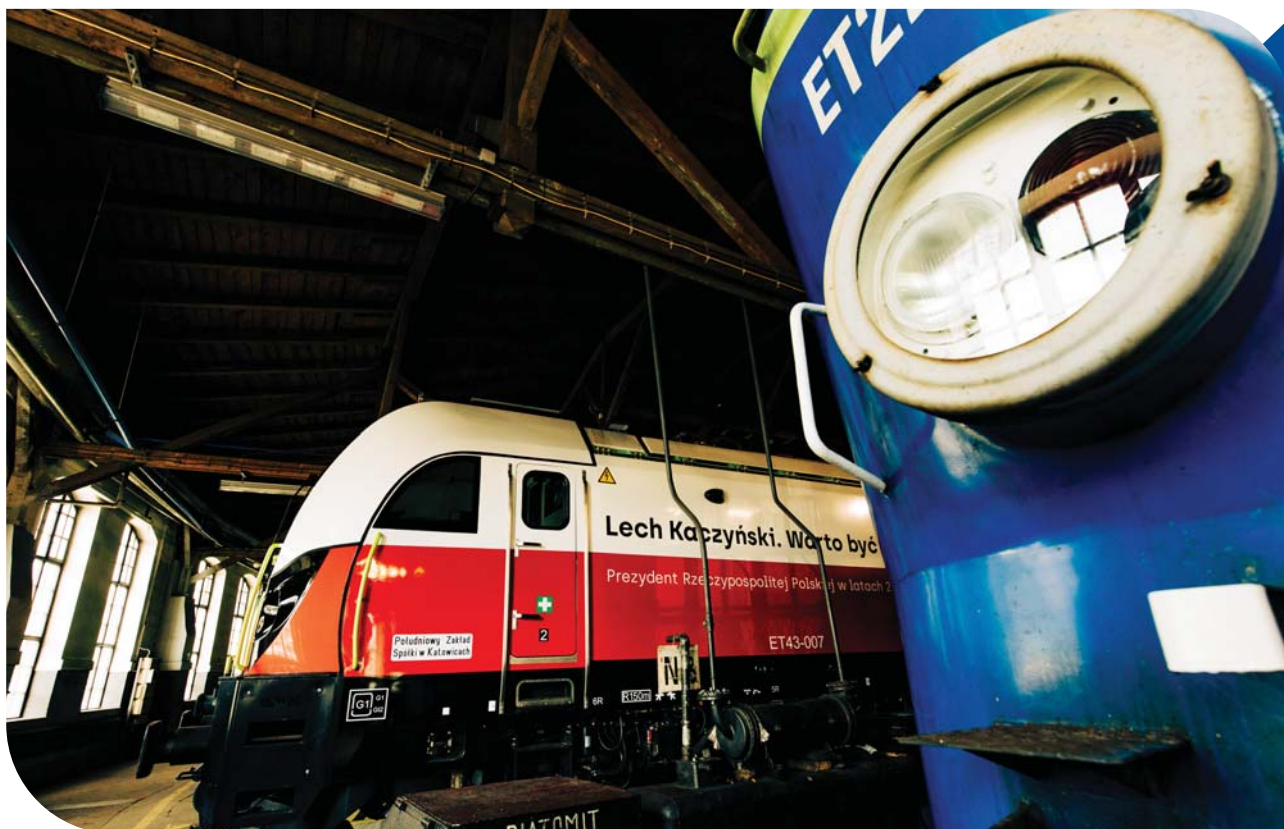
STRUCTURE OF CAPITAL LINKS WITH THE COMPANIES IN WHICH PKP CARGO S.A. OR ITS SUBSIDIARIES HOLD SHARES – AS AT 31 MARCH 2023.



This report, in addition to the data describing PKP CARGO S.A. as the parent company, covers entities included in the consolidated financial statements for 2022. Specifically, these are:

Company name	Core business
PKP CARGO SERVICE sp. z o.o.	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR sp. z o.o.	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.	Collection, treatment and disposal of waste and recovery of raw materials. Real estate lease.
PKP CARGO TERMINALE sp. z o.o.	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.	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.	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.	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 PKP CARGO Group.
PKP CARGO INTERNATIONAL a.s.	Comprehensive handling of rail freight transport (the Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile"). Rolling stock management in the PKP CARGO INTERNATIONAL Group.
AWT Rosco a.s.	Cleaning of rail and automobile cisterns.
AWT CFT a.s.	International freight forwarding services.
AWT Rekulivace a.s.	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.	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

ORGANIZATION OF PKP CARGO S.A.

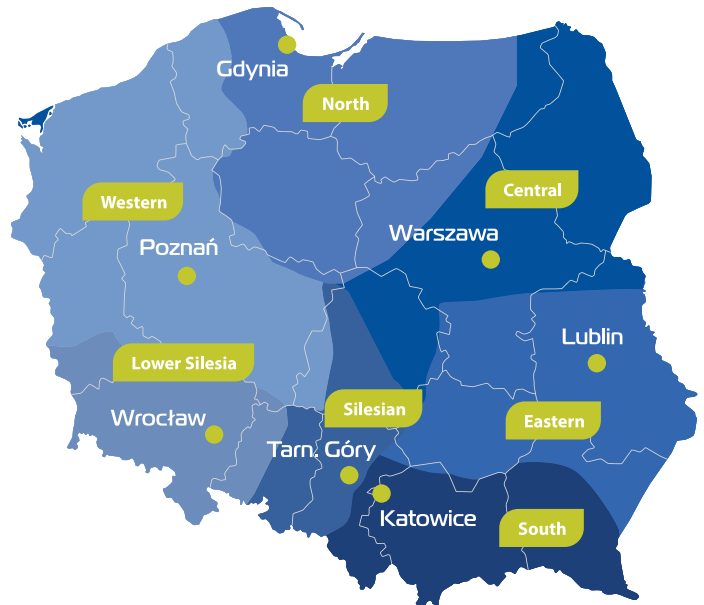
GRI: 2-6

PKP CARGO S.A. consists of seven units, each of which is geographically responsible for a distinct region of Poland. The units' primary duties include:

- » resource management in the respective area of operation,
- » organization and performance of cargo deliveries, transshipment and storage.

Furthermore, they carry out transport operations using means of other rail operators as well as provide traction handling services for operations conducted by the Company. In turn, the head office supports the activities of the Company's Management Board in the area of strategic and operational management.

The head office is responsible for commercial relations and supporting the performance of basic business processes. Distinct departments of the Company's head office operate as organizational cells reporting to the President of the Management Board or individual Management Board members.



Organizational structure of PKP CARGO S.A.

In 2022, the following organizational units, in addition to the head office, comprised the PKP CARGO S.A. enterprise structure:

- » Central Unit of the Company,
- » Dolnośląski (Lower Silesian) Unit,
- » Południowy (Southern) Unit,
- » Północny (Northern) Unit,
- » Śląski (Silesian) Unit,
- » Wschodni (Eastern) Unit,
- » Zachodni (Western) Unit.



GOVERNING BODIES OF PKP CARGO S.A.

GRI: 2-9

The governing bodies of PKP CARGO S.A. are the Shareholder Meeting, the Management Board and the Supervisory Board. The organization's management system is defined by the following corporate documents: Articles of Association, Management Board Bylaws, Supervisory Board Bylaws, Shareholder Meeting Bylaws and Organizational Bylaws.

Shareholder Meeting

GRI: 2-9

The Company's Shareholder Meeting operates pursuant to the provisions of the Commercial Company Code, the Company's Articles of Association and the Shareholder Meeting Bylaws. 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.

Management Board

GRI: 2-9, 2-11

The Management Board is in charge of 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. As at the end of 2022, the Management Board was composed of:

- » Dariusz Seliga, President of the Management Board
- » Marek Olkiewicz, Management Board Member in charge of Operations
- » Zenon Kozendra, Management Board Member – Employee Representative
- » Maciej Jankiewicz, Management Board Member in charge of Finance
- » Jacek Rutkowski, Management Board Member in charge of Commerce

Supervisory Board

GRI: 2-9, 2-10

The Supervisory Board conducts constant supervision over the Company's operations. 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, granting consent for the establishment or liquidation of the Company's branch, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting. The Supervisory Board consists of 11 to 13 members appointed for a joint term of office by the Shareholder Meeting. The number of Supervisory Board members in a specific term of office is set by PKP S.A. PKP S.A. is 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 is rounded down to the nearest integer) plus one. Also the employees of PKP CARGO S.A. are entitled to appoint and dismiss three employee representatives to the Supervisory Board³.

As at the end of 2022, the Supervisory Board was composed of:

- » Władysław Szczepkowski, Supervisory Board Chairman, Supervisory Board Member
- » Andrzej Leszczyński, Supervisory Board Vice-Chairman, Supervisory Board Member
- » Grzegorz Dostatni, Supervisory Board Member
- » Henryk Grymel, Supervisory Board Member
- » Tomasz Pietrek, Supervisory Board Member
- » Paweł Sosnowski, Supervisory Board Member
- » Jarosław Ślepaczuk, Supervisory Board Member
- » Jarosław Stawiarski, Supervisory Board Member
- » Izabela Wojtyczka, Supervisory Board Member (independent)
- » Michał Wnorowski, Supervisory Board Member (independent)
- » Marek Ryszka, Supervisory Board Member

Independent members of the PKP CARGO S.A. Supervisory Board fulfill the criteria of independence set out by the European Commission⁴.

³ 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.

⁴ The criteria set out 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 (OJ L. 05.52.51) and additional requirements specified in the "Best Practice of WSE Listed Companies 2021" constituting an attachment to Resolution No. 13/1834/2021 of the WSE

The following three committees operate within the Supervisory Board: the Audit Committee, the Nomination Committee and the Strategy Committee.

Audit Committee

The Audit Committee consists of at least three members of the Supervisory Board with the proviso that a majority of the members of the Audit Committee, including its Chairman, must fulfill the independence criteria. At least one member must be qualified in accounting or auditing. At least one member must have expertise and skills in the industry in which the Company operates. The Audit Committee members are appointed for a term corresponding to the Supervisory Board's term of office.

Responsibilities of the Audit Committee:

- » overseeing the organizational unit dealing with internal audit,
- » monitoring the financial reporting process,
- » monitoring the effective operation of internal control systems, risk management systems and internal audit,
- » monitoring the performance of financial audit activities,
- » controlling and monitoring the independence of the statutory auditor and the audit firm,
- » selection of an audit firm to carry out an audit of the unconsolidated financial statements of PKP CARGO S.A.,
- » selection of an audit firm to carry out the audit of the consolidated financial statements of PKP CARGO Group.

Nomination Committee

The Nomination Committee consists of three Supervisory Board members, of whom at least one member must satisfy the independence criteria and be appointed in the manner provided for in the Company's Articles of Association, serving as the Chairperson. Members of the Nomination Committee are appointed for a term corresponding to the Supervisory Board's term of office.

Responsibilities of the Nomination Committee:

- » organization and ongoing supervision of the recruitment procedure for the positions of Management Board Members and the process of evaluation and appointment of Management Board Members,
- » assisting in the achievement of the Company's strategic objectives by providing the Supervisory Board with opinions and proposals on the employment structure and remuneration of the Company's employees, including in particular members of the Company's Management Board and senior executives.

Strategy Committee

The Strategy Committee consists of at least three Supervisory Board members, of whom at least one member must satisfy the independence criteria and be appointed in the manner provided for in the Company's Articles of Association. The Strategy Committee members are appointed for a term corresponding to the Supervisory Board's term of office.

Responsibilities of the Strategy Committee:

- » defining the strategy,
- » implementing the strategy and the annual and multi-year business plans of the Company and its Group.



MANAGEMENT APPROACH TO ESG

GRI: 2-12, 2-13, 2-14

The Company's Management Board designates, approves and oversees activities related to its broadly construed activities, and thus is also responsible for the organization's impact on the economy, environment and society. Although formally it is the Management Board that makes decisions generating social or environmental consequences, at the operational level the responsibility for substantive management of specific business areas rests with the pertinent substantive units.

At the same time, in order to ensure continuous ongoing support from the Management Board, the initiator and owner of projects in the social area is the Management Board Member – Employee Representative.

ESG disclosure policy

GRI: 2-14

In 2022, the PKP CARGO Group implemented the sustainability reporting process based on Global Reporting Initiative standards in all areas and reviewed its policies paying special attention to this aspect. In 2023, the Group became involved in the development and pursuit of its ESG strategy.

GRI: 2-29, 3-1, 3-2

Based on the outcomes of a survey conducted among stakeholders, a materiality matrix was developed and the most important aspects of the Group's business were addressed.

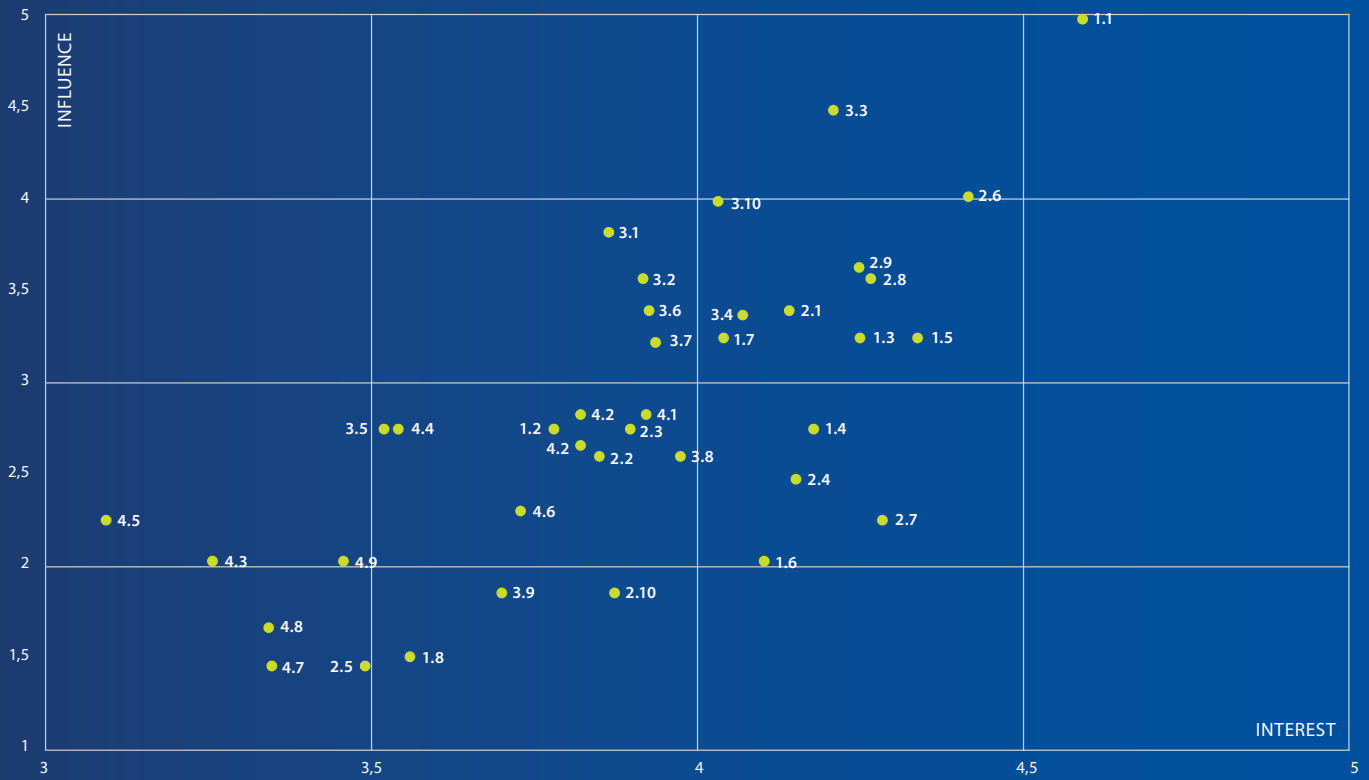
At the turn of 2023, a survey of the relevance of topics was conducted among the Company's stakeholders. Based on the outcomes of the survey, a materiality matrix was developed and the most important aspects of the Group's business were addressed. These endeavors permitted an extension of public reporting by the creation of a comprehensive reporting framework on non-financial data in the form of a sustainability report instead of a statement on non-financial data. Moreover, in order to present to investors and other stakeholders the robustness of the interconnections between, on the one hand, the Group's business strategy and operations and, on the other hand, its sustainability strategy and activities, the Group made the decision to publish this sustainability report. All ESG (non-financial) reports included in the public reporting framework of both the Company and the Group are subject to formal approval by the Management Board and its individual members.



Based on the outcomes of a survey conducted among stakeholders, a materiality matrix was developed and the most important aspects of the Group's business were addressed.



MATERIALITY MATRIX

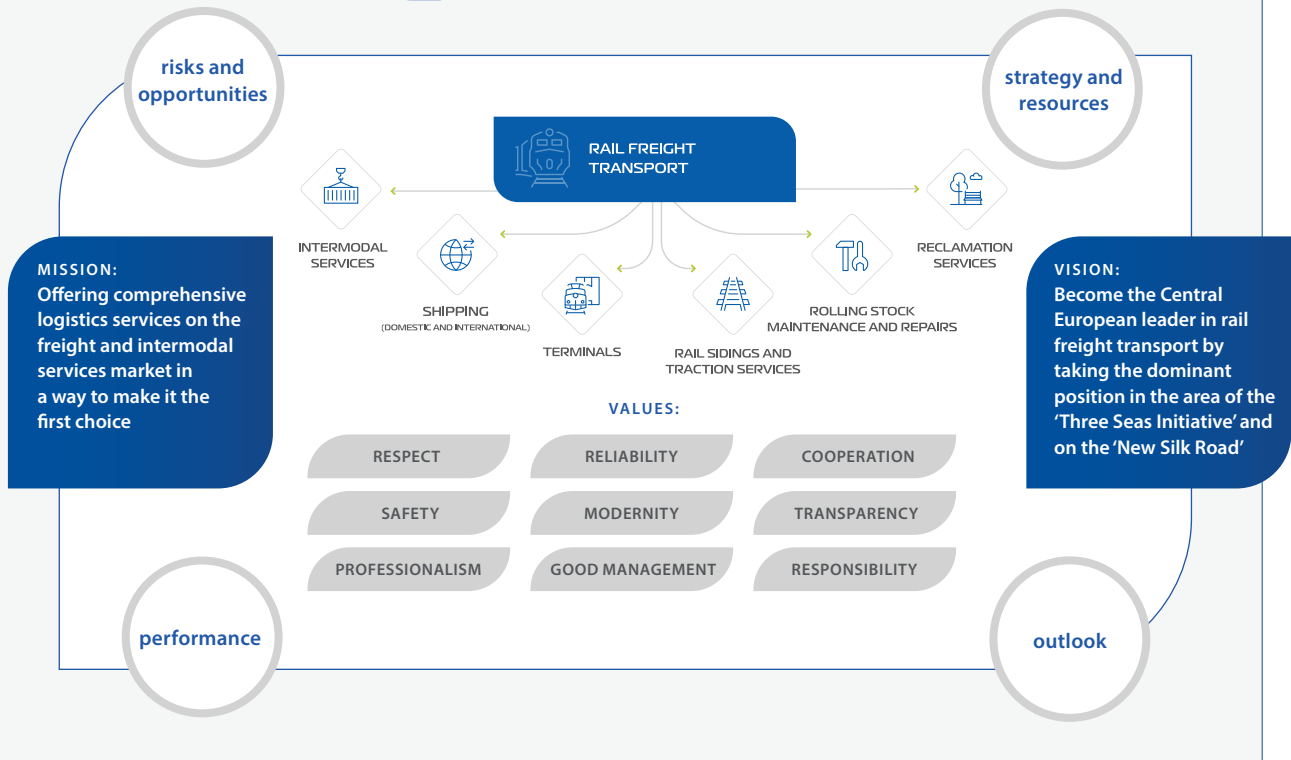


- | | | |
|--|---|---|
| <ul style="list-style-type: none"> 1.1 Financial performance 1.2 Tax management, taxes paid 1.3 Maintaining confidentiality in customer relations; activities preventing data loss 1.4 Prevention of anti-competitive behaviour 1.5 Prevention of corruption (training, identification and resolution of possible incidents) 1.6 Compliance with laws and regulations (including those regarding supply and use of products and services) 1.7 Ethical marketing and marketing communication 1.8 Purchases from local suppliers 2.1 Employment management: number of new employees, salaries, employee rotation, benefits 2.2 Minimum notice periods regarding operational changes 2.3 Employee retirement plans 2.4 Standard entry level wage compared to local minimum wage 2.5 Employees hired from the local community 2.6 Occupational health and safety | <ul style="list-style-type: none"> 2.7 Employee education and training, career development support 2.8 Diversity, equal opportunities and access to senior positions, equal pay for men and women 2.9 Prevention of discrimination 2.10 Prevention of violations of workers' rights of freedom of association and collective bargaining 3.1 Resources and materials used by company 3.2 Minimization of the amount of produced waste, recycling 3.3 Energy consumption and methods of reduction of Energy consumption 3.4 Water consumption and methods of reduction of water consumption 3.5 Company's impact on biodiversity 3.6 Greenhouse gas emissions and methods of reduction of emissions 3.7 The company's impact on climate and measures to prevent climate change 3.8 Compliance with environmental regulations, prevention of violations of the law 3.9 Assessment of the environmental impacts of company's suppliers | <ul style="list-style-type: none"> 3.10 Prioritizing investments in sustainable and energy saving cargo transport services 4.1 Human rights assessment of company's operations, employee training on human rights policies 4.2 Indirect economic impact, infrastructure investments, local market development 4.3 Operation with local community engagement, impact on local communities 4.4 Assessment of the social impacts of company's suppliers 4.5 Sponsoring 4.6 Health and safety impacts of products and services on customers 4.7 Human rights training of security personnel 4.8 Employees initiatives and volunteering 4.9 Charity work |
|--|---|---|

Value creation model in the PKP CARGO Group

CAPITALS:

financial	production-related	intellectual	human	relational (social)	natural
All financial resources, funds, loans, advances and other sources of funding as well as equity and foreign capital	Tangible resources held, including fixed assets: locomotives, wagons, infrastructural facilities, all types of machinery, e.g. for upgrades and repairs of rolling stock	The Group's resources based on expertise, experience, patents, innovative solutions, rights and licenses, certificates and others.	Construed as human resources, namely employees and their competences and skills.	Trust and relations established with contractors, stakeholders and local communities	All natural resources utilized and affected by the PKP CARGO Group in the conduct of its business. As part of this capital, the Group identifies processes and expenditures on environmental protection, types of waste generated in the process of performing operational activities and other



CAPITALS:



financial



production-related



intellectual



human



relational (social)



natural

NATURE OF THE IMPACT OF THE PKP CARGO GROUP'S BUSINESS

Profits for investors (shareholders, lenders, etc.), raising funds for investments in asset renewal and continued growth of the PKP CARGO Group.	Consistently renewed and upgraded infrastructure: rolling stock (locomotives, wagons), infrastructural facilities, other real estate, all types of machinery, e.g. for upgrades and repairs of rolling stock.	The competences acquired and developed over the years within the organization, enabling it to expand its operations and optimize its existing business. Patents and licenses held by the PKP CARGO Group	Specialized personnel with appropriate and scarce skills (e.g. train engineers).	Relationships built over the years with key enterprises in industries requiring the transport of large volumes of freight (mining, energy, metallurgical, steelworks) and an effective dialogue with society and the environment. Strategic partnerships and alliances with suppliers and other market players	Use of all kinds of commodities, materials, fuels and external energy sources and the associated environmental footprint, including the carbon footprint, of the organization's business. Respect for the natural environment and minimization of environmental impact. Reclamation activity
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PERFORMANCE IN 2022

EBITDA: PLN 1,066.3 million	Property, plant and equipment and intangible assets: PLN 6,071.6 million	Average number of training hours per employee: 8.95	Number of employees: 20,086	Number of meetings with investors: 22	Total energy consumption: 3 163 288 GJ
Total assets: PLN 7,660.2 million	Number of locomotives: 1547	Investments: PLN 776.2 million		Number of days lost due to strikes: 0	Estimated carbon footprint from freight transport: 0.01849 kg eCO₂/tkm
Equity: PLN 3,232.9 million	Freight turnover: 27 billion tkm			Number of disputes with local communities: 0	Estimated avoided emissions compared to road transport: 2.9 million tons of eCO₂
					Reclaimed area: 3 330 m²

RISKS

Financial risks (liquidity risk, market risk, foreign exchange risk, interest rate risk, credit risk)	Adverse impact on the equipment and machinery industry Risk associated with road transport, which constitutes increasing competition for the PKP CARGO Group Risks associated with the rail freight sector Risk associated with rail infrastructure	Risk related to the loss of experienced managerial staff or key personnel	Risk of disproportionate increases in salary costs Risk associated with a shortage of trained personnel Risk related to the inability to recruit appropriate staff	Risks resulting from the macroeconomic situation in specific industries (e.g. mining, energy, metallurgy), Risk of negative PR	Risk of environmental failure
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Sustainable transition and risks

GRI: 3-3

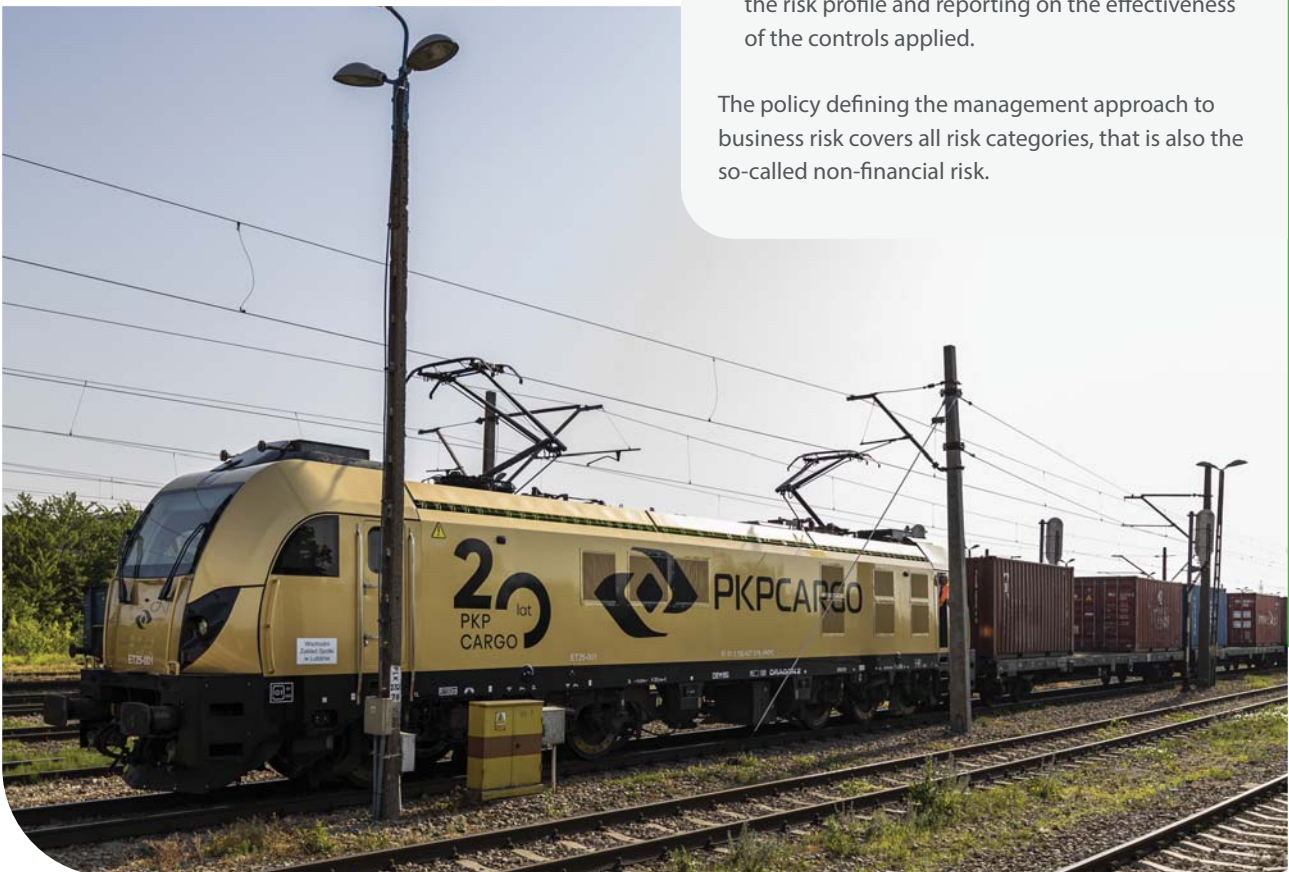
Risk management in PKP CARGO S.A. is based on the provisions of the "Risk Management Policy in PKP CARGO S.A." adopted in April 2022.

One of the fundamental elements of risk management is estimating the probability of occurrence of various events and their potential consequences for the organization. A well-conducted analysis enables better preparation for any unforeseen or unplanned events that may exert a significant impact – either favorable or unfavorable – on the business. Risk estimation is a comprehensive process of analysis and assessment the purpose of which is to determine and estimate the probability and consequences of the occurrence of the respective event. It enables a reduction of the impact of risk on the functioning of the organization and the taking of appropriate steps to prevent and minimize the risk.

Risk estimation at PKP CARGO S.A. takes into consideration the following elements:

- » **environment in which the organization operates** – basic principles, organizational structure, roles and responsibilities in the risk management process,
- » **risk identification** – identification of the primary risk,
- » **risk assessment** – analysis and assessment of risk and effectiveness of existing controls,
- » **development and implementation of risk management plans** – defining appropriate action plans in consideration of a specific response to and strategy for managing the respective risk and taking action in accordance with the approved risk action plan,
- » **monitoring and reporting** – an element of the risk management process related to monitoring the risk profile and reporting on the effectiveness of the controls applied.

The policy defining the management approach to business risk covers all risk categories, that is also the so-called non-financial risk.





2

**Supporting social
and environmental growth
in line with region
integration**



Strategic perspective

GRI: 3-3, 203-1, 203-2

PKP CARGO Group has been an important link in the freight transport, both in Poland and Europe. The free movement of goods is, apart from the free movement of capital, people and services, one of the foundations on which the European Union was built. In fact, enterprises such as PKP CARGO Group make the common market work.

Being the largest Polish logistics operator gives PKP CARGO Group an experience and contributes to building the New Silk Road and helps in integrating the countries encompassed by the Three Seas Initiative. PKP CARGO Group connects the Far East with Poland, and looking even further, also with Western Europe and through the North-South Corridor, it integrates the countries of the Baltic, Adriatic and Black Sea basins, reaching Scandinavia as well. Providing a direct route between North and South, linking Nordic countries with Balkan countries translates into more importance of economies and societies of Central and Eastern Europe. On the one hand PKP CARGO Group

enforces and implements the region policy through its business activity, but on the other hand it benefits from this policy as well. PKP CARGO Group operations enable the trade between Europe and China to go faster and more efficient.

The investments in intermodal transport rolling stock include as well facilities for reloading, customs services and monitoring. They contribute to efficient flow of goods from China to Poland and other European Union countries. Investments implemented by PKP CARGO Group are an important step in building the stability and continuity of supply chains.

PKP CARGO Group perceives intermodal services growth direction as most important in the long term strategy. Therefore it is at the heart of its business strategy and mission. PKP CARGO Group plans to derive most of its revenues and profits from this market segment in the future what will also impact the achievement of social and economic goals of the company.

Threats and challenges

GRI: 3-3, 203-1, 203-2

PKP CARGO Group's business activities expansion is in line with a broader concept of integrating the countries of Central and Eastern Europe and construction and development of the Three Seas Initiative. PKP CARGO Group's operations mean involvement in projects related to the concept of the New Silk Road, which in the long run offers an opportunity for unprecedented growth. An opportunity that appears just when traditional markets and services related to the transport of fossil fuels (e.g. coal or liquid fuels) enter the decline phase.

Possible increase in the importance of rail transport within the Three Seas Initiative, as well as the implementation of the idea of the New Silk Road, gives PKP CARGO Group an opportunity to diversify the offer for the transported goods, while developing intermodal transport services. This is an opportunity to gradually shift from the dominant transport of large volumes of bulk goods (i.e. hard coal, aggregates, metals and ores) into logistics services for a wide variety of customers importing and exporting goods via effective, fast and inexpensive intermodal rail transport.

PKP CARGO Group is aware of the potential threats arising from the risk of revision of economic and foreign policy in the long-term that. Also short-term risks concerning the ongoing revitalization of infrastructure are taken into account.

At the same time, recent years have brought completely new challenges. The global economy was taken by surprise by the COVID-19 pandemic at the beginning of 2020. Then, February 2022 brought an armed conflict in the immediate vicinity of Polish borders. As its consequences the economic sanctions were imposed, which had a strong impact on trade relations with Poland's eastern neighbours. First, the SARS-Cov-2 pandemic disrupted and broke supply chains, then Russia's unprecedented attack on Ukraine destroyed economic relations between the European Union and Russia and Belarus, which also hampered the flow of goods and services. While the pandemic has shown how important it is to maintain transport infrastructure and support the supply chains continuity between the Far East and Europe, Russia's imperialist policy has led to their partial physical freezing.

Possible increase in the importance of rail transport within the Three Seas Initiative, as well as the implementation of the idea of the New Silk Road, gives PKP CARGO Group an opportunity to diversify the offer for the transported goods, while developing intermodal transport services.



➤ Possible increase in the importance of rail transport within the Three Seas Initiative, as well as the implementation of the idea of the New Silk Road, gives PKP CARGO Group an opportunity to diversify the offer for the transported goods, while developing intermodal transport services.

ARMED CONFLICT IN UKRAINE

The armed conflict affects all countries from Central and Eastern Europe region to a greater or lesser extent. Conflict impacts the supply chain as well, and its extent depends on the type of goods. The supply chains of fuels such as coal, oil and gas have changed significantly due to the sanctions imposed on Russia and Belarus. The conflict also affects intermodal supply chains, as intermodal volume transports through marine ports of Gdynia, Gdańsk and on the New Silk Road have decreased. PKP CARGO S.A. started cooperation with Lithuanian and Ukrainian entities on routes between Ukraine – Lithuania and Lithuania – Ukraine.

Contracts with existing intermodal customers have not been terminated, none of the Company's foreign or intermodal customers is not subject to sanctions. However, the conflict may have an impact on the automotive sector and result in component shortages. Ukraine is one of the largest suppliers of electrical wires for car manufacturers, and their absence on the market may result in reduced transport of ready-to-sell cars.

Currently, in the short-term and medium-term perspective, PKP CARGO Group does not observe any particular risks for its operating activities. Due to the structure of freight transport and the scope of operations of PKP CARGO Group companies, it is rather expected that Russia's aggression against Ukraine will result in a relatively insignificant loss of the revenues from provided services. The Group shall strive to replace the lost stream of revenues by the expanding services in different areas. Potential further escalation of the conflict and following tightening of sanctions may negatively impact the revenues of PKP CARGO subsidiaries that operate terminals and provide forwarding services on the eastern border of Poland. However, at the moment there are no signals that would indicate such a threat.

PKP CARGO Group monitors the impact of the conflict in Ukraine and its possible consequences on transport and transport-related activities, taking appropriate corrective measures. The Group tries to take advantage of the opportunities stemming from changes in the routes of flow of goods, by adapting the offer to market requirements.



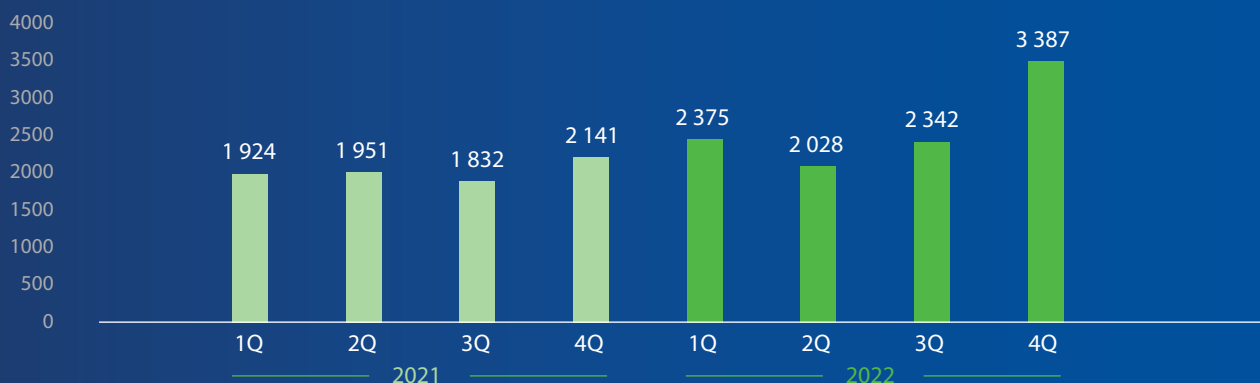
WAR IN UKRAINE: ENSURING ENERGY SECURITY IN THE FACE OF ARMED CONFLICT

Atak Rosji na Ukrainę spowodował bardzo duże zawirowania na rynku paliw, w tym rynku węgla. Russia's attack on Ukraine caused a lot of turbulence on the fuel market, including the hard coal market, which in recent years has also been imported from Russia. From April 2022, an embargo on coal imports from Russia and Belarus was introduced, which slowed down transports from these directions. At the same time, in the face of the need to ensure coal reserves, both for professional power generation and industry, as well as households, the government initiated measures to meet the demand with imports from other directions, mainly by sea. As a result, both the ports and the PKP CARGO Group faced a huge challenge related to handling the transport of huge amounts of raw material, and in directions often different from those through which it was most often transported so far. This is reflected in increased transport performance and average transport distance (longer routes).

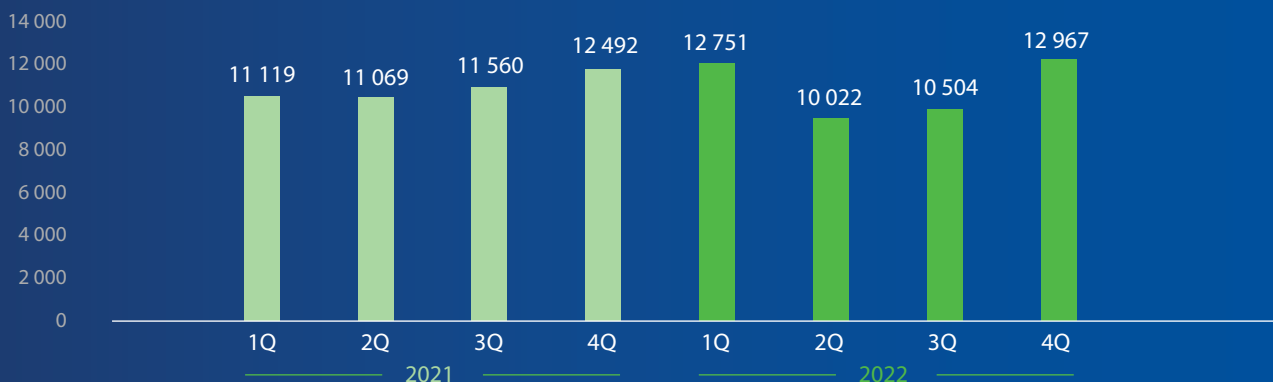
The increase in hard coal transport was observed in particular in the first and last quarter of 2022. It was caused by the need to supplement the mandatory reserves accumulated in the warehouses of individual power plants. At the same time, a decrease in coke transport in domestic and international communication could be observed due to lower demand from the metallurgical industry.

However, it is of key importance that thanks to the determination of many people and institutions, including employees of the PKP CARGO Group, Polish households did not run out of hard coal or electricity and heat produced on the basis of this fuel. What's more, the increase in the supply of raw material at local fuel sales points made it possible to stop the often speculative increase in prices, which hit households.

FREIGHT TRANSPORT: COAL - FREIGHT TURNOVER (M TKM)



FREIGHT TRANSPORT: COAL - FREIGHT VOLUME (THS TONS)



WAR IN UKRAINE: SITUATION ON THE INTERMODAL TRANSPORT MARKET

Poland’s position as a transit country for goods from the Far East has deteriorated as a result of the ongoing war and the sanctions imposed on Russia and Belarus. Although transport services are still provided, the decline of several tens of percent has hit the companies that specialize in this market hard, as they have had to look for alternatives, such as sea or air transport. The limitation (resulting from problems with insurance of transported cargo) may have potentially dangerous consequences for intermodal transport through our country, in the form of the emergence of rail routes as an alternative to the “New Silk Road”, bypassing Russia (but also Poland) in favor of transport via Southern Europe.

Irrespective of the geopolitical situation, the rail infrastructure - just like the road infrastructure – has undergone significant changes in the last few years. In both Poland and the Czech Republic, ongoing work on the track infrastructure is having a significant impact on throughput capacity, which, in the case of the cumulative effect of modernization work and the renovation of major corridors, is a major risk factor for rail transport, leading to longer transport times. This in turn entails an increase in the cost of transport and a reduction in the quality of services provided.

The new investments will naturally improve the throughput of the rail infrastructure and contribute to the implementation of the Three Seas Initiative and the New Silk Road in the dimension of rail freight transport. In the short term, however, they create difficulties, which in 2022 were compounded by increased coal and grain shipments to and from seaports as a direct result of the war in Ukraine and Russia’s policies.

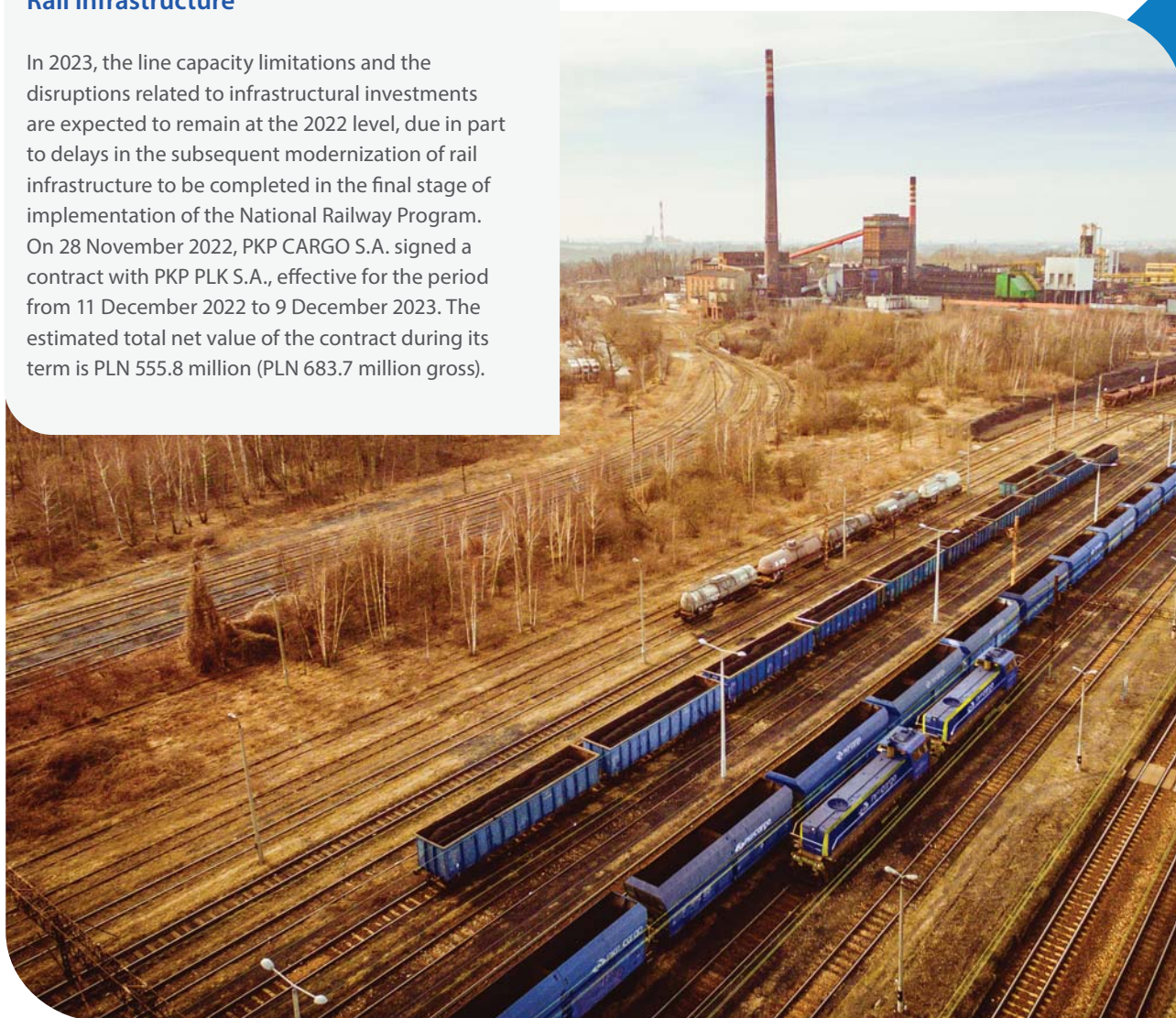
One of the main factors influencing the freight activities of the PKP CARGO Group was the investments made by the infrastructure manager in the area of the PKP Network in 2022 in connection with the modernization of the railway infrastructure under the National Railway Program. The greatest transport difficulties were caused by track closures related, among other things, to the ongoing modernization of port infrastructure in the loading zones of the ports in Gdańsk, Gdynia, Szczecin, Świnoujście, and on sections of the access lines. This prevented the efficient operation of important sidings. In addition to the port areas, the investments in the Upper Silesia region caused particular difficulties for transport due to the ongoing modernization of the Czechowice Dziedzice, Oświęcim, Trzebinia, Mysłowice, Jaworzno Szczakowa junctions, the ongoing reconstruction of the Warsaw, Krakow, Opole, Łódź

junctions, as well as in the Małaszewicze and Lublin areas. 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).

At the same time, congestion at the border crossings with Ukraine and terminals handling the remaining border crossings and the related complications prevented the parties involved from increasing the intensity of transport operations in this region. As a result of the long handling times, transport services were taken over by providers of road transport services. Consequently, intermodal market growth slowed down in 2022.

Rail infrastructure

In 2023, the line capacity limitations and the disruptions related to infrastructural investments are expected to remain at the 2022 level, due in part to delays in the subsequent modernization of rail infrastructure to be completed in the final stage of implementation of the National Railway Program. On 28 November 2022, PKP CARGO S.A. signed a contract with PKP PLK S.A., effective for the period from 11 December 2022 to 9 December 2023. The estimated total net value of the contract during its term is PLN 555.8 million (PLN 683.7 million gross).





Area management and actions taken

INVESTMENTS

GRI: 3-3, 203-1, 203-2



The activities of the PKP CARGO Group are aimed at developing a wide range of logistics services, including freight, terminal services, distribution and warehousing, as well as other support services. This includes universal digitalization which offers more opportunities to serve and reach customers.

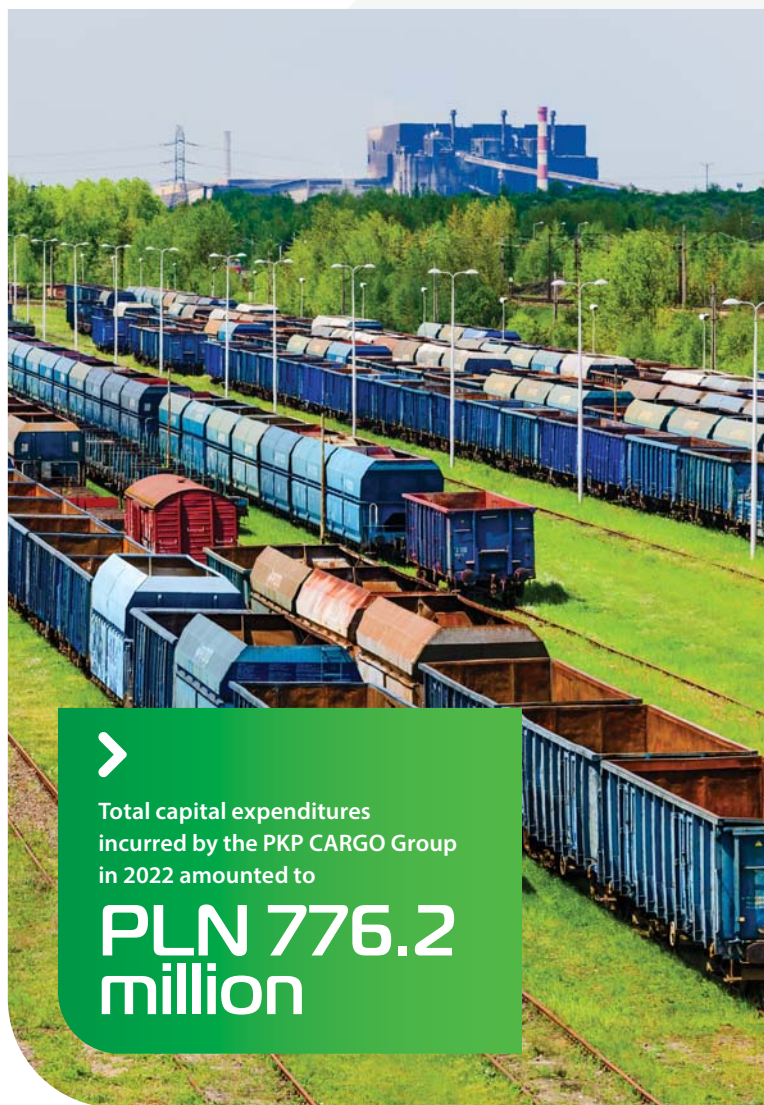
Critical elements of this operating model are the ability to utilize its own transshipment terminals and to have adequate rolling stock, including multi-system locomotives. In order to meet these challenges, it is necessary to allocate funds for investments, especially in the above-mentioned property, plant and equipment. This includes both the acquisition of new assets as well as the modernization and maintenance of existing assets, i.e:

- » the rolling stock necessary to carry out the transportation – wagons and locomotives,
- » the necessary logistical infrastructure – expenditures for the modernization and furnishing of container terminals or the modernization and construction of storage yards, and for computerization.

In 2022 alone, the capital expenditures incurred for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the so-called Overhaul Component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections) were PLN 708.9 million, and right-of-use assets of PLN 67.3 million were recognized. Total capital expenditures incurred by the PKP CARGO Group in 2022 amounted to PLN 776.2 million. Most of them were used in 2022 to carry out the tasks associated with:

- » **the rolling stock** (mainly repairs and periodic inspections of the rolling stock)
- » purchase and modernization of **locomotives and wagons**.

A total of PLN 636.3 million was designated for these purposes (i.e. 82.0% of total capital expenditures).



➤ Total capital expenditures incurred by the PKP CARGO Group in 2022 amounted to **PLN 776.2 million**

The PKP CARGO Group also incurred expenditures on computerization, i.e. the purchase of computer hardware in the form of computers and ICT equipment and software in the amount of PLN 5.1 million, PLN 44.4 million on investment construction, 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.

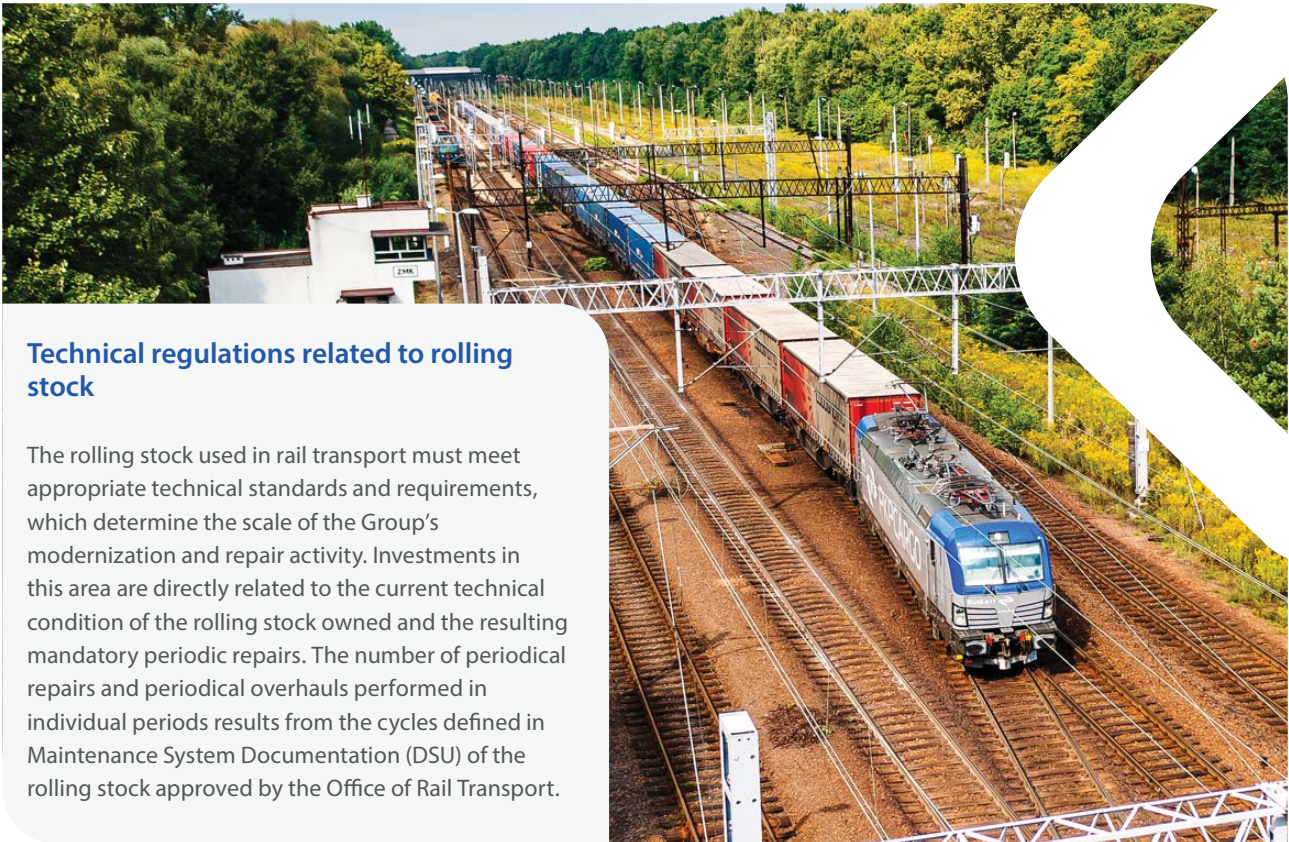
CAPITAL EXPENDITURES IN THE PKP CARGO GROUP IN 2018 – 2022 (PLN MILLION)

	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 16.7million for 2022 and PLN 101.0 million for 2021.

Source: Proprietary material.





Technical regulations related to rolling stock

The rolling stock used in rail transport must meet appropriate technical standards and requirements, which determine the scale of the Group's modernization and repair activity. Investments in this area are directly related to 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.

It is worth noting that, in 2022, PKP CARGO S.A. received co-financing from the EU in the amount of PLN 45.6 million to purchase 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. Securing new financing lines in the form of bank loans and lease facilities is also important. It is worth noting the Master Lease Agreement signed on 10 October 2022 between Pekao Leasing Sp. z o.o. and PKP CARGO S.A. with an availability limit of PLN 93 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 available until 31 December 2023. According to the Agreement, the leasing limit can 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. PKP CARGO S.A. also concluded an agreement with the EU Transport Projects Centre to co-finance the project entitled "Modernization of freight wagons by replacing brake blocks with ones complying with the Noise TSI" as part of Measure 5.2. Development of rail transport outside of TEN-T Priority Axis V Development of rail transport in Poland Operational Program Infrastructure and Environment for 2014-2020. The co-financing of the project will amount to 50% of the eligible costs up to a maximum of PLN 82.5 million. At the same time, no bank

loan or private loan agreement with PKP CARGO S.A. was terminated in 2022. This is the capital of confidence of the financial markets in the company, its strategy and effective management, which bears fruit in the form of additional co-financed projects. In turn, access to financing enables investment in assets that are needed for growth.

CAPITALS:

Additionally, PKP CARGO Group's investments in 2022 included: purchases of office equipment and vehicles for PLN 3.0 million, right-of-use assets for PLN 67.3 million, real estate area for PLN 54.2 million, rolling stock for PLN 0.3 million, and in other areas for PLN 12.8 million, mainly for vehicle leasing and purchase of equipment for container terminals and technical support facilities, ICT equipment financed by leasing.

The best evidence of the level of commitment to achieving the planned goal is the fact that in the last 5 years the company has secured and used PLN 4.68 billion for investments, including PLN 2.37 billion for the purchase, modernization, repair and inspection of wagons and PLN 1.43 billion for locomotives.



DEVELOPMENT AND MANAGEMENT OF A COMPREHENSIVE NETWORK OF LOGISTICS TERMINALS

GRI: 3-3, 203-1, 203-2

CAPITALS:

At the end of 2022, the PKP CARGO Group used 25 transshipment terminals and owned and operated 7 intermodal terminals or dual-function intermodal/traditional terminals. In addition to terminals located on the border with Russia (Kaliningrad region) and Belarus, cargo was transported to terminals located in the center of the country – in Warsaw, Poznan and Gliwice – and one in

the Czech Republic. We should also mention the terminal in Sławków, which is located at the meeting point of the westernmost section of the wide gauge railway (1520 mm) and the standard gauge rail lines (1435 mm), which is an important element in the development of container transport on the route from Far East and Asia to Western Europe.

In addition to the 7 terminals mentioned above, the PKP CARGO Group also used several conventional terminals located on the Eastern border of Poland (e.g. in Medyka on the border with Ukraine).

A multimodal terminal, which is currently under construction in Zduńska Wola-Karsznice, will soon become the key element of the terminal network.

AREA AND TRANSSHIPMENT CAPACITY OF INTERMODAL TERMINALS AND DUAL FUNCTION INTERMODAL/CONVENTIONAL TERMINALS

Area (ha)

Annual transshipment capacity (ths TEU)

Total:

73,1 ha

1281 tys. TEU





Construction of a multimodal terminal in Zduńska Wola-Karsznice

CAPITALS: >

The construction of the Karsznice Container Terminal, scheduled for completion in October 2023, is the largest investment project of PKP CARGO TERMINALE sp. z o.o., a member of the PKP CARGO Group. The capital expenditures incurred in 2022 were PLN 22.6 million.

The terminal is located nearly in the geographic center of Poland, at the junction of all important transport routes, including the junction of A1 and A2 motorways and near the future Central Communication Port.

The most important factor, however, is that it fits in well with the Baltic-Adriatic Corridor, which spans six Member States and connects Baltic ports in Gdynia/Gdańsk and Szczecin/Świnoujście with Adriatic ports. Its commissioning will greatly improve the capacity to provide comprehensive logistics services to companies in a variety of industries.

In October 2022, PKP CARGO TERMINALE sp. z o.o. entered into a conditional agreement to co-finance the multimodal terminal construction project in the amount of PLN 51.7 million. The project will be carried out under the Regional Operational Program of the Łódź Voivodship for the years 2014-2020.

In addition to the construction of the Karsznice Container Terminal, various other terminal-related works were carried out. For example, as part of the PKP CARGO TERMINALE investment in 2022, the construction of a lighting line and modernization of the Raniewo Terminal was financed (capital expenditure of PLN 1.6 million), modernization of yard D of the Container Terminal (PLN 3.6 million), modernization of overhead cranes (PLN 1.45 million) and other investments totaling PLN 1.2 million.

The importance of expanding the logistic competencies of the PKP CARGO Group was underlined by the transformation of the Group's internal organization. Its purpose is to ensure that the Group has the best possible organizational structure for the management of its terminals. For example, last year the share capital of PKP CARGO TERMINALE sp. z o.o. with its registered office in Żurawica, was increased by PLN 18 million. Also, PKP CARGO S.A. acquired a 0.17% stake in Centralny Terminal Multimodalny Sp. z o.o. with its registered office in Warsaw. Under a Share Purchase Agreement of 11 March 2022, PKP S.A. sold to PKP CARGO S.A. all 50 shares held by it in Centralny Terminal Multimodalny sp. z o.o. with its registered office in Warsaw. On the other hand, on 30 March 2023, PKP CARGO S.A. and PKP CARGO TERMINALE sp. z o.o., entered into a loan agreement for up to PLN 20 million. The company 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., was formally liquidated.



The capital expenditures incurred in 2022 for the construction of the Karsznice Container Terminal amounted to

PLN 22.6 million



MANAGEMENT AND MAINTENANCE OF ROLLING STOCK

MAINTENANCE

GRI: 3-3, 203-1, 203-2



The PKP CARGO Group has its own repair shops, which carry out maintenance work to ensure that the rolling stock remains in good condition. They operate within the structures of the individual PKP CARGO S.A. Units and in subsidiaries. The 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. The PKP CARGO Group's technical support organization not only supports the Group itself, but also repairs rolling stock and sub-assemblies for third parties. As at 31 December 2022, the carrying amount of PKP CARGO Group's non-current assets was PLN 6,354.1 million, including PLN 4,208.3 million of the rolling stock alone.

In 2022, the cost of renovation and maintenance of non-current assets in the PKP CARGO Group amounted to PLN 103.0 million.

PROCUREMENT OF NEW ROLLING STOCK

GRI: 3-3, 203-1, 203-2



Rational management of production assets, aimed at their optimal use, means acquiring new assets, maintaining and modernizing existing ones, but also, for example, liquidating depreciated and worn out production assets so that rolling stock, a key component of these assets, can best serve the existing demand for logistics services.

The most modern part of PKP CARGO Group's rolling stock consists of:

- » 21 multi-system locomotives (vehicles powered by DC or AC voltage, which can cross European country borders without stopping to allow for a change of the power system and consequently save not only time but also electricity)
- » 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, of which 278 were purchased in 2022. A total of 21 electric 6-axle locomotives are planned for delivery in 2023. 5 multi-system locomotives for intermodal transport were also purchased in 2023.



The most modern part of PKP CARGO Group's rolling stock consists of:

21 multi-system locomotives and
10 modern six-axle electric locomotives





CAPITALS:  

Efficient utilization of rolling stock

All individual activities, from the purchase of modern locomotives and wagons to the liquidation of depreciated assets and the modernization of others to investments in computerization, facilitate the improvement of the

efficiency of operations. As a result, in 2022 the PKP CARGO Group not only managed to transport 100.6 million tons of cargo and achieve freight turnover of 27 billion ton-kilometers, but also achieved solid efficiency performance, which directly impacted financial results.

	2022	2021	2020	2019	2018
Average distance covered per locomotive (km per day)	212,2	209,8	216,8	222,3	250,1
Average gross train tonnage per operating locomotive (tons)	1 546,0	1 474,0	1 434,0	1 447,0	1 463,0
Average running time of train locomotives (hours per day)	14,0	14,5	14,2	14,6	15,8



Execution of a contract with Siemens Mobility

On 11 February 2022, an agreement was signed 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.

They were accepted in April 2023. The net value of the agreement was PLN 139,125,093.48. The multi-system locomotives were purchased under the project entitled "Multi-system locomotives and wagons for intermodal transport", co-financed by the European Union from the funds of Measure 3.2 Development of Maritime Transport, Inland Waterways and Multimodal Connections, Priority Axis III of the Operational Program Infrastructure and Environment 2014-2020.



EFFORTS TO OPTIMIZE THE ROLLING STOCK BASE AND LIQUIDATION OF WORK OUT ASSETS

GRI: 3-3, 203-1, 203-2



In 2022, the number of locomotives and wagons used by the PKP CARGO Group decreased, an effect that was also observed with other logistics operators, who adjusted the number of locomotives to the optimal level from a business point of view. PKP CARGO purchases new rolling stock and at the same time carries out the process of disposing of its oldest rolling stock. As a result, it strives not to involve financial capital in production capital to an excessive degree, i.e. to a degree that goes beyond economic rationality.

In 2022, the PKP CARGO Group liquidated rolling stock worth PLN 395.5 million.

MANAGEMENT OF OTHER REAL ESTATE

GRI: 3-3, 203-1, 203-2



The need to ensure adequate maintenance and repair capacity requires real estate management. Most properties are used by the Group on the basis of long-term lease and rental agreements. As a result of optimization efforts, the area of land and buildings used (owned and leased) has been gradually reduced. The level of assets necessary to provide top quality logistics services is reviewed on an ongoing basis, in order to avoid tying up excessive financial capital. Real estate optimization efforts help free up this capital.

REAL ESTATE OWNED AND USED BY THE PKP CARGO GROUP AND PKP CARGO S.A. IN 2018-2022

	2022	2021	2020	2019	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
	570 956	571 841	535 910	539 554	542 337	-885

Source: Proprietary material.



In 2022, the PKP CARGO Group liquidated rolling stock worth

PLN 395.5 million

DIGITALIZATION

GRI: 3-3, 203-1, 203-2

In 2021, PKP CARGO S.A. signed an agreement to implement the SAP Transportation Management System. The SAP TMS system, along with the SAP SD module, is a single, complete platform for transport management, which will support all areas of the transport process (customer contact, order management, demand planning for bulk and intermodal cargo transportation, automation of transport planning and scheduling). The system ensures tracking of shipments and contributes to better planning of the train crews' working hours. As a result, all transport operations will be carried out in a single system, allowing access to data on a real-time basis. The implementation of the system is expected in 2026.

The implementation of SAP TMS will enable further improvements in operational efficiency, cost reduction, and a more comprehensive approach to order management. This in turn will translate into an increase in PKP CARGO's competitiveness in the freight and logistics services market.

In 2022, as a continuation of earlier work, the company modernized and expanded the System to Support Commercial Handling of Cargo Loads (WSHOPT) operating since 2006 and the Electronic Consignment Note (ELP) and ORZ (WiP) systems. At the same time, no expenditures on the implementation of this task were made in 2022. The work, which is scheduled for completion in 2023, will enable the company to better meet market demands and provide comprehensive customer service.



Several licenses for IT systems were also purchased or renewed. In addition to replacement of equipment being phased out, new purchases were also made; for example, the capacity of the backup copy environment was increased for some systems, VPN gates were purchased, and the WAN infrastructure was replaced.

Investments in IT solutions are linked to efforts to transform the organization from a rail operator to a service provider offering a full range of logistics services and integrating a number of solutions into a single offering. Irrespective of whether these systems are directly involved in the process of cargo transportation or have an indirect impact on the efficiency of operations (e.g. security systems), their implementation contributes to the aforementioned improvement of the efficiency of PKP CARGO Group's operations.

Impact of PKP CARGO Group's activities

+ Benefits

- » implementing the assumptions of the Three Seas Initiative and the New Silk Road by ensuring the flow of goods
- » ensuring the continuity of supply chains for companies in Poland, Europe and in the Far East
- » providing cost-effective logistic solutions for companies in Poland and abroad, opening the possibility to import/export goods

- Costs

- » the need to invest in and modernize the broadly defined rail infrastructure in Poland (within the PKP CARGO Group and outside the Group) and often abroad



3

Sustainable transport in the future sustainable economy



Strategic outlook

GRI: 3-3, 203-1, 203-2, 305-4

Commitments made by individual countries around the world, including the European Commission's ambitious plans to reduce the European Union's carbon footprint, mean that sweeping changes are necessary in the way particular companies, as well as societies, function and operate. These changes often require technological transformation, including the development of technologies themselves, and they also need huge capital expenditures. Transportation, as a sector of the economy, is one of the largest sources of greenhouse gas emissions, and, incidentally, is critical for the emission of many other pollutants into the atmosphere, especially so-called low-stack emissions, which are crucial for human health. As a result, the economic policies of the European Union and individual governments are focused on promoting modes of transportation which generate the least emissions possible. Transport was included among 9 industries listed in the EU's screening criteria (the so-called Taxonomy)⁵ as having the potential to make a significant contribution to climate change mitigation or adaptation.

At the same time, among different modes of transportation, rail transport compares particularly favorably. Not only is it responsible today for a very small part of total greenhouse gas emissions, but it is also virtually unrivaled when it comes to efficiency, that is carbon intensity, construed as the mass of greenhouse gases emitted per ton-kilometer of transported cargo. The volume is many times smaller for rail transport than for e.g. air or road transport. Transport by rail may only be compared to maritime transport, but even here, for small container units, the sea route means a larger carbon footprint than rail. What is more, while the predominant use of electric locomotives, the modernization of power industry and its transformation into a low- and zero-emission industry will practically translate very quickly into low- and zero-emission rail transport, this will not happen with maritime transport. Thus, rail transport has all the assets to be the cleanest and most climate-friendly manner to transport people and freight.

⁵ Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.



CO₂ emissions in transport

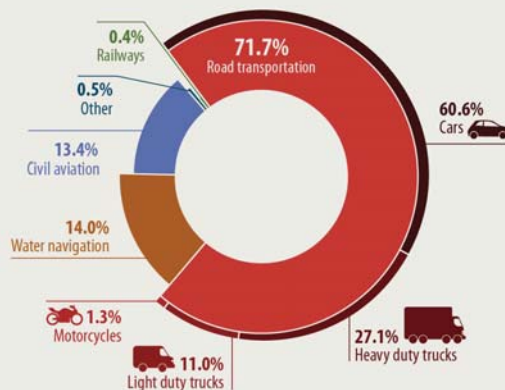
CAPITALS:



The development of rail transport forms part of the achievement of global climate and environmental goals. The rail transport strategies that are being implemented will deliver a range of environmental benefits, from improving air quality to mitigating the consequences of climate change. This fits in with the achievement of the global Sustainable Development Goals adopted by the UN in Agenda 2030. According to data published in 2022 by the European Environment Agency, road transport accounts for about 72% of the total greenhouse gas emissions in transport, including 27.1% emitted by trucks. Simultaneously, rail transport, both passenger and cargo, accounted merely for 0.4% of emissions.

TRANSPORT EMISSIONS IN THE EU

Greenhouse gas emissions breakdown by transport mode (2019)



Source: European Environment Agency (2022)

Source: <https://www.europarl.europa.eu/news/pl/headlines/society/20190313STO31218/emisje-co2-z-samochodow-fakty-i-liczby-infografiki>



At the same time, freight transport calculated per 1 ton-kilometer (tkm) means on average, depending on the means of transport:

- » air transport:
1.0189 kg eCO₂/tkm
- » small truck (3.5-7.5 tons):
0.26396 kg eCO₂/tkm
- » trucks with mass over 17 tons:
0.1255 kg eCO₂/tkm
- » sea shipping (container vessel of capacity 1000-1999 TEU):
0.03255 kg eCO₂/tkm
- » sea shipping (container vessel of capacity 0-999 TEU):
0.036805 kg eCO₂/tkm
- » sea shipping (average container vessel):
0.01614 eCO₂/tkm
- » sea shipping (bulk carrier, 200,000+DWT):
0.002535 eCO₂/tkm

» rail transport (average):

0.02782 kg eCO₂/tkm

» PKP CARGO S.A.:

0.01849 kg eCO₂/tkm



The figure may be used by our Clients to estimate their carbon footprint of Scope 3.

Source: UK Government GHG Conversion Factors for Company Reporting, 2022, ver. 2

ADVANTAGES OF USING RAILWAY IN LOGISTICS

GRI: 3-3, 203-1, 203-2

In the PKP CARGO Group, a considerable part of rail transports already now takes place with the use of electric locomotives, which means:

- » no direct low air emissions which are generated by combustion engines and which are especially harmful in urban areas as they contribute to the production of smog,
- » with the transition of commercial power industry to low and zero-emission industry, rail transport will practically become totally clean and environmentally-friendly, and transporting cargo by rail will not involve any greenhouse gas emissions. In contrast to, e.g. road transport, such transformation will not require any dramatic technological changes (e.g. meeting the challenges associated with manufacturing batteries to store electricity). Consequently, logistics companies concentrated on rail transport will need relatively lower expenditures.

USING RAILWAY IN LOGISTICS AND ENVIRONMENTALLY SUSTAINABLE ACTIVITY ACCORDING TO THE EU (“TAXONOMY”)

GRI: 3-3, 203-1, 203-2

Considering the importance of transport in the total greenhouse gas emissions and the potential of rail transport in this respect, the European Commission supports and will continue to support just this mode of transport, aiming to transfer the volume of transported cargo precisely to rail transport. Purchase, financing, leasing, rental and operation of freight rail transport is an activity which may support sustainable development according to the EU Taxonomy. Freight rail transport makes substantial contribution to climate change mitigation if: the trains and wagons have zero direct tailpipe CO₂ emission, the trains and wagons have zero direct tailpipe CO₂ emission when operated on a track with necessary infrastructure, and use a conventional engine where such infrastructure is not available (bi-mode or electro-diesel locomotives).

These are criteria met for most of the cargo transported by the PKP CARGO Group. There is, however, an additional condition that the trains and wagons are not used to transport fossil fuels, including e.g. hard coal, gasoline, diesel fuel or heating oil. With the present structure of provided



logistics services, the condition considerably decreases the result of the PKP CARGO Group.

What may help develop sustainable low-emission transport is intermodal transport. Owing to the use of standardized containers, cargo is transported using different means of transport: by sea, by rail and by road. Transshipment in transshipment hubs is relatively simple and allow for reaching major sections between nodes with means more economical and generating lower emissions (sea shipping and rail transport). It is assumed that only the last and relatively short stage of transportation, because no other means may be used, uses the most expensive and carbon-intensive road transport.

From the vantage point of the PKP CARGO Group, the development of intermodal transport gives a chance to change the structure of provided transport services by enabling the entry of a broad range of cargo categories and services to logistics with the simultaneous decrease in the share of products dominating currently, including fossil fuels.

In the EU policy for sustainable mobility, the PKP CARGO Group notices a potential opportunity for an advantageous policy of granting loans for rail transport, which is especially environmentally-friendly.



➤ Logistics services provided with the use of rail transport allow for transporting tens of containers. It is an opportunity for less traffic and a lower threat of potential road accidents.

USING RAILWAY IN LOGISTICS AND SOCIAL ASPECTS

It is also worth mentioning one more aspect, unconnected with carbon footprint, but equally important. This is safety of people. Logistics services provided with the use of rail transport, even intermodal transport discussed above, allow for transporting tens of containers using one means of transport, while when going by road, one container requires one truck. Just one train with containers means avoiding the departure of tens of trucks heading for national and district roads.

Less traffic and less nuisance (e.g. noise) mean less exhaust fumes and chemical compounds they contain other than carbon dioxide alone. Exhaust gases, especially from older diesel engines, mean also dust. In still air, dust creates suspension, colloquially known as smog. Smog is extremely harmful for people's health. Such contamination is not found at all in electric locomotives. Even where diesel trains are used, emissions are rarely generated in dense developments and strongly urbanized areas. Furthermore, transshipment nodes or points in towns or cities are located in their industrial areas, in general at a distance from residential areas. Therefore, the lower emissions of pollution connected with rail transport also means a lower risk to people's life and health. After all, it is not only a matter of lower threat related to air pollution but also a higher level of safety on the road. It is an opportunity for less traffic and a lower threat of potential road accidents. The safety of human life and health is a value which may hardly be overestimated.

Threats and challenges

GRI: 3-3, 203-1, 203-2

PKP CARGO Group, operating on a highly competitive market of logistics services, wants to view various types of transport services as complementary services rather than only part of competition. Therefore, there are hopes for development of intermodal transport, on which emphasis was placed in the business strategy. At present, road transport is, however, in direct competition to transports by rail. Although this is comprehensible at short distances, especially where the railroad network is not developed enough, this becomes problematic in other cases. Freight forwarders frequently choose road transport, also a means of transport on long international routes. In turn, rail operators predominantly provide transport services involving cargo with a great mass compared to value, for which road transport would be uneconomical (such as aggregates or solid fuels).

Opportunities provided by intermodal transport are underestimated and not sufficiently used. These services open new development prospects for companies such as those which are members of the PKP CARGO Group. The PKP CARGO Group also counts on rail transport to be receive preferential treatment for environmental reasons also at the level of state regulations and decisions. This should in turn lead to an increasingly greater interest of clients in transports by rail, with a simultaneous reduction of costs of such services. In terms of documents based at the national level, the “National Energy and Climate Plan

2021-2030”, developed by the Ministry of State Assets, is of particular importance.

At the EU level, a key role may be played by the creation of conditions conducive to shifting transport from roads to railways or inland waterways (in particular over distances greater than 300 km). Rail network management systems are currently being developed (ERMTS - European Rail Traffic Management System; TEN-T multimodal core network), which will have a positive impact on capacity. In addition, the PKP CARGO Group notices an opportunity in entrepreneurs starting to estimate and publish their carbon footprints with regard to the so called other indirect greenhouse gas emissions, or Scope 3. The latter emissions include a broad range of emissions associated, among others, with transport services provided by third parties. Thus, the reporting entrepreneurs will try to find a way to optimize the carbon footprint from transporting their raw materials and products and will take into consideration the criteria of carbon intensity of a means of transport, making choices about logistics. To support the argument that rail transport is unrivalled in terms of minimizing the carbon footprint and, at the same time, to make it easier for entrepreneurs to estimate it, the PKP CARGO S.A. publishes individualized emission factors directly associated with transport.

Which is why it is so important, from the perspective of the PKP CARGO Group, to aim to reduce environmental impact, including the carbon footprint, especially in areas supporting the core business activity.



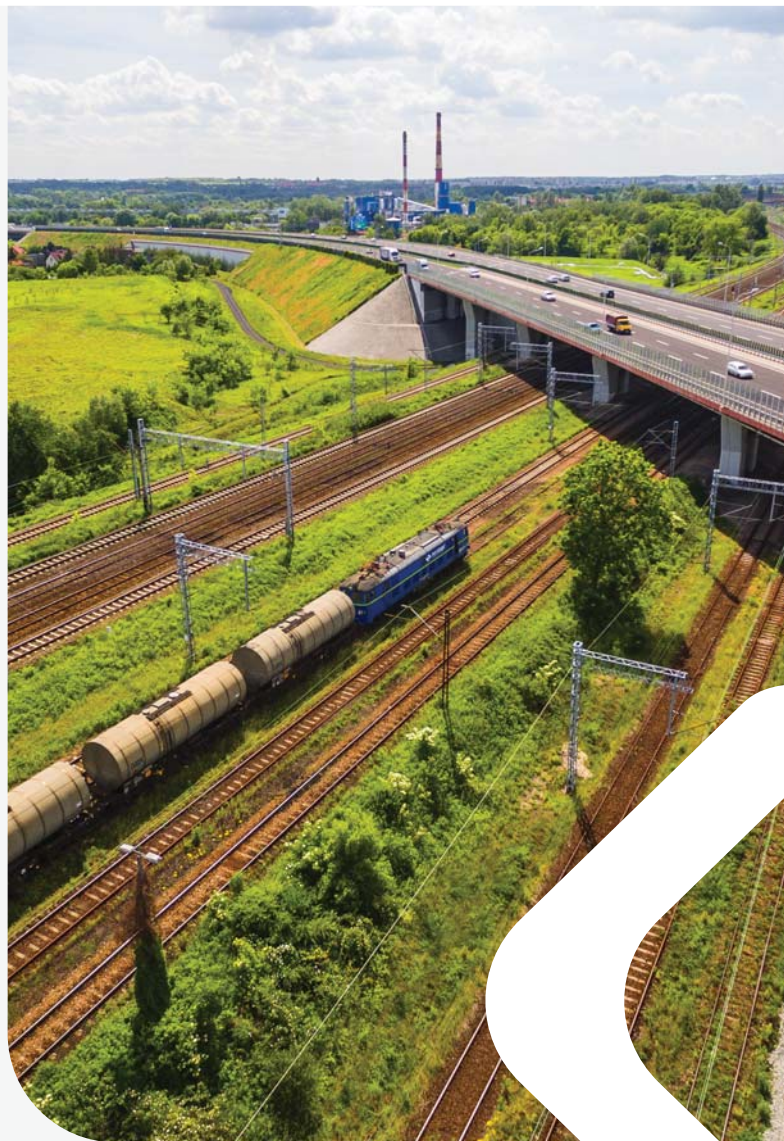
The PKP CARGO S.A. publishes individualized emission factors directly associated with transport.

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

Road transport plays a key role on the Polish and Czech freight markets, which in recent years has practically taken over the majority of the market's freight volume available for transportation. One may also talk about a trend of increasing the share of cargo transport by road at the cost of losing the market share by, for instance, rail transport.

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 acquire 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 road (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 costs 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 of providing direct door-to-door transport services.



Apart from the risk aspects described above, relating to hazards from the sector of road transport and opportunities associated with the shift in the emphasis of the economic policy to low-emission transport, the activity of the PKP CARGO Group is exposed to a number of operational risks related to the environment. These concern both the risk of an environmental failure, i.e., for example, the leakage of a transported hazardous substance to the environment, as well as the adverse impact of noise emitted by passing

trains. How to manage such risks is described in the following section.

At the same time, in the context of climate risks, PKP CARGO S.A., in line with TCFD recommendations, identifies climate risk as the potentially negative impact of climate change on the Company in two dimensions – physical risk and transformation (transition) risk.

» **Physical risks**

The Company assumes that physical climate risks are weather phenomena beyond its control, which may exist in two dimensions – acute (extreme phenomena such as droughts, floods, fires, etc.) or chronic (construed as, for instance, long-term changes in average temperatures or rising water levels).

In case of PKP CARGO S.A., these phenomena may make it difficult or, in extreme cases, impossible for a time to carry out transport operations in a given area. These include damages to electric traction caused by gales and washing over or flooding trackways.

Sudden weather phenomena (e.g. downpours of rain) may cause deterioration of quality parameters of transported goods, or even damage them (e.g. soggy coal or grain).

» **Transformation (transition) risks**

The second area of risk is transformation risks arising from the need to transition to a low-carbon economy and to adapt operations in such a way as to be resilient to climate change.

In its activities, the PKP CARGO Group focuses on:

- » investing in fixed assets that will make it possible to provide complex logistics services in a way that guarantees high economic effectiveness and an even lower carbon footprint, e.g. modernization of rolling stock, among others by purchasing multi-system locomotives, and investments in logistics terminals (see: “Investments”)
- » optimization of energy intensity and carbon footprint in processes supporting basic logistics services (e.g. modernization of boiler plants located in the area of managed properties)



Area management and actions taken

GRI: 3-3

The strategic orientation to building a logistics offering based on sustainable, low- and zero-emission transport is complemented by modern operational management. It is at the operational level that the management approach enables searching for areas that may be optimized. These will make possible both additional reduction of emissions and optimization of other categories of environmental impact. It is based on the Integrated Management System (Certificate No. JBSI12/5/2022 for compliance with the requirements of PN-EN ISO 9001:2015-10, PN-ISO 45001:2018-06, PN-EN ISO 14001:2015-09, PN-EN ISO/IEC -27001:2017-06⁶). What is also of key importance in the area of environmental management are the following documents: "Responsible Business Policy" and "Risk Management Policy at PKP CARGO S.A."

Continuous supervision and monitoring of how business is conducted are not only effective, but also provide opportunities for optimization, such as minimizing the use of raw materials, energy and reducing production of waste. It is furthermore an opportunity to explore and analyze solutions for improvements that reduce environmental risks and their consequences.

A qualified team for environmental management is supported in its work by specialized tools in the form of software, which is an updated database on the extent of using the environment. The team also monitors changes in regulations and participates in training courses to update their knowledge. Relevant training is provided to remaining employees responsible for tasks associated with the transport of cargo, supervision and maintenance of emission-generating installations, and for waste management.

In 2022, no events or failures were recorded which would cause serious pollution of the environment, no final environmental penalties were imposed on PKP CARGO S.A. and no decisions issued to make it possible to use the environment were revoked.

SETTING OBJECTIVES

PKP CARGO S.A. annually performs an environmental review in the form of an internal report, which includes indicators of the environmental performance of the Company's activities. The report describes in detail the achievement of targets set for environmental aspects that were considered significant in the previous reporting period. The report also re-prioritizes all environmental aspects and sets environmental tasks for future years. Bearing in mind the growing interest in companies' environmental impact, in spite of great detail of discussion in the report, PKP CARGO S.A. plans to publish this year's edition of the report.



⁶ As of 19.05.2023 it has been replaced with a new certificate no JBS-197/3/2023 to comply with requirements of standards PN-EN ISO 9001:2015-10, PN-ISO 45001:2018-06, PN- EN ISO 14001:2015-09, Certificate no I-25/03/2023 to comply with requirements of standards PN-EN ISO/IEC -27001:2017-06.



The effectiveness in terms of minimizing risks for individual environmental management processes is assessed periodically as part of the formally adopted „Risk Management Policy at PKP CARGO S.A.“

OPERATIONAL ENVIRONMENTAL RISK MANAGEMENT

GRI: 3-3

Employees of the environmental protection division carry out annual environmental reviews in which they assess the effects of environmental activities, formulate environmental objectives and tasks for the following years according to criteria established on the basis of legal requirements and external and internal audits and controls.

The risk assessment system directly concerning environmental protection is assigned to individual posts. At individual Plants risk assessments are carried out by employees working at the environmental positions. On the other hand, at the PKP CARGO S.A. Head Office, the employees responsible for them are those in the Environmental Protection and Green Deal team in the Rolling Stock and Technical Support Office. What is important is that for individual identified business risks

that have been identified as requiring action, the employees responsible for this area develop Risk Management Plans. The processes established in the aforementioned Policy impose the obligation on the owners of the area to assess the risk level.

The main aim of the risk management is to guarantee security of performed operating activities, including also with respect to the organization's environmental impact.

The effectiveness in terms of minimizing risks for individual environmental management processes is assessed periodically as part of the formally adopted „Risk Management Policy at PKP CARGO S.A.“. If the level of risk requires it, repair programs are prepared, the implementation of which is controlled by the Risk Leader. This prevents potential breaches of the continuity of repair processes, which in turn might exert unfavorable consequences on the smooth conduct of the transportation process, which forms the basis of PKP CARGO S.A.'s business.

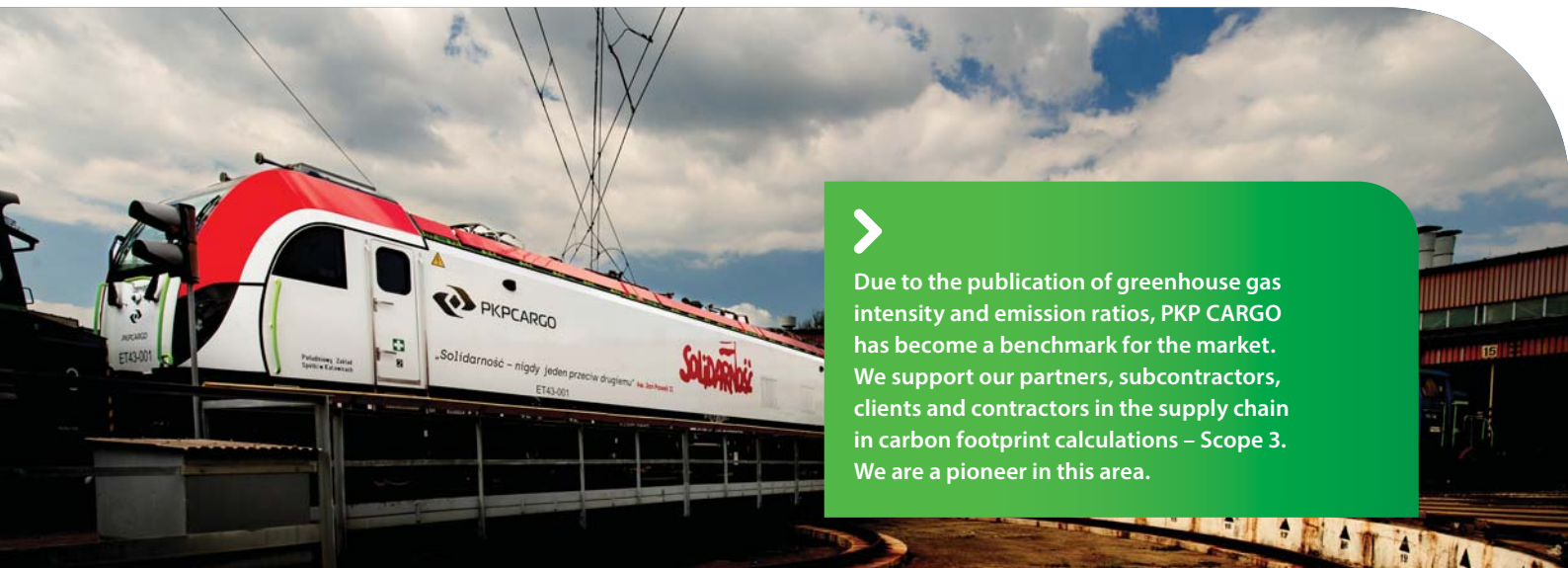
GREENHOUSE GAS EMISSIONS AND CARBON FOOTPRINT

GRI: 305-4

The Company's core business, or cargo rail transport involves greenhouse gas emissions. It is nevertheless very important from the point of view of climate protection that the impact is significantly lower than in the case of other forms of transport. Hauling cargo by rail instead of road, along with its customers, every year, PKP CARGO S.A. prevents potential emissions of almost 2.9 million tons of CO₂ annually.⁷

Freight turnover at PKP CARGO S.A. is performed in over 90% of cases by electric traction and does not involve any direct greenhouse gas emissions or any emissions of pollution to the atmosphere. Due to the fact that not all rail lines in Poland are electrified, on selected lines and railway sidings, during shunting work, combustion engines have to

be used, frequently electro-diesel locomotives. The clear dominance of transports using electric locomotives means a combination of effective mobility with climate and environmental protection. With energy transition and reduction of emission ratios of available electric energy, railway will become more and more green, finally to produce practically zero emissions. It is worth mentioning here the Green Railway Program – initiated and performed by the Center for Railway Energy Efficiency (CEEK) – which is a comprehensive program for transition of railway industry to power supply from RES in 85% by 2030 (ultimately in 100%). The defined target is to increase the competitiveness of railway due to a considerable decrease of the carbon footprint in the supply chain. This way, railway logistics, including the PKP CARGO Group, will be part of the transformation of the European and Polish economies into zero-carbon economies.



➤ Due to the publication of greenhouse gas intensity and emission ratios, PKP CARGO has become a benchmark for the market. We support our partners, subcontractors, clients and contractors in the supply chain in carbon footprint calculations – Scope 3. We are a pioneer in this area.

GREENHOUSE GAS EMISSION INTENSITY INDICATORS

Indicator	Unit	Emission intensity indicator eq CO ₂		
		2020	2021	2022
Emissions from rail freight transport in PKP CARGO S.A.	g-eq CO ₂ /tkm	17,1	15,8	18,5*

* comment: the figure 15.0, reported at the beginning of April in the Sustainability Report of the PKP CARGO Group was restated as a result of the publication of more up-to-date but less favorable emission ratios of delivered traction energy by PGE Energetyka Kolejowa S.A. (formerly PKP Energetyka S.A.).

⁷ The indicated value is a 5-year average value, recalculated according to the electric traction ton-kilometers performed by PKP CARGO S.A. in Poland and the overall emission factor for rail freight transport provided by CER in 2022.

The biggest investments of PKP CARGO S.A., including the purchase of modern electric locomotives, contribute to the achievement of this vision. At the end of 2022 the Company owned 796 electric locomotives, including 21 multi-system ones (allowing trains to cross the borders of European countries without stopping associated with the change of power supply system) and over 49 thousand freight wagons (in the wagon fleet owned by the Company,

as many as 3.8 thousand wagons are intermodal platforms, used to transport, inter alia, containers, semi-trailers and car exchangeable bodies). The Company has been progressively reducing the number of operating diesel locomotives, decommissioning the most exploited ones and modernizing the remaining ones. The fuel savings in connection with the modernization compared to historical data are up to 49%.



Innovative zero-emission hydrogen power



PKP CARGO S.A. has been working towards the development of zero-emission rail freight transport by undertaking cooperation with other business entities. Still in 2021, during the TRAKO International Railway Fair in Gdańsk, a letter of intent was signed between Grupa Azoty, PKP CARGO S.A. and PESA. Among other commitments, the companies pledged to jointly carry out research and development projects aimed at developing optimal ways of using hydrogen to power rail vehicles and methods of transporting hydrogen and refueling rail vehicles. In 2022, PKP CARGO actively participated in the development of the CER position paper „Hydrogen propulsion in the European railway sector”. Using hydrogen-powered locomotives creates an opportunity for future elimination, even entirely, of direct emissions connected with transports along non-electrified sections and during shunting work. They will be able to replace the present diesel locomotives, using diesel fuel.

Digital Automatic Coupling (DAC)



PKP CARGO S.A. analyses the possibility of using self-acting couplings, the so-called Digital Automatic Coupling (DAC), which enable digitalization and automation of transports services. Self-acting coupling is designed to automatically connect freight wagons and bring electricity and a data bus to wagons (digitalization and automation of transport services). In 2022, the Company collaborated with DB and tested a test train equipped with DAC automatic couplings in Poland. The tests were conducted in areas considered crucial for the operations of PKP CARGO S.A., specifically: at classification or marshalling yards, in relation to the carriage of bulk cargo and on thermal coal tipplers. The application of DAC will mean making employees’ work more efficient and accelerating transport processes, which will in turn translate into raising the quality of provided services and, by saving time, also saving energy and avoiding greenhouse gas emissions.

TABLE: STRUCTURE OF LOCOMOTIVES USED BY THE GROUP AND PKP CARGO S.A., BY TRACTION TYPE

Item	31/12/2022	31/12/2021	31/12/2020	31/12/2019	31/12/2018	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.

TABELA: STRUCTURE OF WAGONS USED BY THE PKP CARGO GROUP AND PKP CARGO S.A.

Item	31/12/2022	31/12/2021	31/12/2020	31/12/2019	31/12/2018	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.

Although ultimately the PKP CARGO Group has the opportunity to be a logistics operator with nearly zero emissions, both direct (Scope 1) and indirect (Scope 2), the electricity used now is mostly generated on the basis of fossil fuels. In most cases, it is used for traction purposes (97%), which means that PKP CARGO S.A. is dependent on the policy of PGE Energetyka Kolejowa S.A. (formerly: PKP Energetyka S.A.), which is the only supplier of electricity for rail traction. In 2022, there was a noticeable increase in indirect greenhouse gas emissions (Scope 2) or emissions related to the consumption of electricity (both traction and non-traction) and thermal energy. Comparing 2021 and 2022, the energy consumption is at a comparable level but the volume of emissions is clearly higher. Volumes of emissions are calculated using the CO₂ emissions index stated by the electricity supplier based on the quality of fuels used to generate energy and their structure. In 2022, the index given by the traction energy supplier increased by nearly 30% from 0.600 to 0.775. Purchasing electricity for traction purposes, PKP CARGO S.A. has no influence on the

structure of fuels used to generate the purchased energy and neither may it, for now, change the seller of traction energy.

Other sources of greenhouse gas emissions are administrative buildings and technical facilities of the PKP CARGO Group. For heating some of them, own heat sources are used fired by coal, coke, fuel oil, natural gas and LPG.



The annual costs of using traction energy only in the PKP CARGO Group in 2022 were PLN 553.7 million compared to PLN 407.0 million in the previous year. Furthermore, PLN 208.8 million was spent on traction fuel (the year before, it was PLN 143.2 million).

TABLE: FUEL CONSUMPTION FOR TRACTION PURPOSES AND WORKING MACHINERY AND VEHICLES (PKP CARGO S.A)

GRI: 302-1

Fuel	Fuel in Mg											
	Freight trains								Vehicles and machinery			
	Motor traction				Steam traction							
	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
hard coal	-	-	-		210,6	50,8	45,8	80,7	-	-	-	
LPG	-	-	-		-	-	-		5,9	3,0	4,8	5,2
motor spirits	-	-	-		-	-	-		214,8	162,5	178,1	195,7
diesel fuel	29 625,0	21 823,4	23 165,3	21 748,6	-	-	-		825,4	728,5	774,2	743,5

Source: Proprietary material.

TABLE: COMPARISON OF TRACTION AND NON-TRACTION ELECTRICITY CONSUMPTION (PKP CARGO S.A)

GRI: 302-1

Electricity	Electricity consumed [MWh]					Percentage of total electricity consumed [%]				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
traction	673 042,610	578 999,715	483 762,472	523 373,985	523 645,102	97%	96%	96%	96%	97%
non-traction	21 849,544	21 382,488	19 778,018	19 769,277	17 239,287	3%	4%	4%	4%	3%
Total	694 892,154	600 382,203	503 540,49	543 143,26	540 884,389	100%	100%	100%	100%	100%

Source: Proprietary material.

TABLE: PERCENTAGE OF PRIMARY ENERGY CARRIERS USED TO GENERATE TRACTION ELECTRICITY (PKP CARGO S.A)

GRI: 302-1

Resources, media	2018	2019	2020	2021	2022
hard coal	44,30%	50,00%	49,01%	48,60%	43,40%
brown coal	42,60%	29,00%	25,68%	23,20%	24,40%
natural gas	3,50%	8,00%	8,92%	7,80%	7,30%
others	1,00%	1,00%	1,59%	2,00%	2,60%
Non-renewable resources in total:	91,40% ↓	88,00% ↓	85,20% ↓	81,60% ↓	77,70% ↓
Renewable resources in total:	8,60% ↑	12,00% ↑	14,80% ↑	18,40% ↑	22,30% ↑

TABLE: ENERGY CONSUMPTION PER AREA AND FOR FREIGHT TURNOVER (ENERGY CONSUMPTION) (PKP CARGO S.A)

GRI: 302-3

Indicators	Unit	Energy consumption indicators				
		2018	2019	2020	2021	2022
energy consumption f or solid fuel boiler plants	kWh/m ² /year	208,4 8,3% ↓	211,55 1,5% ↑	190,59 9,9% ↓	198,54 4,2% ↑	187,65 5,5% ↓
energy consumption of a fuel oil-fired boiler plant	kWh/m ² /year	114,93 0,1% ↓	156,68 36,3% ↑	170,35 8,7% ↑	176,10 3,4% ↑	121,3 31,1% ↓
energy consumption for natural gas-fired boiler plants	kWh/m ² /year	107,56 30,0% ↓	137,22 27,6% ↓	139,57 1,7% ↑	156,31 12,0% ↑	126,96 18,8% ↓
energy consumption for LPG boiler plants	kWh/m ² /year	119,82 3,5% ↓	112,73 5,9% ↓	116,68 3,5% ↑	158,51 35,8% ↑	134,56 15,1% ↓
energy consumption in electric traction	kWh/ thousand brtkm	12,014 5,4% ↑	12,208 1,6% ↑	11,82 3,2% ↓	12,139 2,7% ↑	11,6049 4,4% ↓
energy consumption in motor traction	kg ON/ thousand brtkm	5,01 17,3% ↓	4,80 4,2% ↓	5,53 15,2% ↑	6,08 9,9% ↑	5,66 6,9% ↓

TABLE: FUEL CONSUMPTION FOR HEATING AND TECHNOLOGICAL PURPOSES EXPRESSED IN THERMAL ENERGY (PKP CARGO S.A)

GRI: 302-1

Fuel	Fuel consumed					Conversion to energy [thousand GJ]					Percentage of total thermal energy generated				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
hard coal [thousand Mg]	2,198	1,892	1,618	1,283	1,067	46	39	33	27	22	37,7%	37,1%	33,0%	23,9%	25,3%
coke [thousand Mg]	0,577	0,384	0,236	0,226	0,131	16	11	7	6	4	13,1%	10,5%	7,0%	5,3%	4,6%
fuel oil [thousand Mg]	0,924	0,909	1,029	1,282	1,065	40	39	44	55	46	32,8%	37,1%	44,0%	48,7%	52,9%
natural gas [thousand m ³]	390,0	300,0	300,0	571,2	316,0	14	11	11	21	12	11,5%	10,5%	11,0%	18,6%	13,8%
LPG [thousand Mg]	0,120	0,102	0,095	0,093	0,062	6	5	5	4	3	4,2%	4,8%	5,0%	3,5%	3,4%
OWN PRODUCTION – TOTAL						122	105	100	113	87	100%	100%	100%	100%	100%

TABLE: DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS AS CO₂ EQUIVALENT (PKP CARGO S.A)

GRI: 305-1, 305-2

Scope and calculation method	GHG emissions in tCO ₂ e		
	2020	2021	2022
DIRECT EMISSION Scope 1			
Scope 1	94 769,40	100 602,90	93 241,00
INDIRECT EMISSION Scope 2			
Scope 2 - market based method	347 948,86	343 724,80	336 411,82
Scope 2 - location-based method	362 620,93	401 717,11	427 879,84
TOTAL EMISSION Scope 1 + Scope 2			
Scope 1 + Scope 2 market based method	442 718,26	444 327,70	429 652,82
Scope 1 + Scope 2 location-based method	457 390,33	502 320,01	521 120,84

Because of the core business of PKP CARGO S.A., which is rail freight, the Company uses large volumes of electricity for traction purposes. The share of traction energy in the total volume of electricity purchased by the Company in 2022 was 97%. The increase in indirect emissions as observed above results from the rise in the emissions index for traction electric energy as stated by the supplier of traction energy for 2022.

The decommissioning of solid fuel boiler plants that have become outdated or are located in areas where local anti-smog resolutions are in force is being progressively carried out. Decommissioned boiler houses are replaced, as far as possible, by district heating connections or boiler houses fired by fuels with lower emissions.

In 2018-2022, at PKP CARGO S.A., 34 solid fuel boiler plants were decommissioned or their operation was discontinued. In connection with this, emissions are progressively falling down each year, which the table below shows. Optimization of electricity use for traction and non-traction purposes and improvement of the structure of used fuels by their suppliers are the factors which will have the greatest impact on the reduction of the PKP CARGO Group's carbon footprint. The latter will be simultaneously reduced by optimization of demand for fuels, both diesel fuel used by diesel locomotives as well as those used for other purposes (e.g. heating).

TABLE: EMISSIONS OF SO₂, NO_x, CO, B(A)P, PM FROM SOLID FUEL BOILERS

GRI: 305-7

substance	Emmissions in tons [Mg]				
	2018	2019	2020	2021	2022
Sulphur dioxide	19,52	14,62	10,15	8,02	7,94
Nitrogen dioxide	5,15	4,82	3,65	2,68	2,20
Carbon monoxide	103,02	93,00	75,14	74,47	61,18
Benzoalfapyrene	0,02	0,02	0,02	0,02	0,01
Dust and soot	26,95	23,28	17,37	13,35	10,98



OTHER ASPECTS OF ENVIRONMENTAL IMPACT

CAPITALS:

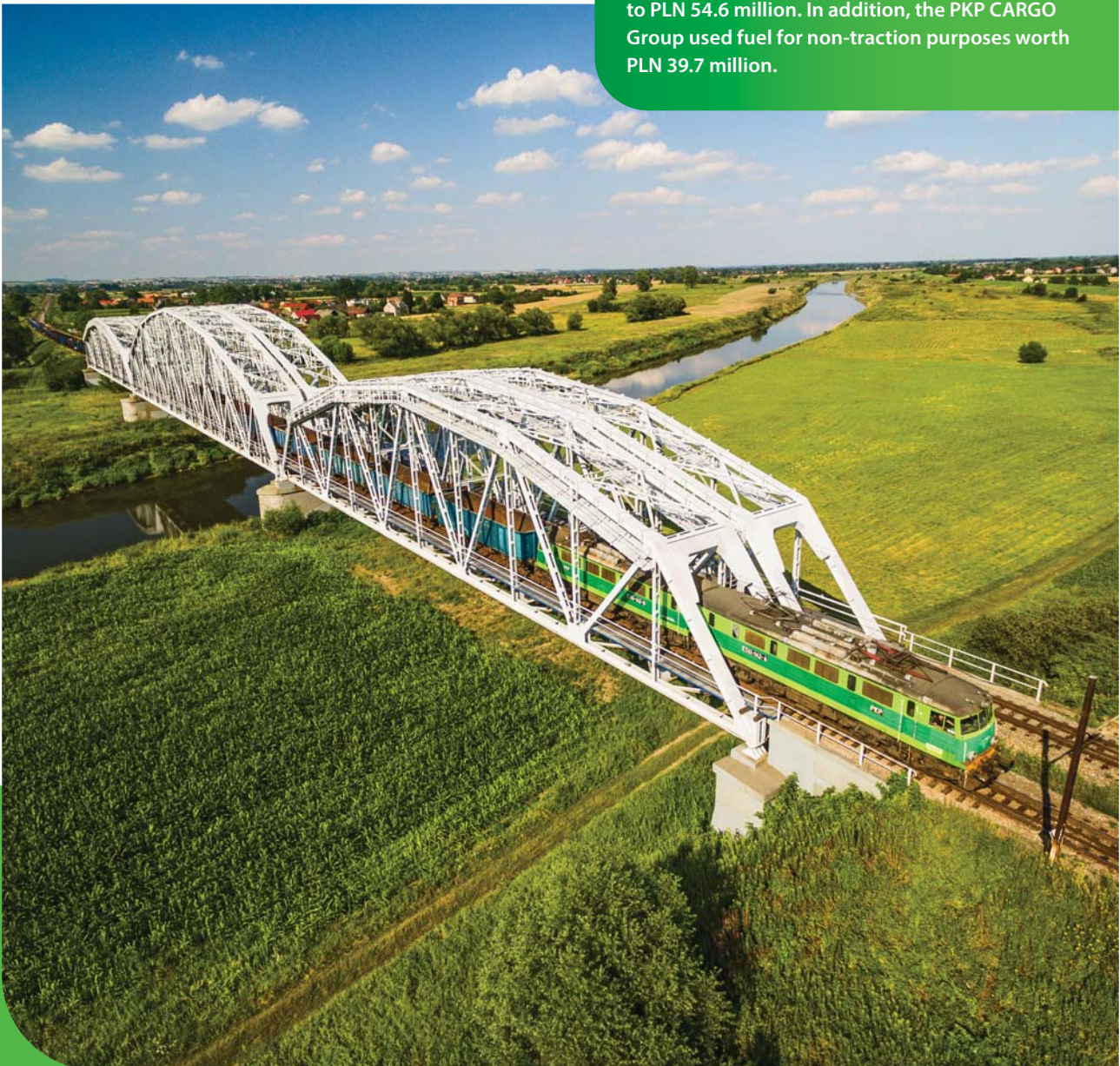


From the perspective of business objectives of the PKP CARGO Group's growth strategy, the key aim is to achieve a small carbon footprint and to reduce it further especially in areas in which the organization may exert a direct impact on how carbon emissions change. A beneficial, low emissions index per ton-kilometer will contribute to a competitive advantage of logistics using railway more than other means of transport.

Just by changing the structure of electricity generation, rail transport may become nearly climate neutral, therefore as clean energy is increasingly more available and the structure of fuels improves, the performance of the sector and the PKP CARGO Group will improve too. An active attitude of the PKP CARGO Group, i.e. investments in modern rolling stock, performed modernizations, may support and accelerate the process.



The annual consolidated costs of consuming utilities, and more precisely electricity for non-traction purposes, gas and water, amounted to PLN 54.6 million. In addition, the PKP CARGO Group used fuel for non-traction purposes worth PLN 39.7 million.





WASTE MANAGEMENT

GRI: 306-1, 306-2



Waste at the PKP CARGO Group is generated mainly as a result of work connected with overhauls and repairs of locomotives and wagons and maintenance of the technical facilities and administrative and social back office. The nature of the work determines the quantity and type of produced waste. As for hazardous waste, or waste which must be treated with special caution, several years ago most of it was still generated mainly when rolling stock was decommissioned. Such waste used to consist of wrecks of locomotives and wagons for transporting dangerous substances. Today, hazardous waste is mainly waste connected with the maintenance and repairs of traction vehicles and wagons. Most of such waste includes used solvents, surface degreasing waste, paint packaging, cleaning cloths, sorbent, used parts, elements and other waste removed from vehicles and wagons, e.g. oils, oil filters, asbestos compartments, batteries, etc. On the other hand, the maintenance of the technical facilities generates waste from the maintenance of the sewage system, including oil-derived substance separators, oil waste from oil boilers or other waste fuels, waste from cleaning storage tanks, waste from the analytical laboratory, etc. Furthermore,



the maintenance of railway tracks and road infrastructure involves generation of waste railroad sleepers, oiled soil and land and track ballast. The least hazardous waste is generated certainly from offices and welfare facilities, because that mostly consists of used electrical and electronic equipment (e.g. refrigerators, computer parts, etc.).

Waste management when it comes to hazardous waste is connected, in the assessment of the PKP CARGO Group, with a significant impact on the natural environment. Considering the environmental risk, hazardous waste management requires protection against failures connected with release of waste (or leachates) to the environment as well as fire protection.

TABLE: NON-HAZARDOUS WASTE GENERATED IN TONNES BY THE SOURCE OF WASTE (PKP CARGO S.A.)

GRI: 306-3

the amount of non-hazardous waste generated in tonnes [Mg]

Waste source	2018	2019	2020	2021	2022
offices and social facilities	49,904	56,997	90,330	46,967	73,383
maintenance of technical facilities	371,023	287,919	212,079	174,484	214,572
maintenance and repair of traction vehicles and wagons	16 768,893	19 756,114	14 425,464	12 031,585	12 890,138
cancellation of the rolling stock	2 056,855	1 724,850	452,897	0,00	27 026,782
total	19 246,407	21 825,880	15 180,769	12 253,036	40 204,875

As far as other waste management is concerned, which practically means municipal solid waste, PKP CARGO S.A.'s objective is to increase the share of sorted waste, which is unsatisfactory at the moment, in the total volume of generated waste. The present economic conditions, which in small locations make waste sorting not economically sound, are not conducive to the achievement of the

objective. In addition, a precise quantitative analysis of generated municipal solid waste is difficult because at present, the companies collecting waste weigh it only in few locations. The data collected now are based on volumes of containers (which are not always collected full) and estimate factors for converting waste volumes into mass.

TABLE: MANAGEMENT OF WASTE MATERIALS NOT INTENDED FOR STORAGE AT PKP CARGO S.A. IN 2022

GRI: 306-4

no.	Waste material	code	initial amount	generated	handed over	final amount
1	sawdust, shavings, cuttings, wood, chipboard and veneer containing dangerous substances	03 01 04*	0,000	0,000	0,000	0,000
2	sawdust, shavings, cuttings, wood, chipboard and veneer, other than those listed in 03 01 04	03 01 05	3,377	6,910	7,481	2,806
3	other organic solvents, washing solutions and mother liquors	07 01 04*	0,000	0,000	0,000	0,000
4	waste from paint and varnish removal containing organic solvents or other hazardous substances	08 01 17*	0,000	0,000	0,000	0,000
5	wastes from paint or varnish removal other than those mentioned in 08 01 17*	08 01 18	0,000	0,000	0,000	0,000
6	waste printing toner containing hazardous substances	08 03 17*	0,000	0,000	0,000	0,000
7	waste printing toner other than that mentioned in 08 03 17	08 03 18	0,000	0,000	0,000	0,000
8	waste adhesives and sealants containing organic solvents or other dangerous substances	08 04 09*	0,000	0,000	0,000	0,000
9	slags, bottom ash and boiler dust (excluding boiler dust mentioned in 10 01 04)	10 01 01	10,309	79,192	63,723	25,778
10	coal volatile ash	10 01 02	0,000	0,000	0,000	0,000
11	rinse water containing hazardous substances	11 01 11*	0,000	0,000	0,000	0,000
12	degreasing wastes containing hazardous wastes	11 01 13*	0,000	0,000	0,000	0,000
13	waste from turning and sawing of iron and its alloys	12 01 01	11,571	283,560	289,580	5,551
14	particles and dust of iron and its alloys	12 01 02	0,000	0,000	0,000	0,000
15	waste from turning and sawing of non-ferrous metals	12 01 03	0,000	0,000	0,000	0,000

no.	Waste material	code	initial amount	generated	handed over	final amount
8	waste adhesives and sealants containing organic solvents or other dangerous substances	08 04 09*	0,000	0,000	0,000	0,000
9	slags, bottom ash and boiler dust (excluding boiler dust mentioned in 10 01 04)	10 01 01	10,309	79,192	63,723	25,778
10	coal volatile ash	10 01 02	0,000	0,000	0,000	0,000
11	rinse water containing hazardous substances	11 01 11*	0,000	0,000	0,000	0,000
12	degreasing wastes containing hazardous wastes	11 01 13*	0,000	0,000	0,000	0,000
13	waste from turning and sawing of iron and its alloys	12 01 01	11,571	283,560	289,580	5,551
14	particles and dust of iron and its alloys	12 01 02	0,000	0,000	0,000	0,000
15	waste from turning and sawing of non-ferrous metals	12 01 03	0,000	0,000	0,000	0,000
16	halogen-free metalworking waste emulsions and solutions	12 01 09*	0,000	0,000	0,000	0,000
17	welding waste	12 01 13	0,000	1,574	0,671	0,903
18	other waste, not listed elsewhere	12 01 99	0,000	0,000	0,000	0,000
19	used grinding materials other than those mentioned in 12 01 20	12 01 21	0,000	47,800	47,800	0,000
20	mineral hydraulic oils	13 01 13*	0,000	0,000	0,000	0,000
21	mineral-based non-chlorinated engine, gear and lubricating oils	13 02 05*	0,450	66,288	55,006	11,732
22	synthetic engine, gear and lubricating oils	13 02 06*	0,000	0,000	0,000	0,000
23	other engine, gear and lubricating oils	13 02 08*	5,466	83,721	77,781	11,406
24	solid waste from grit chambers and oil/water separators	13 05 01*	0,000	0,000	0,000	0,000
25	sludges from oil/oil separator drainage1)	13 05 02*	0,000	4,500	3,400	1,100
26	sludge from collectors1)	13 05 03*	0,000	0,000	0,000	0,000

no.	Waste material	code	initial amount	generated	handed over	final amount
27	oil from oil dehydration in separators	13 05 06*	0,000	0,000	0,000	0,000
28	oily water from the dewatering of oils in separators	13 05 07*	0,000	0,000	0,000	0,000
29	mixture of waste from grit chambers and oil/water separators	13 05 08*	0,000	1,142	1,142	0,000
30	fuel oil and diesel oil	13 07 01	0,000	0,000	0,000	0,000
31	other fuels, (including mixtures)	13 07 03*	0,000	0,911	0,911	0,000
32	other emulsions	13 08 02*	0,000	0,010	0,000	0,010
33	other waste, not listed elsewhere	13 08 99*	0,000	5,856	4,114	1,742
34	other solvents and solvent mixtures	14 06 03*	0,200	0,180	0,380	0,000
35	paper and cardboard packaging	15 01 01	0,000	0,000	0,000	0,000
36	plastic packaging	15 01 02	0,000	0,000	0,000	0,000
37	metal packaging	15 01 04	0,000	0,000	0,000	0,000
38	mixed packaging waste	15 01 06	0,000	0,000	0,000	0,000
39	glass packaging	15 01 07	0,000	0,000	0,000	0,000
40	textile packaging	15 01 09	0,000	0,000	0,000	0,000
41	packaging containing residues of, or contaminated with, dangerous substances (e.g. plant protection products of toxicity classes I and II – very toxic and toxic)	15 01 10*	0,316	8,218	8,088	0,446
42	absorbents, filter materials (including oil filters not otherwise specified), wiping cloths (e.g. rags, cloths) and protective clothing contaminated by hazardous substances (e.g. PCBs)	15 02 02*	11,600	66,023	61,516	16,107
43	sorbents, filter materials, wiping cloths (e.g. rags, scouring cloths) and protective clothing other than those mentioned in 15 02 02	15 02 03	3,297	21,520	21,987	2,830
44	worn-out tires	16 01 03	0,511	5,756	4,339	1,928
45	worn-out or unusable vehicles	16 01 04*	112,700	10 141,012	10 253,712	0,000

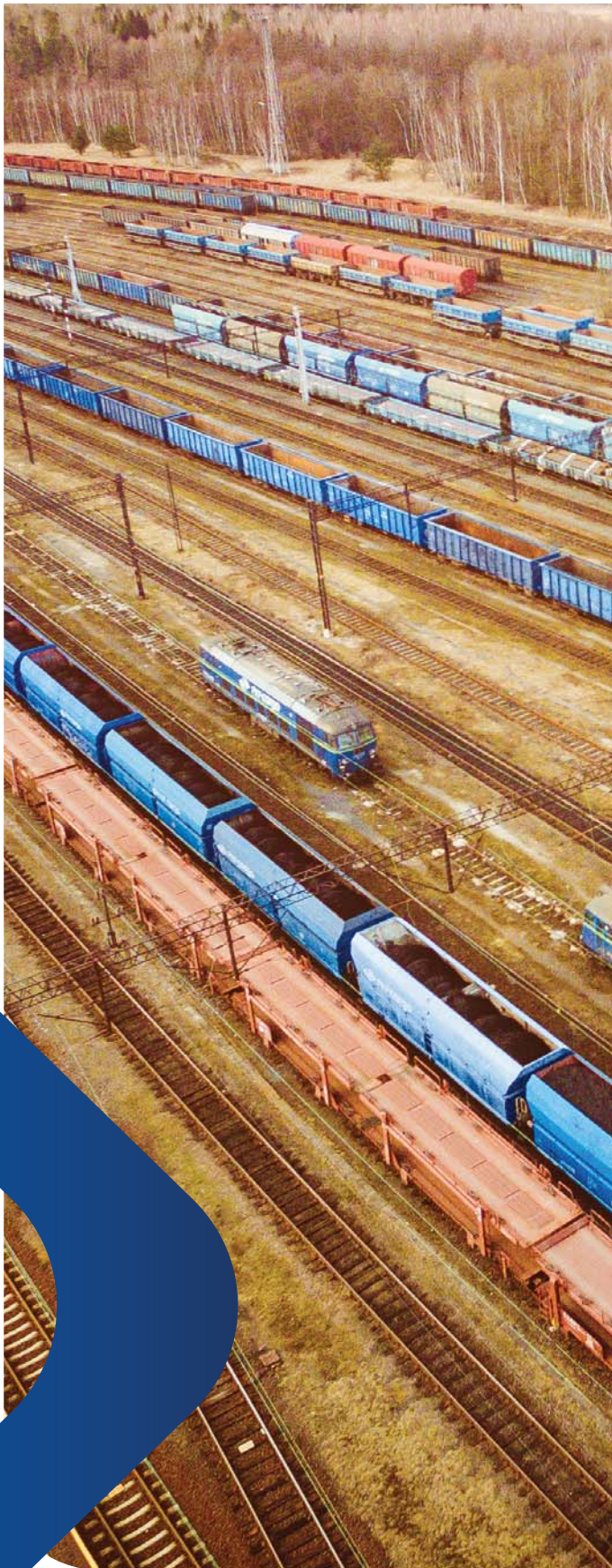
no.	Waste material	code	initial amount	generated	handed over	final amount
46	worn-out or unserviceable vehicles free of liquids and other hazardous substances	16 01 06	0,000	27 026,782	27 026,782	0,000
47	oil filters	16 01 07*	2,032	12,390	11,259	3,163
48	brake linings, other than those mentioned in 16 01 11	16 01 12	3,463	8,827	8,313	3,977
49	liquefied gas tanks	16 01 16	0,000	0,000	0,000	0,000
50	ferrous metals	16 01 17	1 189,348	12 297,005	12 969,751	516,602
51	non-ferrous metals	16 01 18	7,017	20,654	17,040	10,631
52	plastics	16 01 19	0,574	2,067	2,093	0,548
53	glass	16 01 20	0,140	1,267	1,094	0,313
54	hazardous components other than those mentioned in 16 01 07 to 16 01 11, 16 01 13 and 16 01 14	16 01 21*	0,017	3,106	2,980	0,143
55	other components, not mentioned elsewhere	16 01 22	0,263	13,542	9,834	3,971
56	other components, not mentioned elsewhere	16 01 99	181,731	181,085	237,563	125,253
57	other waste, not listed elsewhere	16 02 11*	0,247	0,742	0,511	0,478
58	worn-out devices containing freons, HCFC, HFC	16 02 12*	0,000	0,000	0,000	0,000
59	worn-out devices containing free asbestos	16 02 13*	0,363	4,174	4,002	0,534
60	discarded equipment containing hazardous components other than those mentioned in 16 02 09 to 16 02 12	16 02 14	18,525	67,450	57,186	28,789
61	worn-out devices, other than those listed in 16 02 09 to 16 02 13	16 02 15*	0,010	0,000	0,000	0,010
62	components removed from discarded equipment other than those mentioned in 16 02 15	16 02 16	1,412	5,933	5,373	1,973
63	inorganic waste, other than that mentioned in 16 03 03, 16 03 80	16 03 04	0,195	0,821	0,405	0,611
64	organic waste, other than that mentioned in 16 03 05, 16 03 80	16 03 06	0,000	0,000	0,000	0,000

no.	Waste material	code	initial amount	generated	handed over	final amount
65	gases in containers (including halons) containing hazardous substances	16 05 04*	0,000	0,000	0,000	0,000
66	gases in containers, other than those mentioned in 16 05 04	16 05 05	0,035	0,000	0,035	0,000
67	laboratory and analytical chemicals (e.g. chemical reagents) containing hazardous substances, including mixtures of laboratory and analytical chemicals	16 05 06*	0,000	0,002	0,002	0,000
68	lead batteries and rechargeable batteries	16 06 01*	9,817	6,928	14,197	2,548
69	nickel-cadmium batteries and rechargeable batteries	16 06 02*	2,140	6,639	3,600	5,179
70	alkaline batteries (except those mentioned in 16 06 03)	16 06 04	0,000	0,000	0,000	0,000
71	other batteries and rechargeable batteries	16 06 05	0,264	0,434	0,371	0,328
72	wastes containing crude oil and its products	16 07 08*	0,800	0,549	0,540	0,809
73	Waste showing hazardous properties	16 81 01	0,000	0,000	0,000	0,000
74	magnetic and optical information media	16 80 01	0,000	0,000	0,000	0,000
75	concrete waste and concrete rubble from demolition and renovation works	17 01 01	0,000	5,280	5,280	0,000
76	crushed brick	17 01 02	0,000	0,000	0,000	0,000
77	wastes from other ceramic materials and fittings	17 01 03	0,220	0,065	0,220	0,065
78	mixed waste from concrete, brick rubble, waste ceramic materials and equipment, other than those mentioned in 17 01 06	17 01 07	0,000	1,020	1,020	0,000
79	wood	17 02 01	0,000	6,462	0,120	6,342
80	glass	17 02 02	0,155	0,006	0,000	0,161
81	plastics	17 02 03	0,206	2,670	1,866	1,009

no.	Waste material	code	initial amount	generated	handed over	final amount
82	wood, glass and plastic waste containing or contaminated with hazardous substances (railway sleepers)	17 02 04*	5,154	2,670	0,170	7,654
83	waste tar board	17 03 80	0,000	3,410	3,410	0,000
84	copper, bronze, brass	17 04 01	0,000	0,009	0,006	0,004
85	aluminium	17 04 02	0,020	0,000	0,020	0,000
86	lead	17 04 03	0,000	0,000	0,000	0,000
87	iron and steel	17 04 05	62,144	94,201	124,512	31,833
88	cables containing oil, tar and other hazardous substances	17 04 10*	0,000	0,000	0,000	0,000
89	cables other than those mentioned in 17 04 10	17 04 11	1,567	0,033	0,049	1,551
90	soil and ground, including stones, containing hazardous substances	17 05 03*	0,000	0,000	0,000	0,000
91	track ballast (aggregates) containing dangerous substances ¹⁾	17 05 07*	0,000	0,000	0,000	0,000
92	insulation materials containing asbestos ¹⁾	17 06 01*	0,000	0,000	0,000	0,000
93	insulation materials other than those mentioned in 17 06 01 and 16 06 03	17 06 04	0,000	0,050	0,000	0,050
94	asbestos-containing structural materials	17 06 05*	0,000	0,600	0,600	0,000
95	mixed construction and demolition waste other than those mentioned in 17 09 01, 17 09 02 and 17 09 03	17 09 04	0,000	15,213	15,213	0,000
96	screenings	19 08 01	0,000	0,000	0,000	0,000
97	content of grit chambers	19 08 02	0,000	0,000	0,000	0,000
98	stabilized municipal sewage sludge	19 08 05	0,000	0,000	0,000	0,000
99	grease and oil mixture from oil/water separation other than those mentioned in 19 08 09	19 08 10*	0,000	0,000	0,000	0,000
100	sludges containing dangerous substances from biological treatment of industrial waste water	19 08 11*	0,000	0,000	0,000	0,000

no.	Waste material	code	initial amount	generated	handed over	final amount
101	sludges containing dangerous substances from other than biological treatment of industrial waste water	19 08 13*	0,000	0,000	0,000	0,000
102	sludge from non-biological treatment of industrial wastewater, other than that mentioned in 19 08 13	19 08 14	67,000	0,000	19,500	47,500
103	spent activated carbon	19 09 04	0,000	0,000	0,000	0,000
104	wood containing hazardous substances	19 12 06*	0,000	0,000	0,000	0,000
105	wood other than that mentioned in 19 12 06	19 12 07	113,925	4,278	83,164	35,040
TOTAL			1 828,581	50 620,535	51 529,710	919,406





Transport of cargo, including hazardous waste, commissioned by clients

PKP CARGO S.A. is competent and conducts activity in the area of transport of cargo and hazardous waste for clients. At the same time, the Company does not import, export or process hazardous waste for its own needs.

If there is an event caused by transport of hazardous waste, it entails a likelihood of the occurrence of harmful effects for the environment, the removal of which, depending on the type and scale of the event, may be prolonged and very expensive, therefore the Company is insured against a sudden and unexpected contamination of the environment. The main objective when transporting dangerous goods is to conduct the transportation process safely, in accordance with the procedures in force, in order to reduce the risk of events and accidents exerting an impact on the environment. Transportation of dangerous goods is monitored in quantitative and qualitative terms by the relevant substantive unit.

The weight of dangerous cargo transported in 2022 was 5,070,360 tons. The volume of transported dangerous goods (DG) was 5.75% of all cargo transported by PKP CARGO S.A. in 2022. During transportation, one incident occurred related to the transport of dangerous goods (DG) which, however, did not cause any adverse environmental consequences.



WATER AND SEWAGE MANAGEMENT



PKP CARGO S.A. uses water for potable and technological (e.g. cleaning of parts, rolling stock, etc.) purposes. The Company's Head Office and Units purchase water from water supply companies and collect water from 4 deep well sources and one surface water intake.

To optimize water use, the Company modernizes water supply and sewage systems. Due to investments made earlier in the Central Unit, the washing plant installed there operates in a closed-loop system, which practically means that about 80% of water is reused (in 2022, the washing plant used 807 m³ of water). Also, educational campaigns are performed among employees to promote water saving.

TABELA: WATER ABSTRACTION FROM SURFACE INTAKES AND DEEP-WATER WELLS IN 2022. (PKP CARGO S.A.)

GRI: 303-3

Plant	Location of water intake	[m ³]
Centralny (Central)	deep-water well	48
Południowy (Southern)	deep-water (2 wells)	709
Zachodni (Western)	surface intake	835
Centrala (Center)	deep-water well	2 651
Total		4 243

TABLE: AMOUNT OF WATER PURCHASED IN 2022 (PKP CARGO S.A.)

GRI: 303-3

Plant	[m ³]
Centralny (Central)	25 046,00
Dolnośląski (Lower Silesian)	13 484,30
Południowy (Southern)	33 025,06
Północny (Northern)	12 473,31
Śląski (Silesian)	15 353,39
Wschodni (Eastern)	11 202,78
Zachodni (Western)	15 168,98
CENTRALA (Center)	6 245,78
Total	131 999,60

TABLE: AMOUNT OF WASTEWATER DISCHARGED TO THE SEWERAGE SYSTEM AND TO NON-DRAINAGE TANKS IN 2022 (PKP CARGO S.A.)

GRI: 303-4

Plant	[m ³]
Centralny (Central)	22 469,00
Dolnośląski (Lower Silesian)	10 096,30
Południowy (Southern)	24 668,61
Północny (Northern)	12 532,77
Śląski (Silesian)	11 515,50
Wschodni (Eastern)	7 485,45
Zachodni (Western)	10 588,59
CENTRALA (Center)	8 083,58
Total	107 439,80

Unfortunately, in 2022, not all the planned investments in the field of water and sewage management were made. As a result, it was not possible to obtain all the required water permits, and for this reason increased charges are being paid for four of the Company's locations.

NOISE

Although rail transport exposes a relatively small population to nuisance connected with noise, considering nevertheless potential burden for areas neighboring on rail lines as well as future requirements of the Technical Specifications for Interoperability with respect to noise emitted by rolling stock (Noise TSI), PKP CARGO S.A. is performing an acoustic modernization program for used rail cars by replacing cast iron inserts of brake blocks with LL composite inserts. The number of refurbished wagons is increasing, which results

from the signed contract on deliveries of composite brake blocks (the activity co-financed by the European Union under the Connecting Europe Facility (CEF)). The Company, purchasing new rail cars, has also an increasingly greater number of new wagons with factory installed composite brake blocks. For Poland, non-refurbished wagons may run on quieter routes until 2036. At the same time, however, no applicable norms have been found to be exceeded.

TABLE: NUMBER OF „LOW-NOISE” WAGONS (PKP CARGO S.A.)

	2018	2019	2020	2021	2022
wagons equipped with composite brake inserts	1 397	1 530	1 930	2 358	2 636
wagons fitted with composite brake inserts (originally equipped with iron cast inserts)	3 151	7 352	9 591	10 791	11 250
Total	4 548	8 882	11 521	13 149	13 886



RAW MATERIALS AND CONSUMABLES

With regard to raw materials and consumables, PKP CARGO S.A. uses, apart from the fuels discussed above, mainly when repairing rail cars, wood, as well as paints, enamels, varnishes, solvents, thinners, removers, putty knives, foams and silicones. To help wash parts and subassemblies, gasoline, denatured alcohol and kerosene are used. On the other hand, such work as welding and cutting use

electrodes, welding wire or acetylene. These aspects have not been considered to be significant from the perspective of the overall picture of the environmental impact of PKP CARGO S.A. and the entire PKP CARGO Group. The volumes of these materials show the scale of performed refurbishments and repair works.



The annual costs of using raw materials and consumables in the PKP CARGO Group in 2022 were PLN 96.9 million.



TABLE: CONSUMPTION OF SELECTED MATERIALS (PKP CARGO S.A)

GRI: 301-1

Used materials	Unit	2018	2019	2020	2021	Consumption
						2022
Wood	m ³	273,3	197,5	143,7	158,7	176,86
paints, enamels, varnishes	Mg	65,4	63,2	32,9	43,9	35,1
solvents, thinners, removers	Mg	10,3	12,7	7,7	8,6	7,1
mortars, foams	Mg	2,6	0,9	1,4	0,8	0,3
silicones	Mg	0,3	0,3	0,2	0,3	0,3
gasoline	Mg	11,0	11,7	5,9	8,2	5,2
oil	Mg	2,2	1,3	1,5	1,8	0,8
denatured alcohol	Mg	18,0	13,3	17,7	26,8	25,3
electrodes	Mg	34,2	28,0	22,5	20,3	18,5
welding wire	Mg	20,1	19,4	10,5	14,6	10,5
acetylene	Mg	17,6	17,9	11,2	11,4	11,1



➤
 In 2022 PKP CARGO S.A. incurred expenditures of
PLN 5,557.5 thousand
 for activities connected with environmental protection

BIODIVERSITY

GRI: 304-1

PKP CARGO S.A. does not conduct activity in areas of high natural value. Nature conservation is implemented by keeping tree cutting to a necessary minimum and compensating tree cuttings by planting new trees.

EXPENDITURES AND EXPENSES CONNECTED WITH USING THE ENVIRONMENT

In 2022, only PKP CARGO S.A. incurred expenditures of PLN 5,557.5 thousand for activities connected with environmental protection.

Consequences of the PKP CARGO Group’s activity

+ Benefits

- » enabling the avoidance of significant greenhouse gas emissions in the economy and the possibility of offering practically zero-emission transport of freight
- » avoidance of low-stack emissions and a possible decrease in the density of smog, with all its social consequences
- » reduction of the risk of failures and contamination (safer form of transport)

- Expenses

- » greenhouse gas emissions (direct and indirect)
- » water intake and use
- » demand for consumables and raw materials
- » emissions of noise, waste and sewage



4

Responsible employer



The annual costs of employee benefits in the PKP CARGO Group in 2022 totaled

PLN 1,738.4 million

Strategic outlook

GRI: 3-3

Considering the challenges facing the PKP CARGO Group, as well as labor market determinants, the organization and its managers strive to create decent but at the same time safe working conditions.

Because of its organizational and territorial structure, it is necessary to ensure formalized and transparent employment and remuneration rules at the PKP CARGO Group. Therefore, a number of procedures and policies have been developed with care and transparency to regulate each aspect of the employee area and the social party is involved in accepting rules and regulations.

The PKP CARGO Group makes an effort to go beyond regulatory duties. Continuing to hold a dialog with the social party, the Group implements the provisions of the Collective Bargaining Agreement, which are often more beneficial for employees than solutions adopted in generally applicable provisions of law. Furthermore, the PKP CARGO Group offers to its employees support in spheres of life outside work (e.g. solutions supporting everyday care for one's health).

All the activities are to make employees feel good at work and, consequently, they will want to be associated with the PKP CARGO Group for long. Decent and transparent terms and conditions of employment and safe life and

health at work are necessary conditions for this. Another one is constructive cooperation with the social party and the ability to reach compromises. As a result, it is stability, predictability. It is also an opportunity to build organically and protect strategic competences, which are crucial from the perspective of the PKP CARGO Group's transformation. It is impossible to continue to be a transport leader in the area of the Three Seas Initiative and on the routes of the New Silk Road in the territory of the EU without employees' participation and involvement. The optimization of carbon footprint and effective identification of possible savings are similarly dependent to a large extent on employees' pro-active attitude. Maintaining full operational efficiency requires, among other things, ensuring continuity of employment, despite the natural employee turnover, effectively recruiting them in the demanding labor market, and implementing training programs to educate railroad personnel. This also means the necessity to maintain a safe working environment and a constructive dialog with the social party.

The annual costs of employee benefits in the PKP CARGO Group in 2022 totaled PLN 1,738.4 million, including PLN 1,315.3 million for remuneration alone.

TABLE: EMPLOYEES OF PKPCARGO GROUP AND PKP CARGO S.A.

GRI: 2-7

	PKP CARGO Group			PKP CARGO S.A.			Subsidiary companies*		
	W	M	Total	W	M	Total	W	M	Total
Number of employees*	5014	15072	20086	4014	10253	14267	1000	4819	5819
permanent employees	4688	13858	18546	3795	9620	13415	893	4238	5131
temporary employees	326	1214	1540	219	633	852	107	581	688
full-time employees	4988	14983	19971	4003	10224	14227	985	4759	5744
part-time employees	26	89	115	11	29	40	15	60	75

* Number of employees for subsidiary companies includes active employees, employees on unpaid and parental leaves, rehabilitation services

TABLE: NEW EMPLOYEE HIRES

GRI:401-1

Total number and rate of new employee hires during the reporting period, by age group, gender and region

Number of new employees in 2022	PKP CARGO Group			PKP CARGO S.A.			Subsidiary companies*		
	W	M	Total	W	M	Total	W	M	Total
under 30 years old	116	422	538	78	264	342	38	158	196
from 30 to 50 years	212	505	717	147	254	401	65	251	316
over 50 years old	27	127	154	8	37	45	19	90	109
TOGETHER	355	1054	1049	233	555	788	122	499	621

* Number of employees for subsidiary companies includes active employees, employees on unpaid and parental leaves, rehabilitation services

Employment rate of new employees in 2022	PKP CARGO Group			PKP CARGO S.A.			Subsidiary companies*		
	W	M	Total	W	M	Total	W	M	Total
under 30 years old	46%	32%	34%	48%	34%	36%	42%	29%	31%
from 30 to 50 years	12%	9%	10%	12%	7%	9%	13%	12%	13%
over 50 years old	1%	2%	1%	0%	1%	1%	5%	4%	4%
TOGETHER	7%	7%	7%	6%	5%	6%	12%	10%	11%

* Number of employees for subsidiary companies includes active employees, employees on unpaid and parental leaves, rehabilitation services



Threats and challenges

CAPITALS: >

The PKP CARGO Group has diagnosed two key risks in the area of HR management. The first is connected with a potential shortage of trained personnel. Although this risk is now managed effectively, it requires particular attention.

The PKP CARGO Group, which undergoes reorganization to meet new market challenges, adjusts the headcount level to the current organizational and business needs, focusing on both development based on internal resources as well as on internal recruitments. It is necessary to hire employees to ensure generational renewal and maintain work continuity on particular positions.

CAPITALS: >

Human capital effectiveness

A natural fluctuation caused by the discontinuation of employment of those who acquire pension rights, concentration on renewal of jobs of blue-collar workers to ensure work continuity (especially requiring specialist qualifications in the railway industry) and investments in the development of employees, allows for performing operating activity and logistics services on an increasingly more demanding market of logistics services, including:

- » transportation of 100.6 million tons of cargo in 2022,
- » freight turnover of 27 billion ton-kilometers,
- » improvement of the average freight turnover ratio per employee by 14.5% for PKP CARGO S.A. and by 10.8% for the Group, i.e. to the level of 1,697.3 (PKP CARGO S.A.) and 1,337.3 (the Group) thousand tkm/employee in 2022.

	2022	2021	2020	2019	2018
Freight turnover per employee (ths t.km/ employee) – PKP CARGO S.A.	1 697,3	1 481,9	1 308,9	1 459,2	1 728,8
Freight turnover per employee (ths t.km/ employee) – PKP CARGO Group	1 337,3	1 206,5	1 061,5	1 135,8	1 342,3



The average freight turnover ratio per employee improved at PKP CARGO S.A. by

14.5%



Work environment without signs of discrimination or harassment, where everybody is treated with respect, is another asset of being employed in the structures of the PKP CARGO Group.

At the same time, for last decades, education and labor market have promoted common higher education but not necessarily vocational schools and technical colleges preparing for professions important, among others, for rail transport. As a result, the situation on the labor market, on which there has been further a low labor supply for a few years, becomes difficult. At present, actions taken focus primarily on ensuring effective development programs which are addressed to the present employees and raise their competences. They aim to guarantee the right number of persons having required skills or qualifications, which allows for achievement of business objectives. Actions taken by the PKP CARGO Group include investing in employees, also young ones, acquired from the labor market so that they gain necessary skills and formal qualifications connected with the performed job.

Bearing in mind the realities associated with the labor market and potential difficulties with finding employees having the right competence profiles, the PKP CARGO Group aims to make employees want to associate their professional future with it over a longer time horizon.

The employees may count on:

- » competitive working conditions
- » high standards of health and safety at work,
- » opportunities for raising qualifications and professional development.

Work environment without signs of discrimination or harassment, where everybody is treated with respect, is another asset of being employed in the structures of the PKP CARGO Group.

A challenge which most large organizations such as the PKP CARGO Group are facing is the risk associated with the possibility of collective disputes which could potentially lead to strikes and downtime and, consequently, threaten business continuity. While differences of opinion between managers and the social party can always arise as a natural part of a healthy organizational culture, it is up to the parties to make efforts to hold a constructive dialog as partners.



Area management and actions taken

REMUNERATION

GRI: 2-19, 2-20



The scale of conducted activity and transparency in relations with the social party obligate the PKP CARGO Group, including PKP CARGO S.A., to offer transparent employment conditions, including principles of defining remuneration. Remuneration systems are regulated, on the example of PKP CARGO S.A., the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. (hereinafter referred to as the CCBA), resolutions of PKP CARGO S.A.'s governing bodies defining and introducing remuneration rules for managerial staff of PKP CARGO S.A. and regulations for paying bonuses to employees in place in the work establishments.

Compensation of the employees remunerated in accordance with the CCBA consists of fixed and variable elements, depending on their position.

Fixed compensation elements include:

- » basic salary,
- » duty-related allowance,
- » length-of-service allowance.

Employees' remuneration is increased by various types of variable elements, or additional benefits for:

- » working in conditions which are harmful to health, onerous and dangerous,
- » working overtime,
- » working on Sundays and public holidays,
- » working at night,
- » one-person traction service,
- » kilometers.

Employees are also eligible for monthly bonus paid in accordance with the regulations for paying bonuses to employees in the work establishments. Employees of the PKP CARGO S.A. Head Office and managerial staff⁸ receive monthly salaries, whose amounts are set on the basis of a remuneration ratio adequate for the position, which depends on the amount of average monthly compensation in the corporate sector without profit-sharing, as announced by the President of Statistics Poland. In addition, the compensation system includes, among others, the following benefits and perks: jubilee award, disability severance pay, retirement severance pay, coal allowance in the form of cash equivalent and a cash benefit paid on the occasion of the Railway Employee Day.

The process of establishing remuneration rules does not involve an independent advisory firm but trade unions operating in the PKP CARGO Group.

TABLE: ANNUAL TOTAL COMPENSATION RATIO

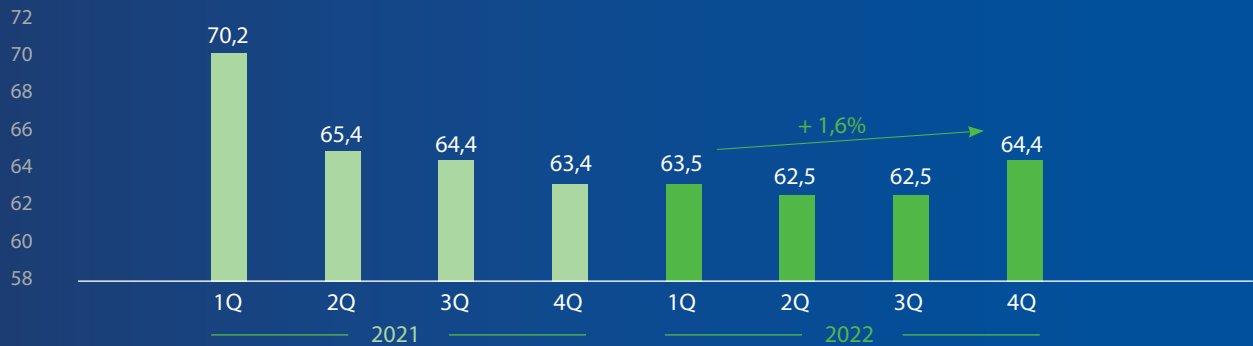
GRI: 2-21

	PKP CARGO Group	PKP CARGO S.A.	Subsidiary companies
Sum of the annual total compensation for the organization's highest-paid individuals in 2022	2 060 332,43	305 082,99	1 755 249,44
The median of annual total compensation for all employees in the Organisation (excluding the highest-paid individual) in 2022	69 309,52	68 607,73	70 011,30

⁸ Pursuant to the delegation contained in the Company Collective Bargaining Agreement, compensation is determined in accordance with the principles defined in the Resolution adopted by the PKP CARGO S.A. Management Board.



PKP CARGO GROUP EMPLOYMENT COSTS PER FREIGHT TURNOVER (PLN/ THS T.KM)



SOCIAL BENEFITS AND PERQUISITES

GRI: 401-2



Persons employed in the PKP CARGO Group may take advantage of a number of varied social benefits and perks. The offered social benefits and perks make employees more willing to associate their professional future with companies from the PKP CARGO Group. Care for employees is part of the performance of the PKP CARGO Group's strategic objectives.

Furthermore, employees and members of their families, as well as old age and disability pensioners, are eligible for discounted travel services in the form of reduced tariffs on trains operated throughout Poland. The cost of employees purchasing a discounted travel service for the second class is covered entirely by the employer. In 2022, such entitlements were purchased for 22,200 people, who apart from employees included such beneficiaries as members of their families as well as old age and disability pensioners.

Employees and their family members were issued 469 international tickets, which enabled them to travel around Europe for a nominal fee.





COMPANY SOCIAL BENEFITS FUND

GRI: 401-2



PKP CARGO S.A. has a Company Social Benefits Fund (CSBF) established on the basis of principles of the generally applicable provisions of law and the Collective Bargaining Agreement. The companies of the PKP Cargo Group conduct their own social policy on the basis of the regulations of the Company Social Benefits Fund, taking into account the local needs and preferences of their employees. Within its capabilities, the Fund satisfies the living, social and cultural needs of the employees, old age and disability pensioners and member of their families. The funds in the Company Social Benefits Fund are earmarked for:

- » subsidizing vacations, “holidaymakers”, excursions, summer camps, winter camps, “green schools”, school and kindergarten trips, short-term recreation, rallies. The variety of grants awarded gives those eligible the opportunity to choose the form of recreation that is right for them,
- » subsidizing the education of children in kindergartens and nurseries (a solution introduced at the request of employees),
- » organization of sporting, recreational and cultural events,
- » subsidizing the use of sports facilities, recreation and sports programs, sports cards and discounts, providing access to a number of facilities all across Poland,
- » occasional in-kind assistance,
- » living and random aid, which may be received by individuals who have found themselves in a particularly difficult livelihood situation,
- » offering low-interest loans for housing purposes.

In 2022, PKP CARGO S.A. posted a Company Social Benefits Fund write-off for the benefit of 33,381 entitled individuals, including 14,414 employees and 18,983 old age and disability pensioners.

LIFE INSURANCE

GRI: 401-2



PKP CARGO S.A. offers its employees the opportunity to purchase life insurance. PKP CARGO S.A. with the PZU Group created the “Insurance Program for members of the PZU Help in Life Club and their spouses and adult children”. An interested employee selects the insurance option from among the twelve available options, which differ in the insurance cover, type of benefits and the amount of the premium. The insurance premium is deducted from the salary or other payments made to the employee. In 2022, 71% of employees were covered by life insurance.



MEDICAL CARE

GRI: 401-2, 403-3



PKP CARGO S.A. offers its employees a medical care program based on a healthcare arrangement made with Towarzystwo Ubezpieczeń Zdrowie S.A. “Medical care program for PKP CARGO S.A. employees and their family members”. The scope of medical care depends on the Medical Benefits Package selected by the employee. Employees may choose one of the available packages: basic, extended, full, VIP. Individuals who submit a statement of accession to the Medical Care Program receive co-funding from their employer to the premium they pay.



OLD-AGE AND DISABILITY PENSION INSURANCE

GRI: 401-2



In accordance with the law, employees of PKP CARGO Group companies are covered by compulsory social insurance, including old-age and disability pension insurance. Moreover, the PKP CARGO Group has established Employee Capital Schemes (PPKs), a solution enabling employees to collect money for their future, with the contribution paid by employers in the amount of 1.5% of the employee's gross monthly wage.



The PKP CARGO Group has established Employee Capital Schemes (PPKs), a solution enabling employees to collect money for their future

ADDITIONAL BENEFITS

GRI: 401-2



Pursuant to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A., employees are entitled to the following benefits, among others:

- » jubilee awards paid once every 5 years for long-term work in a rail company, with the first award becoming payable after 15 years of work,
- » coal allowance due after one year of work for a rail company,
- » additional vacation leave of 8 days per calendar year, granted to employees hired under an equivalent working time system, at workstations that are open 24 hours a day and on all days of the week,
- » an additional day off from work on the occasion of the Railway Employee Day,
- » concessionary transport services, in accordance with the rules laid down in the agreement entered into between the Association of Rail Employers and rail operators offering concessionary transport services for the Company's employees,
- » distinctions in the form of state awards or honorary badges along with a cash award for employees with special achievements and merits at work,
- » additional post-mortem benefit paid to the employee's family in the event of the employee's demise as a result of an accident at work, equal to ten times the average monthly wage at PKP CARGO in the previous year,
- » benefit equal to the cost of treatment and rehabilitation of employees who suffered a rail accident while performing their professional duties.

At PKP CARGO S.A., part-time employees are entitled to the same benefits and rights as full-time employees. One exception are the rights to concessionary transport services acquired for people employed at least part-time and rights to international tickets (only for full-time employees).





EMPLOYEE HEALTH AND SAFETY

GRI: 3-3 (403), 403-1



Issues connected with occupational health and safety belong undoubtedly to the most important ones in the area of strategic management. It is an area important from the point of view of both managers as well as employees and their representatives. The nature of work and employees' responsibility for their own life and health, the life and health of other employees and also third parties, is not only an internal matter of a company.

OSH Management is one of elements of the Integrated Management System implemented in the PKP CARGO Group. The effectiveness of the system's operation depends first of all on the people who make it up and work in it, and in particular on the involvement of the top management and all employees. Any actions having to do with occupational health and safety are consulted with the Company's employees. At the Company, the occupational health and safety service also operates, which is the employer's monitoring and consulting body. The Company has implemented an occupational safety and health management system, in accordance with the ISO PN-EN ISO 45001:2018-06 standard. The system has been implemented on the basis of the following standards: Occupational health and safety management PN EN 45001. Occupational Risk Assessment, on the other hand, is performed in accordance with the Polish PN-N-18002 standard. In the whole Group, the OSH management system procedures allow for constant monitoring of the nature and level of threats, and seeking and implementing solutions which will make it possible to

eliminate the risks or at least reduce them considerably. OSH management involves analyzing events that occurred and continuous learning and improvement in accordance with the logic of modern quality management systems.

What should be borne in mind is that the PKP CARGO Group, with its scale of activity and market position, cannot afford any shortcoming in that regard and any possible irregularities are detected both by the OSH services as well as trade unions and employees themselves.

The measures connected with ensuring safe working conditions that should be mentioned include:

- » arrangement of workstations in accordance with ergonomic principles,
- » identification of hazards and occupational risk assessment,
- » selection of appropriate working clothes and footwear and personal protective equipment,
- » ensuring regular measurements of the work environment, including possible presence of harmful factors (dust, vibration, noise, lighting),
- » continuous monitoring of working conditions,
- » systematic audits and periodical inspections of workplaces and implementation of the resulting corrective measures.

The basic OSH goals for PKP CARGO S.A. and ultimately for all the Group companies are defined in the Book of the Integrated Management System, adopted in March 2022. Effective and efficient management of occupational health and safety also entails specific related expenses. In 2022, these expenses in the PKP CARGO Group were PLN 12.8 million and in PKP CARGO S.A. – PLN 9.1 million. They fluctuate around the approximate level of PLN 600-700 per employee annually.



In 2022 expenses for occupational health and safety in PKP CARGO S.A. were

PLN 9.1 million



IDENTIFICATION OF THREATS, RISK ASSESSMENT AND INVESTIGATION OF ACCIDENTS

GRI: 403-2

CAPITALS:



In the PKP CARGO Group, environmental inspections and reviews of workplaces are carried out. A system for improving working conditions has been introduced, too. On the example of PKP CARGO S.A., all the processes, also those concerning identification of threats, risk assessment and investigation of accidents, are subject to occupational risk assessment in accordance with the PN-ISO 45001:2018-061 standard⁹.

Hazards are identified on the basis of the procedure of "Identification of threats in workplaces and assessment of the associated occupational risk". For this task, teams are called up whose members are specially trained in the area of professional risk assessment. The team consists of OSH service employees, a representative of employees and an employee from the assessed workplace. Risk assessment forms for each workplace are updated at least every three years.

⁹ A standard for occupational safety and health management, which includes relevant requirements and guidelines. It obligates organizations to establish, implement and maintain a continuous and proactive process of identifying hazards. The process should take into consideration, among other factors, work organization, social factors (e.g. workload), routine and exceptional measures and situations, including hazards related to the infrastructure, substances and physical conditions in the workplace, human factors or the manner of doing work. The complete content of the standard is available here: bhp.org.pl/wp-content/uploads/2021/02/PN-ISO-45001_2018-06P-1.pdf.

After each conducted post-accident procedure, investigating the causes and circumstances of accidents at work, the forms are additionally verified and updated. To eliminate OSH threats to the fullest possible extent and reduce the associated risks, the following measures are taken at the PKP CARGO Group:

- » ongoing inspections of the OSH situation,
- » regular meetings of the OSH Commission with representatives of all the trade unions,
- » constant identification and analysis of potential accidents,
- » constant supervision to update places where accidents at work may potentially happen,
- » performing, on a quarterly basis, an analysis of accidents that occurred.

Furthermore, at PKP CARGO SERVICE sp. z o.o., employees participate in the "ARBITER" motivation and supervision program. The basis for effective management of occupational safety and health issues is also verification that the implemented system and procedures work effectively, therefore documents and regulations are analyzed and updated on an ongoing basis.

REPORTING IRREGULARITIES

GRI: 403-2

CAPITALS:



According to provisions of the Labor Code concerning OSH, employees are required to report irregularities as this is an employee's primary duty under the Labor Code to comply with occupational safety and health rules. If irregularities are found in the area of rail infrastructure, employees may report them, e.g. to the email address bezpiecniwpracy@pkpcargo.com. It is also possible to report hazards and potential accidents via a form available on the OSH website in the Intranet.

In an emergency or dangerous situation, employees have the right to refrain from work. Such a situation should be every time reported to the employee's manager.



OSH TRAINING

GRI: 403-5



As part of occupational safety and health training, introductory and periodical training courses are conducted at PKP CARGO. Three times a year, employees directly involved in rail traffic and rail traffic safety receive the so called periodic instructions. At the PKP CARGO Group, OSH training courses are conducted resulting from the employer's duty as well as additional training courses:

- » introductory training (general and job-related instruction),
- » periodical training (after a period depending on the type of performed work),
- » training for persons designated to provide first aid, firefighting and evacuation of employees (conducted periodically in such a way as to ensure the proper functioning of the fire prevention and first aid systems).

Furthermore, on behalf of rail traffic safety, periodic instructions are provided in the Group by managers, which touch on the topic of safe performance of official duties connected with rail traffic safety. Within the process, employees also receive information about the scope of recommended preventive measures that are given as a result of conducted post-accident procedures and finding of railway commissions investigating railway accidents and incidents. Safety training takes place while employees are working.

PROMOTION OF EMPLOYEES' HEALTH

GRI: 403-6, 403-3



At the PKP CARGO Group, a number of cyclic projects have been performed for many years to promote employees' health. They include Post-Accident Psychological Support (PWP) project, the opportunity to purchase additional health insurance, prevention program WIN about prostate cancer and cervical cancer as well as long-term sports projects for employees (such as joggers and cyclists) – as part of the Running-Friendly Company program. Employees can also take advantage of co-funding of sports cards or activities (Multisport or Fitprofit, depending on the company) and thus get access to various sports facilities, such as swimming pool, gym, etc.

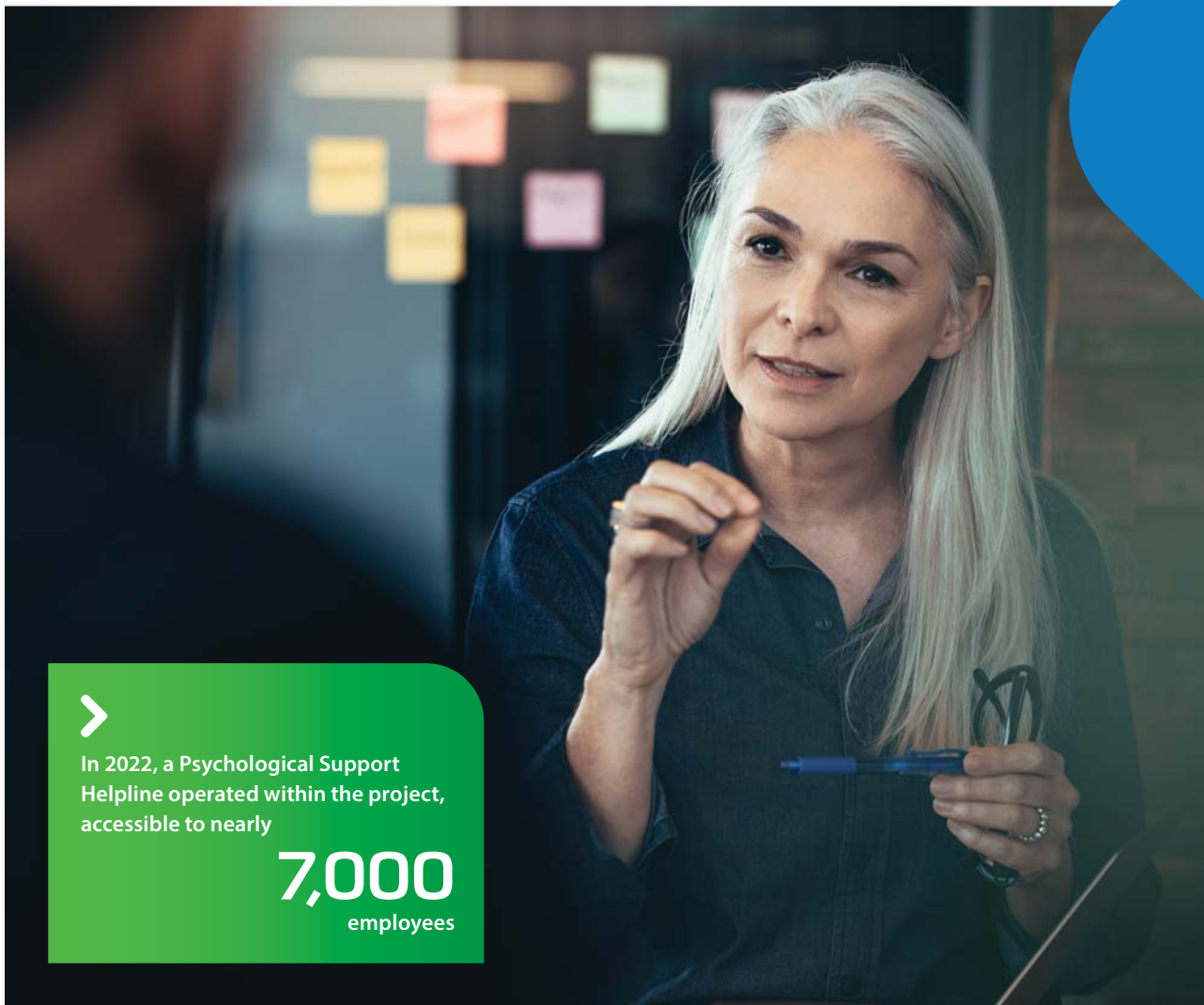
Programs performed at the PKP CARGO Group aim to increase employees' involvement, improve work quality, ensure safe and decent working conditions as well as to build *work-life balance*.

Relay 2022

In 2022, as part of the Running-Friendly Company project, PKP CARGO S.A. organized the "PKP CARGO Running and Cycling Relay around the Earth". It was open to all employees, regardless of their place of residence. Participants tallied on their own and reported the distances covered using mobile sports apps. The Company also invited cyclists to the project for the first time, in response to the bottom-up recommendations received from employees.

Over a span of three months, the Relay participants ran or cycled a total of over 40,000 kilometers. Thus, they realized the joint goal of symbolically circling the equator. The relay has been praised by employees as an effective motivational project, inspiring them to take care of their health and fitness, as well as integrating employee teams which vary by age, gender or employment levels.





In 2022, a Psychological Support Helpline operated within the project, accessible to nearly

7,000
employees

Post-Accident Psychological Support (PPS)

A cyclical project performed at PKP CARGO since 2017, its essence is to support employees in coping with stress, to help them maintain good psychophysical condition, to teach them effective ways of regenerating and concentrating. Thus, the project contributes to improving working conditions and building the safety culture in rail transport.

In 2022, a Psychological Support Helpline operated within the project, accessible to nearly 7,000 employees directly involved in rail traffic. The hotline was staffed with psychologists specialized in the rail sector support. The hotline was free of charge for callers and ensured their anonymity.

Moreover, employees were offered the opportunity to visit psychologists – as part of the project, cooperation was established with 14 psychology centers across Poland. As part of the project, preventive measures were also carried out on stress and post-traumatic stress prevention, as well as additional communication and prevention projects, including the creation of a monthly “PPS Newsletter” addressed to several thousand PKP CARGO S.A. train drivers. The newsletter was distributed through the tablets that train drivers use daily for work, which makes sure that it reaches the target group correctly. The newsletter is developed by the psychologists responsible for running the Psychological Support Hotline. It ensures that the messages that support attention, concentration and focus in the performance of train driver duties reach their audience on a regular basis.

“Direction: Safety at Work” campaign

It is a project recurring periodically carried out by the Group since 2019. Its purpose is to build a safe workplace culture, change awareness (through treating safety as a priority) and shape attitudes conducive to the safe performance of professional duties.

In 2022, the “Direction: Safety at Work” campaign was targeted at all employees of PKP CARGO S.A., and its main slogan was: “I care about my safety at work, because I love coming back home”. It was crucial to reach our approx. 7,000 employees who work in positions directly related to train traffic (including train engineers, shunting masters and inspectors). The campaign used posters, intranet website, leaflets, promotional video, special e-mail address, regular articles in internal and external media. In 2021-2022, the campaign also included prevention activities in the area of mental health, stress and post-traumatic stress, which may affect the safety of transport processes.

As a result of our activities, we were able to provide our employees with information about safety at work in key positions for rail traffic safety and about the involvement of social partners in promoting a safe workplace bringing measurable results – for instance, additional protocol no. 12 to the Collective Bargaining Agreement adopted in 2021, regarding safety issues applicable to train drivers and ensuring professional psychological care after a rail accident. Moreover, in 2020-2022, due to the pandemic, a new distribution channel for the Post-Accident Psychological Support Newsletter was launched as part of the campaign – tablets to reach train drivers in their daily work as a new access channel.

One of the expected benefits included: increased awareness of the role and significance of work safety among employees and a change in attitudes regarding compliance with health and safety regulations – building the internal conviction among employees that safety also depends on their own actions and promoting the topic of safety among representatives of the rail sector in Poland.



7 PKP CARGO initiatives among the best practices in Poland

This year's national report entitled “Responsible business in Poland. Best practices” featured as many as **7 best practices of PKP CARGO S.A.** The report is the largest review of social and sustainability initiatives regularly published in the Polish market.

The highlighted practices included:

- » **Post-Accident Psychological Support**
- » **“Direction: Safety at Work” campaign**
- » **“A Running-Friendly Company” program**
- » **Program entitled “PKP CARGO as the patron of rail technology history”**
- » **socially responsible communication as an integrated process**
- » **Sustainable Development Newsletter for PKP CARGO Group subsidiaries.**

This is also another year in a row when PKP CARGO S.A. reports a completely new practice. **New in 2022 is the “WIN” health prevention campaign**, which promotes regular testing to prevent the most common neoplasm.

KOMUNIKACJA CSR
ODPOWIEDZIALNY BIZNES

PKPCARGO

Nr 12 Listopad / 2022 csr@pkpcargo.com

WYGRAJ!

Listopad – miesiąc profilaktyki raka prostaty

Pamiętaj o profilaktyce



Odważ się!

Regularne badania pozwalają skutecznie zapobiegać nowotworowi prostaty. I nie są skomplikowane!

Co możesz zrobić?

- Warto regularnie wykonywać badania krwi na oznaczenie poziomu markera PSA. U zdrowych mężczyzn w krwi jest go niewiele, rozwijający się nowotwór sprawia, że PSA jest uwalnianie do krwi w większych ilościach. O oznaczenie PSA można poprosić w każdym laboratorium.
- Każdy mężczyzna po 40. roku życia powinien raz w roku udać się do urologa w celu przeprowadzenia prostego badania profilaktycznego. Jeśli lekarz zauważy taką potrzebę, będzie mógł zlecić np. USG prostaty.
- Korzystaj z bezpłatnych programów – np. PROFILAKTYKA 40 PLUS: [LINK](#)

Co zmienić w codzienności?

Zapobieganie to też dbanie o zdrowie każdego dnia.

- Zastój o regularnym nich, którzy powinni utrzymać

Listopad to miesiąc, w którym od lat szczególną uwagę przykładamy do zdrowia mężczyzn i profilaktyki typowo męskich nowotworów – w tym raka prostaty.

W zapobieganiu i walce z tym nowotworem wciąż zbyt mało przegrywamy w Polsce z powodu obaw przed

“WIN” campaign

Health prevention in the PKP CARGO Group. The campaign has been pursued since 2022, aiming to raise the awareness of the PKP CARGO Group's employees regarding preventive checkups for some of the most frequently occurring oncological diseases (breast cancer and prostate cancer). The campaign was addressed to all employees of the PKP CARGO Group. It was based on programs promoted by the National Healthcare Fund, that is the government-sponsored campaign “I Intend to Live a Long Life” and the “National Oncology Strategy”, dedicated to both women (breast cancer prevention) and men (prostate cancer prevention). The campaign was based on considerations related to the average age of employees of the rail sector in Poland and the statistically most common diseases threatening employees in the targeted average age group. In 2022, as part of the campaign, 3 coordinated information campaigns were conducted (in September, October and November) with mailings to several thousand employees, dedicated articles were published on the Intranet homepage, and, since September 2022, on a dedicated campaign website. Also, a topical CSR Newsletter was sent out to all PKP CARGO Group companies and a topical PPS Newsletter to train drivers. A letter of support for the WIN project was also prepared: a joint letter from the Management Board and Trade Unions – Signatories of the Company Collective Bargaining Agreement expressing support for the campaign and promoting preventive medical checkups among employees.

A Running-Friendly Company

The project promotes sports interests among employees, encouraging a healthy and active lifestyle and integrating teams employed in various locations across the country, working in various positions. The Running-Friendly Company program is a key initiative of the PKP CARGO Group in the area of work-life balance, which has been gradually developed since 2013. The Running-Friendly Company initiative promotes a healthy life-work balance and supports employees in taking socially beneficial and charitable activities. In 2022, nearly 250 employees became involved in dedicated activities organized as part of the project.

In 2022, the Running-Friendly Company project was developed based on the following three pillars:

- » Sports/integration, consisting of the promotion of a healthy lifestyle through the participation of employees in various running events.
- » Charity: PKP CARGO employees helped people in need by running. The Company regularly supported various initiatives, including the national charitable Poland Business Run, and provided assistance to people with motor disabilities.
- » Symbolic and historical aspects – commemorating significant events in the history of Poland by way of sports events.

Communication activities related to the project were addressed to all companies in the PKP CARGO Group. Through the project, the Company promoted physical activity and a healthy lifestyle among several thousand people.

ACCIDENTS AND WORK-RELATED INJURIES

GRI: 403-9

PKP CARGO S.A. had no fatalities as a result of work-related injury in 2022. The Company recorded 62 work-related injuries, primarily to the extremities, including ankle sprains. In 2022, the Company lost 3737 business days due to accidents.

The greatest risk of high-consequence injuries is associated with shunting and working with power and electrical equipment. No such incidents occurred in 2022.

WORK-RELATED ILL HEALTH

GRI: 403-10

The company conducts environmental testing for each work position exposed to harmful factors (such as increased noise levels, vibration levels, increased dust levels, or other harmful factors). They test whether the maximum permitted concentration of chemicals or noise levels has been exceeded. If the maximum level of a harmful factor is identified then solutions are implemented to mitigate its impact, for example shields are introduced, or employees are equipped with earmuffs or earplugs, etc. At the same time, the Company carries out periodic testing of employees in positions exposed to harmful factors following a separate, accelerated procedure and with increased frequency. The Company's regular activities to ensure occupational safety, regardless of harmful factors, include providing employees, especially those in manual labor positions, with adequate protective clothing and personal protective equipment, equipping them with proper tools, and providing training and instruction.

The main threats that may exert an impact on the deterioration of the health of PKP CARGO Group employees include:

- » physical factors (noise, general vibrations and vibrations affecting upper limbs, optical radiation in the welding process, industrial dusts for jobs performed in the open space near the loading or unloading process, during maintenance and repair works),
- » chemical agents (tasks related to the use of chemical preparations, e.g. for spraying),
- » psychophysical factors (static or dynamic physical loads),
- » social factors, including unequal treatment, workplace harassment, discrimination

The threats listed above were identified by the following teams or as part of the following efforts:

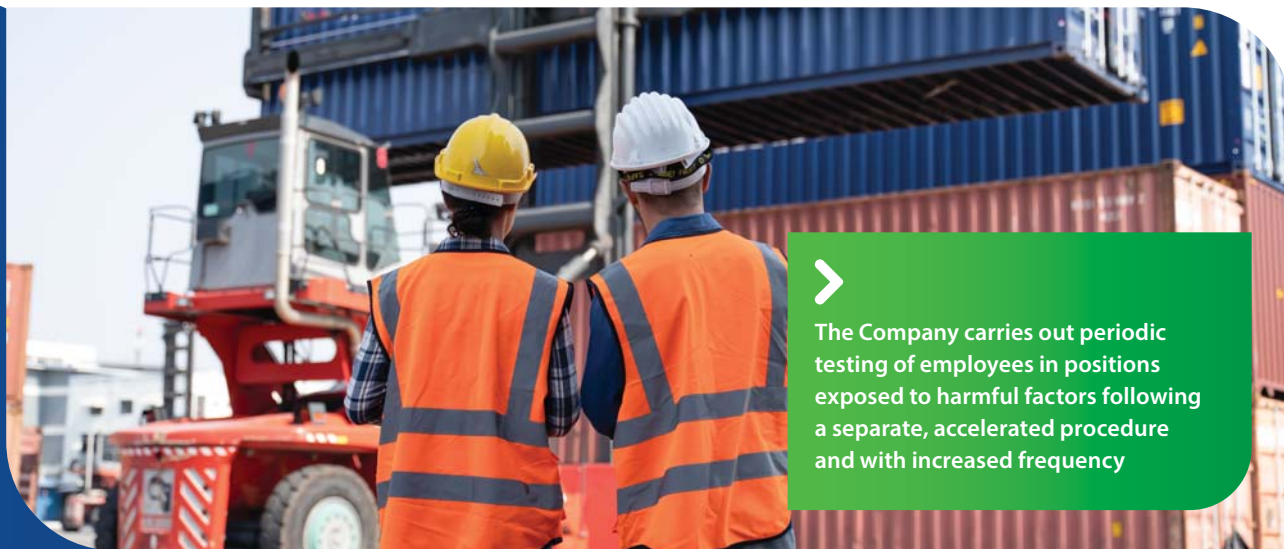
- » team identifying work-related hazards and assessing occupational risks in the PKP CARGO Group,
- » conflict resolution committee,
- » social consultations during OSH inspections,
- » social consultations during meetings of the OSH commission.

None of these threats caused any illness in the reporting period. In order to minimize the risk of adverse events listed above, the PKP CARGO Group took the following measures:

- » adoption of the Anti-Harassment Procedure,
- » adoption of the Rules of Ethics,
- » application of appropriate technological and organizational measures, collective protection measures and individual protection measures,
- » replacement of preparations previously used for spraying (herbicides).

In 2022, PKP CARGO had no fatalities as a result of work-related ill health; it also recorded to instances of work-related diseases. In the past, the most common occupational disease was impairment of hearing.

All the above data were compiled on the basis of the register of occupational diseases and occupational risk assessment cards.



The Company carries out periodic testing of employees in positions exposed to harmful factors following a separate, accelerated procedure and with increased frequency



Development and training

GRI: 3-3(404)



The pragmatic goal of the development activities carried out in the PKP CARGO Group is to ensure a sufficient number of employees with the necessary skills and to increase their job satisfaction. This guarantees safe operations and stable growth, including transformation towards the new business model and new services.

Through regular training, employees benefit and develop competencies, which leads to personal growth and, as a result, PKP CARGO Group is able to offer even better logistics services. This is especially important now, when the strategy puts new challenges in front of the PKP CARGO Group team.

Key change drivers concentrate on:

Intensive commercial activities



Logistics package development



High efficiency in sales and customer care process



Constant improvement of freight transport and maintenance processes



Digitalisation



Optimizing and adaptation of company's structure and resources to market environment and economic change



These challenges will require the team to supplement the competencies that currently are insufficient, or to acquire new ones. Organic growth means mainly that the organization itself must ensure the necessary competencies, with limited contribution of external knowledge and experience. This is why developing them effectively through

development programs will be very important not only for the human resources area but also for the successful achievement of the objectives of the business strategy and the long-term success of the entire group.



GRI: 404-2

Development activities are carried out in the following areas:

- » **adaptation program**, which aims to fast-track employee orientation: familiarize employees with their duties and help them adapt to the work environment (it is carried out in various forms to address the different needs and expectations of specific types of positions: from administrative to non-administrative to managerial)
- » **mandatory training courses**, which are aimed at improving qualifications and obtaining licenses that are indispensable for PKP CARGO S.A.'s operations. (regular training and knowledge updates and acquisition of new skills in the railway sector is particularly important for positions related to railway safety, but it is also necessary for many operational jobs: this includes for example welding courses, courses for operators of forklifts, cranes, hoists and lifting equipment, gas cutting training or courses for railway vehicle drivers, shunters and setters; often these training courses end with examinations and acquisition of relevant licenses)

- » **soft skills training and computer training** required for the transformation of the PKP CARGO Group, for example to increase the efficiency of the sales and customer service processes or the efficiency of the digitalization of processes (development of skills such as team communication, communication with the customer, negotiation and sales skills or the ability to use specific software).
- » **co-financing of university education for employees:** bachelor's, master's and postgraduate studies that allow the most ambitious employees to develop and open a long-term career path to higher positions within the Group.

The PKP CARGO Group also takes part in topical and industry conferences. In 2022, the "Rail systems" conference was held, and the scientific and technological conference "Modern technologies and management systems in rail transport". These events offer the opportunity to share knowledge with the market, develop the industry and implement new market practices.

TABLE: AVERAGE NUMBER OF TRAINING HOURS PER YEAR PER EMPLOYEE, BROKEN DOWN BY GENDER AND EMPLOYEE CATEGORY

GRI: 404-1

	PKP CARGO Group	PKP CARGO S.A.
Total number of training hours in 2022		
senior management	1326	373
middle management	6903	612
other employees	171640	79499
TOGETHER	179868	80483
Number of employees in 2022*		
senior management	175	65
middle management	669	416
other employees	19242	13786
TOGETHER	20086	14267
Average number of training hours in 2022		
senior management	7,57	5,73
middle management	10,32	1,47
other employees	8,92	5,77
TOGETHER	8,95	5,64

* Number of employees for subsidiary companies includes active employees, employees on unpaid and parental leaves, rehabilitation services





TEAM DIVERSITY, NON-DISCRIMINATION AND RESPECT FOR HUMAN RIGHTS

GRI: 3-3 (405), 3-3 (406)



The PKP CARGO Group applies the principles of equal treatment of all employees and strives to ensure respect for the dignity of each person. The PKP CARGO Group takes measures to prevent discrimination by shaping a work environment based on respect, openness, reliability and fairness, creating and strengthening positive relations between employees. Within the Group, diversity is seen as an opportunity for development, made possible by the variety of perspectives, experiences and knowledge.

PKP CARGO S.A. does not currently have in place a separate policy against discrimination. However, the area of preventing discrimination and workplace harassment (mobbing) are governed by the provisions of the Company's Code of Ethics. According to its provisions, no forms of the above can be accepted in relations with employees, customers and suppliers.

The management approach adopted by PKP CARGO S.A. to the area of diversity is described in the Personnel Policy and the CSR Policy. Ultimately, uniform rules in this area will be put in place for all PKP CARGO Group companies.

Even though the rail transport sector has been historically dominated by men, it is important for PKP CARGO Group companies to strive to maintain a gender balance in middle and top management and the removal of pay gaps between men and women. However, given to the unique character of the industry, this can be a long-term process that requires not only business decisions, but also begins at the education stage of technical courses related to logistics and rail transport.

TABLE: DIVERSITY OF GOVERNING BODIES AND EMPLOYEES

GRI: 405-1; S-P1

Percentage of employees who belong to the management bodies of the organization	PKP CARGO Group			PKP CARGO S.A.			Subsidiary companies		
	W	M	Total	W	M	Total	W	M	Total
Management Board									
under 30 years old	0%	0%	0%	0%	0%	0%	0%	0%	0%
from 30 to 50 years	4%	50%	54%	0%	20%	20%	5%	58%	63%
over 50 years old	0%	46%	46%	0%	80%	80%	0%	37%	37%
TOGETHER	4%	96%	100%	0%	100%	100%	5%	95%	100%
Supervisory Board									
under 30 years old	2%	2%	4%	9%	0%	9%	0%	3%	3%
from 30 to 50 years	7%	40%	47%	0%	55%	55%	9%	34%	44%
over 50 years old	14%	35%	49%	0%	36%	36%	19%	34%	53%
TOGETHER	23%	77%	100%	9%	91%	100%	28%	72%	100%
Management and Supervisory Boards TOGETHER	16%	84%	100%	6%	94%	100%	20%	80%	100%

Thinking in terms of gender equality and equal opportunity in the PKP CARGO Group means not only striving for a balanced proportion of both sexes in the various job categories, but also taking care of a special group of employees, such as young parents. For most people, the decision to have a child requires a redefinition of life's priorities and learning how to combine the new role with their existing ones. The PKP CARGO Group as an employer

strives to make it easier for employees who are parents to return to work and balance both roles. We support parents by, among other things, offering them flexible working hours and pre-kindergarten subsidies. PKP CARGO Group also offers benefits from the social fund, such as holiday subsidies. It also gives employees the opportunity to enjoy benefits for the whole family, such as life insurance or a health program.

TABLE: DIVERSITY OF GOVERNING BODIES AND EMPLOYEES

GRI: 405-1; S-P1

Percentage of employees who belong to categories listed below	PKP CARGO Group			PKP CARGO S.A.			Subsidiary companies		
	W	M	Total	W	M	Total	W	M	Total
senior management									
under 30 years old	0%	1%	1%	0%	0%	0%	0%	1%	1%
from 30 to 50 years	17%	31%	48%	17%	26%	43%	16%	35%	52%
over 50 years old	17%	34%	51%	17%	40%	57%	18%	29%	47%
TOGETHER	34%	66%	100%	34%	66%	100%	34%	66%	100%
middle management									
under 30 years old	0%	1%	1%	0%	0%	0%	0%	0%	1%
from 30 to 50 years	15%	34%	49%	12%	32%	44%	21%	38%	59%
over 50 years old	15%	35%	50%	16%	40%	56%	13%	27%	40%
TOGETHER	30%	70%	100%	28%	72%	100%	34%	66%	100%
other employees									
under 30 years old	1%	7%	8%	1%	6%	7%	2%	10%	12%
from 30 to 50 years	8%	27%	35%	8%	24%	32%	8%	35%	43%
over 50 years old	16%	41%	57%	18%	42%	61%	7%	39%	45%
TOGETHER	25%	75%	100%	28%	72%	100%	16%	84%	100%
Percentage of all employees by age and gender									
under 30 years old	1%	7%	8%	1%	6%	7%	2%	10%	11%
from 30 to 50 years	9%	27%	36%	9%	24%	33%	9%	35%	44%
over 50 years old	15%	41%	56%	18%	42%	60%	7%	38%	45%
TOGETHER	25%	75%	100%	28%	72%	100%	17%	83%	100%

TABLE: RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN

GRI: 405-2

Ratio of base salary received by women in comparison to men in the organisation	PKP CARGO Group	PKP CARGO S.A.	Subsidiary companies
senior management	0,84	0,99	0,81
middle management	0,89	1,00	0,87
other employees	1,1	1,11	1,1

Ratio of total salary received by women in comparison to men in the organisation	PKP CARGO Group	PKP CARGO S.A.	Subsidiary companies
senior management	0,72	0,99	0,68
middle management	0,9	1,00	0,88
other employees	0,94	0,88	0,94

TABLE: PARENTAL LEAVE

GRI: 401-3

	PKP CARGO Group			PKP CARGO S.A.			Subsidiary companies		
	W	M	Total	W	M	Total	W	M	Total
Total number of employees that were entitled to parental leave, by gender; from 1.01.2022 to 31.12.2022	456	1445	1901	382	1326	1708	74	119	193
Total number of employees that took parental leave, by gender, from 1.01.2022 to 31.12.2022.	181	262	443	122	255	377	59	7	66
Total number of employees that returned to work in the reporting period after parental leave ended, by gender, from 1.01.2022 to 31.12.2022	143	256	399	119	251	370	24	5	29
Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work, by gender, from 1.01.2021 to 31.12.2021.	125	237	362	112	237	349	13	-	13
Number of employees who returned to work after their parental leave ended in previous reporting year (2021)	137	267	404	120	266	386	17	1	18
Employee Return index	79%	98%	90%	98%	98%	98%	41%	71%	44%
Employee Retention Index	91%	89%	90%	93%	89%	90%	76%	0%	72%



TABLE: NUMBER OF DISABLED EMPLOYEES IN PKP CARGO GROUP AND PFRON EXPENDITURE

GRI: 2-30

2022	PKP CARGO Group	PKP CARGO S.A.	Subsidiary companies
Number of disabled employees	248	144	104
% disabled among employees	1,2%	1,0%	1,8%
PFRON expenditure	26 133	21 387	4 746

2021	PKP CARGO Group	PKP CARGO S.A.	Subsidiary companies
Number of disabled employees	215	131	84
% disabled among employees	1,0%	0,9%	1,4%
PFRON expenditure	25 788	21 003	4 785

DIALOGUE AND ENGAGEMENT WITH SOCIAL STAKEHOLDERS

GRI: 2-30, S-P4

CAPITALS:



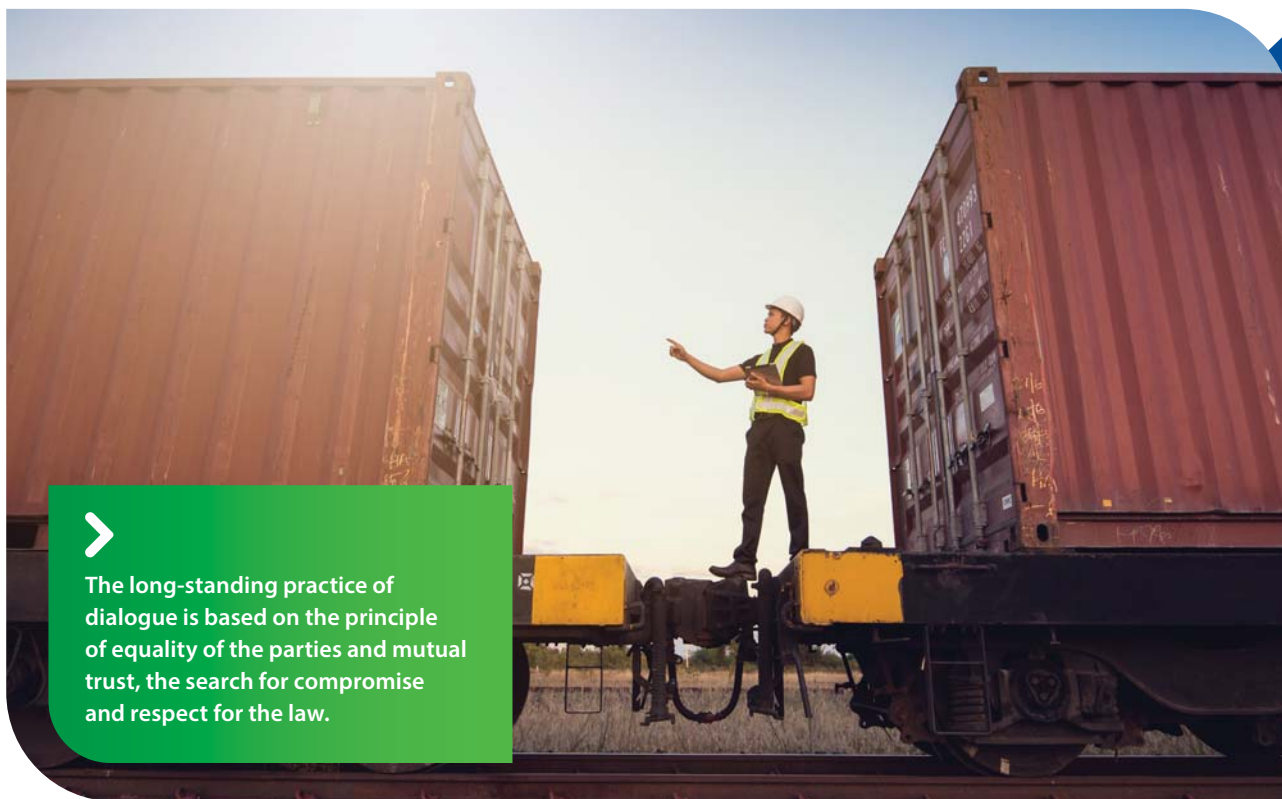
The PKP CARGO Group respects the freedoms that make up the canon of human rights. One of those rights is the right of association in a trade union. Although today the PKP CARGO Group is a modern logistics operator, it does not forget that the struggle for this right was one of the cornerstones of the social movement and political transformation that began in 1980. Railway workers were also involved in these historic events, and today the PKP CARGO Group is a partial heir of that railway organization.

Freedom of association in trade unions and the resulting high level of representation have created a culture of dialogue and participation in the PKP CARGO Group. This requires both management and employee representatives to be able to listen and talk to each other, which is not always easy. This is a kind of business competence that is sorely lacking in companies today, and that remains necessary to maintain an effective dialogue based on partnership with broadly defined stakeholders and the community.

The management boards of PKP CARGO Group companies cooperate with trade unions on an ongoing basis in various areas, e.g. in the development and performance of the



Company Collective Bargaining Agreements. The execution of such agreements in distinct companies of the PKP CARGO Group enabled them to formally detail and solidify the nature of the relationship between these companies and trade unions. Their purpose is to ensure appropriate working conditions and fair employee compensation as well as opportunities for professional and personal development of employees and respect for their interests while abiding by the principles of fair and equal treatment. For companies and their managers, these documents provide a clear framework for making decisions that take into account both business interests and the need to create a stable and secure workplace and social peace within the organization. One of the most important manifestations of this cooperation is the presence of one employee representative on the Management Board and three employee representatives on the Supervisory Board of PKP CARGO S.A., where the crew itself elects its representatives to the corporate bodies.



The long-standing practice of dialogue is based on the principle of equality of the parties and mutual trust, the search for compromise and respect for the law.

The culture of dialogue supports the CSR Policy of PKP CARGO S.A. and is also a measure of organizational management in the spirit of the PN-ISO 26000 standard. The long-standing practice of dialogue is based on the principle of equality of the parties and mutual trust, the search for compromise and respect for the law. At the same time, it promotes the idea of partnership, which it sees as a natural evolution of social dialogue under market economy conditions, with globalization and increased competition, and as a factor for sustainable business development, job preservation and social improvement. This dialogue is developed in a consistent and long-term manner, including on the basis of the Good Principles for Social Dialogue adopted by the Social Partners in 2017, which refer to general human values: responsibility, honesty, respect, openness, discipline. Jointly developed standards, adapted to the Company's business needs, serve to raise awareness of the important role of an open, partnership-based approach in seeking solutions that are optimal for both parties involved in the dialogue.

Since 2005, PKP CARGO S.A. has operated on the basis of the Company Collective Bargaining Agreement and other agreements governing the areas of mutual obligations and shaping relations between the employer and trade union organizations representing employees. In order to ensure transparent rules of cooperation, PKP CARGO S.A. updates,

on an ongoing basis, the internal regulations governing the cooperation with its social partners, i.e. the trade unions operating in the company. Because the Company is composed of a group of employers, dialogue with social partners is conducted by:

- » **at the Company level** - the President of the Management Board or a person designated thereby and the competent statutory bodies of supra-company trade unions operating at the level of PKP CARGO S.A. and company trade unions being a party to the CCBA;
- » **at the Company's Head Office level** – a person designated by the President of the Management Board and the competent statutory bodies of company trade unions;
- » **at the Company's unit level** – the Company's unit manager and the competent statutory bodies of company trade unions. The main form of dialogue is regular meetings (usually held once a month at the unit level and once a quarter at the Company level), to discuss current issues of importance to both parties.

Fundamental and crucial matters are discussed during regular additional meetings of the PKP CARGO S.A. Management Board with representatives of trade union organizations that are parties to the Company Collective Bargaining Agreement.



Social capital in the form of the culture of dialogue

CAPITALS:



Social capital in the form of the culture of dialogue
The culture of social dialogue makes it easier to diagnose and resolve contentious issues at an early stage. It makes the organization itself much more resilient to unexpected and sharp social conflicts. As a result, it is more predictable than an organization where unions do not exist and where problems can grow and escalate at the moment least expected by customers and shareholders.

The openness of the parties to constructive dialogue has allowed the management board of PKP CARGO S.A. to maintain good relations with the Social Stakeholder and facilitate joint resolution of even the most difficult issues. One such example may include the agreement concluded on 24 January 2023 under the collective dispute resolution procedure opened for a dispute initiated by a letter of 1 March 2022 between the Parties to the Company Collective Bargaining Agreement for PKP CARGO S.A. employees. It called for:

- » improvement of working conditions,
- » increase of salary of employees and maintenance of competitive salary rates,
- » ensuring greater job satisfaction while ensuring continuity of business processes and reducing operational risk.



Impact of PKP CARGO Group's activities

+ Benefits

- » creation of approximately 20 thousand jobs directly in PKP CARGO Group companies and additional jobs in entities cooperating with the Group
- » development of personal competencies of employees
- » cash transfers to the economy in the form of salaries but also indirectly in the form of a range of non-salary benefits
- » support for retired employees

- Costs

- » potential threat to the lives and health of employees (OHS) (residual risk that cannot be eliminated)



5

**Stable, trustworthy
and transparent
market player**

Strategic outlook

GRI: 3-3

Adopting and then observing transparent principles, procedures and policies regulating the individual aspects of PKP CARGO Group's activities is necessary not only for effective and efficient but also responsible management. On the other hand, the transparency of the decision-making process or the existence of mechanisms that prevent the risk of conflicts of interest or, more generally, the risk of making business decisions based on non-substantive criteria, allows the PKP CARGO Group not only to adopt solutions that are

optimal for growth, but also to build trust and credibility in its environment, including the financial markets. This gives the Group greater opportunities to access financing or avoid social unrest. Even today, the ability to engage in constructive dialogue with trade unions is part of the social capital whose importance cannot be overstated. It is worth mentioning that experience in building relationships with stakeholders is one of the criteria for selecting candidates for PKP CARGO S.A.'s Management Board members.



➤ The ability to engage in constructive dialogue with trade unions is part of the social capital whose importance cannot be overstated

Threats and challenges

In recent years, the PKP CARGO Group has adopted a number of policies and procedural solutions that form the framework of corporate governance. Further principles and solutions are still to be implemented. The policies described below generally apply to the parent company, PKP CARGO S.A. The challenge that the PKP CARGO Group faces is to standardize and unify them across the whole group. It is a necessary undertaking, which will enable effective and comprehensive management of each aspect of the social and environmental impact of the entire organization. An

even greater challenge is creating awareness of these policies and, more importantly, trust among employees.

If the uniform policies and procedures are not implemented effectively, this could undermine the effectiveness of the Group's corporate governance. This in turn could make investors and lenders more cautious and financing could become less accessible and potentially more expensive.



Area management and actions taken

ETHICAL STANDARDS

GRI: 2-26



Ethical issues, including descriptions of unacceptable behavior, are addressed in the Code of Ethics and the Anti-Corruption and Gift Policy. At the end of 2022, these documents were in force in PKP CARGO S.A. and work was conducted to implement unified standards in other PKP CARGO Group companies, which included the development of the rules of cooperation for the management of ethics between the Compliance Department of PKP CARGO S.A. and compliance officers in the subsidiaries.

These regulations establish communication channels, including anonymous communication channels, which facilitate safe reporting of any violations and abuses by employees but also by individuals from outside of the Company (e.g. clients, suppliers, business partners). All reports of violations, regardless of how they are reported, will be reviewed and handled by the Compliance Department.

In order to prevent potential violations, the Compliance Department conducts internal communication campaigns and training, promoting the rules stipulated in the Code of Ethics and in the Anti-Corruption Policy. It also educates employees in this respect.

Code of Ethics

GRI: 2-26



The Code of Ethics, which is in place in PKP CARGO S.A. was developed with the active involvement of the Company's employees and clients. It contains a list of values and rules of conduct that guide the Company in its relationships with employees, clients, suppliers, competitors and the social environment. Ethics management is supported on a day-to-day basis by the Ethics Officer and the Compliance Officer.

The Ethics Officer takes action related to, among other things: receiving, registering, evaluating and investigating potential violations of ethical standards. It also conducts communication activities to raise awareness and promote solutions related to ethics management. The work of the Ethics Officer is supervised by the Compliance Officer. The Compliance Officer is responsible for overseeing the internal review process and reporting the results of ethics management (reports, corrective actions taken, etc.) to the Audit Committee of the Supervisory Board and the Company's Management Board.

At present, the subsidiaries have their own ethics and anti-corruption rules, but there are plans to unify the rules in this area for the entire PKP CARGO Group.



Ethical issues, including descriptions of unacceptable behavior, are addressed in the Code of Ethics and the Anti-Corruption and Gift Policy.



➤ In 2022, no cases of corruption were identified in the PKP CARGO Group. Also, no proceedings were initiated, in which PKP CARGO S.A. or its employees were accused of corruption.

Anti-Corruption and Gift Policy

GRI: 2-26, 205-3



PKP CARGO S.A. does not accept any conduct that shows signs of corruption or bribery. In addition to strict compliance with the applicable laws and best market standards to prevent corruption, it recognizes the responsibility accompanying that comes with being the market leader.

Corruption prevention issues are regulated by the “PKP CARGO S.A. Anti-Corruption and Gift Policy”. It contains universal standards of conduct. The rules contained in the Policy are binding for the Company’s employees, all individuals cooperating with it based on civil-law agreements and other individuals performing any activities on behalf of or for PKP CARGO S.A.

As a result, all actual or potential suppliers are treated in the same way and have equal access to cooperation opportunities and their selection is clear and transparent. Consequently, PKP CARGO S.A. is in a position to select the best possible business partners. In 2022, no cases of corruption were identified in the PKP CARGO Group. Also, no proceedings were initiated, in which PKP CARGO S.A. or its employees were accused of corruption.

Reporting of potential violations

GRI: 2-25

PKP CARGO S.A. offers its employees and other stakeholders (including clients, suppliers, business partners) the opportunity to safely submit information on possible violations, including suspicions of corruption and bribery. A whistleblower may report irregularities by name or anonymously, i.e., he or she may approach notify the Coordinator for the ethics and counteracting fraud and corruption (Ethics Officer) in the Compliance Department or submit a report through an external entity that guarantees protection of the whistleblower’s personals (the dialogue is conducted using a PIN code). In both cases, a verification procedure is always carried out by the Compliance Department.

After it is completed, the Compliance Department may issue recommendations and then monitor their implementation. The Compliance Officer regularly informs the President of the Management Board about any conducted verification procedures concerning, among other issues, corruption, conflict of interest, personal conflicts, workplace harassment, etc. The Compliance Officer also keeps a Register of Reports on Violations of the Anti-Corruption Policy at PKP CARGO S.A. and a Register of Reports on Violations of the PKP CARGO S.A. Code of Ethics.

In 2022, several cases of ethical violations were recorded. These cases were explained in detail during the review process and recommendations were made to prevent such behavior in the future.



TRANSPARENCY IN GOVERNANCE BODIES

Appointment of members of the governance body

GRI: 2-10



The rules for appointing members of the highest governance body of PKP CARGO S.A. are clearly defined in the Articles of Association and in the Bylaws for Appointing Management Board Members in PKP CARGO S.A., as well as in the Bylaws for the Election of Candidates for the Employee Representatives to the Management Board of PKP CARGO S.A. and for Employee Representatives to the Company's Supervisory Board and the Procedure for their Dismissal. Management Board members are appointed for a joint three-year term of office by the Supervisory Board. The process of appointing Management Board Members appointment is carried out with the involvement of the Nomination Committee. Unless the Supervisory Board decides otherwise, the recruitment procedure is prepared and organized by a professional personnel consultancy company selected by a resolution adopted by the PKP CARGO S.A. Supervisory Board. The respective candidates for Management Board Members submit the relevant representations.

The Supervisory Board Nomination Committee, which oversees the recruitment process, plays a key role in the appointment of Management Board Members. The

Supervisory Board also formally elects one Management Board Member from among the candidates proposed by PKP CARGO employees.

Future members of the Management Board should have, among other things, experience in managing teams, including several years of experience in positions classified as senior management, leadership skills, the ability to build a culture of cooperation, negotiation and organizational skills, change management and crisis management skills, and a focus on achieving set goals. At the same time, no candidate should be selected on the basis of any irrelevant feature, i.e. one that is not related to the person's substantive competencies, in particular his or her inherent characteristics (such as race, origin, sex or disability).

In its recruitment procedures, whether for Management Board Members or for the best employees for other positions, the Group avoids any criteria that could bear the hallmarks of discrimination, including reverse discrimination. The noticeable prevalence of men in the corporate bodies of PKP CARGO S.A. and other PKP CARGO Group companies is not a manifestation of deliberate actions by any of the companies, but a consequence of the situation in the entire industry. A disproportionately small number of women work in the industry and are educated in related fields. As a result, women are much less represented except in selected areas (e.g., finance, human resources). The PKP CARGO Group supports their development and promotion and protects them against discrimination, should it occur.

The management of the PKP CARGO Group believes that a change that will lead to more women wanting to associate their careers with the railway industry will broaden the pool of candidates and allow for the promotion of people with more potential, since today, due to cultural factors, it is mostly men that are associated with railway professions and, as a result, personnel decisions are limited to them.



In its recruitment procedures the Group avoids any criteria that could bear the hallmarks of discrimination, including reverse discrimination.





Compensation of members of governance bodies

GRI: 2-19, 2-20



Since 2020, PKP CARGO S.A. has had in place the “Remuneration Policy for the Management Board and Supervisory Board Members of PKP CARGO S.A.”, which sets out the clear rules for compensating top officers in the Company. The Report on compensation of Members of the PKP CARGO S.A. Management Board and Supervisory Board ensures full transparency in this area. PKP CARGO Group subsidiaries do not have their own remuneration policies for the Management Board and Supervisory Board Members.

The Members of the PKP CARGO S.A. Management Board are entitled to a fixed monthly basic compensation and to a variable compensation, depending on the achievement of financial or non-financial targets, as well as other additional benefits in cash and kind (e.g. a company car). The compensation of Supervisory Board Members consists only of a fixed compensation determined by the Shareholder Meeting.

» Base compensation

Base compensation varies depending on the position held and the scope of powers of the respective Management Board Member. Its amount is set by the Supervisory Board taking into account the relevant provisions of law. This follows a recommendation issued by the Nomination Committee.

» Variable compensation

Variable compensation of the Management Board Members is determined in a balanced manner taking into account the financial situation of the company and the management objectives set. Its total amount may not exceed 50% of the basic remuneration payable in the financial year. Variable compensation is partially linked to the Company's performance, which means that the compensation system indirectly contributes to the development of the Company's business and the improvement of its financial results.

The principles of awarding variable compensation, setting management objectives, defining their importance and the criteria for their implementation and settlement are defined by a separate resolution of the PKP CARGO S.A. Supervisory Board. The Supervisory Board sets management objectives

not later than by the end of the 4th month of each consecutive financial year in which these objectives are to be achieved.

» Payment for termination of a contract

PKP CARGO S.A. enters into management contracts with the Management Board Members for the term of their office with the obligation to provide personal services. The term of office is defined by the Company's Articles of Association. The management contract with a Management Board Member is terminated as of the date on which the member ceases to hold office. The aforementioned contract may be terminated by the Company with a notice period indicated therein, but not less than one month. Such a contract may provide for a right of the Management Board Member to severance pay in the event of its termination or expiry.

» Non-competition

The Management Board Members of PKP CARGO Group companies have access to confidential information concerning the companies, therefore non-competition agreements are concluded with them during their term of office in the Management Board and after its termination. The non-competition clause is in force for the period indicated in the contract and is set by the Supervisory Board individually for each Management Board Member. On account of the non-competition clause, the Management Board Member is entitled to compensation for each month of refraining from competitive activities. If a Management Board Member is suspended then, during the period of suspension, he or she is not entitled to any benefits in cash or kind, unless the Supervisory Board decides otherwise.

» Pension benefits

The Members of the PKP CARGO S.A. Management Board and Supervisory Board may voluntarily participate in the Employee Capital Plans launched by the Company, in accordance with the general rules of this scheme. The remuneration policy of PKP CARGO S.A.'s governing bodies does not consider the objectives and results with regard to managing the Company's economic, environmental and social impact. Currently, some subsidiaries have their own regulations regarding the compensation of the Management Board and Supervisory Board, but these regulations are to be unified for the entire PKP CARGO Group.

» Information on clawbacks

In the past activities of PKP CARGO S.A., there were no pre-requisites for the Company to claw back variable compensation components from a Management Board Member.



SUPPLY CHAIN MANAGEMENT

GRI: 2-7

CAPITALS:



The supply chain of the PKP CARGO Group includes, among others, access to rail infrastructure, supply of rolling stock, fuel and energy, lubricating oils, spare parts for rolling stock repairs and inspections and related services. The Group offers comprehensive logistics services and purchases car freight services through its companies. It also orders clothing, personal protective equipment and chemicals, among other things. Its suppliers also include entities providing, for example, licenses, certificates, access, IT hardware, software and IT services.

In an effort to achieve full transparency of the procurement process, the PKP CARGO Group makes all purchases on the basis of a publicly available Regulations for awarding contracts, which sets out the general rules for awarding contracts (it is available at: <https://ezakupy.pkpcargo.com/>). This document is binding for both the ordering party and the contractor. The Group also has in place the Procurement Instructions, which are directed solely at the ordering party. The instructions describe in detail all phases of the procurement process, from planning and needs analysis, through market research, preparation and execution of the procurement process, to contractor selection, contract signing and contractor evaluation.

Since the PKP CARGO Group offers the highest quality of services, it pays special attention to the selection of its key suppliers. Evaluation criteria allow it to make an objective choice and reduce the risk of making a subjective choice or a choice that is not based on merit. The Group's procedures provide for the exclusion of suppliers who have violated the principles of social coexistence in business dealings, including honesty, reliability and loyalty. Additionally, after a service is provided to the PKP CARGO Group, each supplier is assessed via the Supplier Assessment Card. The assessment also covers the parameters of each order, including timeliness, quality of execution, contractual penalties/complaints, cooperation (including ease of contact). The assessment affects future relations with such suppliers, opening the prospects for long-term cooperation with the best and most reliable partners.

Expectations included in the Code of Conduct for Suppliers of PKP CARGO CONNECT Sp. z o.o.:

- » Compliance with occupational health and safety rules
- » Respect for employee rights
- » Ensuring appropriate conditions at work
- » Respect for the right to personal development
- » Compliance with environmental protection laws
- » Efforts to permanently reduce our environmental footprint
- » Maintaining the highest standards of fairness in all areas of cooperation

In accordance with the procedures of the Integrated Management System, the PKP CARGO Group also assesses freight operators. Depending on the department (freight forwarding by road, by railway, by sea), the assessment is made on a quarterly or annual basis. It concerns mainly standards for providing services, focusing on technical aspects (rolling stock, timeliness, accessibility, contact/information), but also taking ethical issues into consideration. If any violations and irregularities are found in a business partner's conduct (e.g. exposures to social, environmental or ethical risks), the cooperation with the business partner is suspended. No violations have been found in agreements which were in force in 2022 or those

CUSTOMER PRIVACY

GRI:3-3(418), 418-1

The issue of customer privacy at PKP CARGO S.A. is regulated by the "Personal Data Protection Policy at PKP CARGO S.A." and "PKP CARGO S.A. Privacy Policy". In 2022, the PKP CARGO Group recorded no gross breaches of customer privacy.



STAKEHOLDER ENGAGEMENT

GRI: 2-29



Unlike many companies that have downplayed the role of social stakeholders in management for decades, the PKP CARGO Group has conducted dialogue with the trade unions operating in its companies. Relationships with social stakeholders are often contentious and conversations can be difficult, but they offer an opportunity to find compromise and build the future together. The ability to listen to stakeholders, to consider their expectations, to respond to them, even if the response is not always what the other side would expect, and then to seek compromise is a skill that cannot be overestimated.

Regular contact with social and other stakeholder groups provides insight into concerns, expectations or feedback on the Group's activities in many areas. In many cases, this insight provides visibility into a problem before it becomes serious. As a result, the Group can more quickly and effectively take corrective action to reduce its negative impact and enhance its positive impact on its surroundings. This applies to both local communities and the natural environment. Stakeholder dialogue and engagement would not be possible without mutual respect despite differences of opinion. They also require honesty in communicating decisions, transparency and openness in operations.

DESCRIPTION OF THE STAKEHOLDERS

Stakeholders	Description
» Employees	The PKP CARGO Group employs approx. 20 thousand people. The Group's employees form its intellectual capital (knowledge and experience) on which success may be built.
» Customers	The biggest recipients of the services provided by the PKP CARGO Group are heating plants, power plants, combined heat and power plants, enterprises and local governments.
» Suppliers/ counterparties	Operating on the freight transport market, the Group is dependent on the largest supplier of access services to rail infrastructure in Poland, namely PKP Polskie Linie Kolejowe S.A. (PKP PLK). In turn, PKP Energetyka S.A. is the Group's main supplier of traction fuel and traction energy.
» Shareholders	PKP CARGO S.A.'s share capital is divided into 44,786,917 shares. The main shareholders are: PKP S.A., Nationale-Nederlanden OFE, Allianz Funds and Generali PTE
» Stock market analysts	Analysts representing brokerage houses or investment funds.
» Financial institutions/ funds	Banks and insurers are financial institutions cooperating with the PKP CARGO Group to the largest extent. In addition to day-to-day financial and insurance service, they provide, among others, funding for execution of the Group's investment plans.
» Media	The Company is an entity of public interest due to its strategic role in the transport of freight. Moreover, as a stock exchange-listed company, PKP CARGO is interested in reliable communication through all media channels.

DESCRIPTION OF THE STAKEHOLDERS

» Social organizations/ local communities	Social organizations constitute one of the engines of development of a civil society. The PKP CARGO Group actively supports environmental protection initiatives (including initiatives related to ecology of transport), science and education, culture and art, safety and leveling out social differences.
» Supervisory Board	Members of the PKP CARGO S.A. Supervisory Board
» Competitors	Companies conducting the same or similar business activities to PKP CARGO or its subsidiaries. Due to the Group's involvement in business operations conducted outside the Polish market, foreign entities with a similar business profile are also considered competitors.
» Business partners	Companies, units and organizations with which PKP CARGO cooperates in the execution of joint initiatives or business projects.
» Industry organizations	Organizations gathering companies falling into the "rail freight transport" category operating both domestically and internationally.
» Local governments	Administrative bodies (territorial and local) representing communities, established to direct and manage public affairs in the interest of local residents.
» Potential employees	Candidates for employees, trainees, apprentices, persons in the process of recruitment for work, students of institutions of higher education and schools with a professional profile that prepare them for work in the rail sector.
» Environmental organizations	Organizations whose goal and mission are to support and advance environmental causes.
» Subcontractors	Businesses cooperating with the PKP CARGO Group and rendering commissioned services or delivering ordered products.
» Investors	Retail investors – persons holding shares of PKP CARGO S.A. stock.
» Other stakeholders	Other businesses, organizations or individuals and persons interested in the activities and financial performance of PKP CARGO S.A.

Impact of PKP CARGO Group's activities

+ Benefits

- » Increased credibility in the eyes of stakeholders and lower risk of conflicts
- » Ability to detect irregularities and abuses more quickly and effectively.

- Costs

- » The need to commit resources to ensure that the mechanisms are effective



PKP CARGO Group 2022 financial results

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2022	2021
Revenues from contracts with customers	5 390,1	4 266,5
Consumption of electricity and traction fuel	(762,5)	(550,2)
Infrastructure access services	(562,5)	(530,0)
Transport services	(361,3)	(350,7)
Other services	(537,9)	(413,9)
Employee benefits	(1 738,4)	(1 622,0)
Other expenses	(359,5)	(309,1)
Other operating revenue and (expenses)	(1,7)	22,6
EBITDA	1 066,3	513,2
Depreciation and impairment losses	(733,0)	(722,0)
EBIT	333,3	(208,8)
Financial income and (expenses)	(150,6)	(60,3)
Share in the profit / (loss) of entities accounted for under the equity method	9,1	4,7
Profit before tax	191,8	(264,4)
Income tax	(43,8)	39,1
NET PROFIT	148,0	(225,3)
OTHER COMPREHENSIVE INCOME		
Measurement of hedging instruments	(6,7)	13,2
Income tax	1,3	(2,5)
Exchange differences resulting from conversion of financial statements	34,4	37,7
Total other comprehensive income subject to reclassification to profit or loss	29,0	48,4
Actuarial profit/(loss) pertaining to employees benefits	18,9	91,0
Income tax	(3,6)	(17,3)
Measurement of equity instruments at fair value	-	-
Total other comprehensive income not subject to reclassification to profit or loss	15,3	73,7
Total other comprehensive income	44,3	122,1
TOTAL COMPREHENSIVE INCOME	192,3	(103,2)
Net profit:		
Net profit attributable to equity holders of the parent company	148,0	(225,3)
Comprehensive profit		
Total comprehensive income attributable to shareholders of the parent company	192,3	(103,2)
Earnings per share (PLN per share)		
Average weighted number of shares	44 786 917	44 786 917
Earnings per share - normal	3,31	(5,03)
Earnings per share - diluted	3,31	(5,03)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2022	31/12/2021
ASSETS		
Rolling stock	4 208,3	4 241,6
Other property, plant and equipment	891,1	893,4
Right-of-use assets	972,2	1 030,7
Investments in entities accounted for under the equity method	41,8	36,7
Trade receivables	7,3	4,2
Other lease payments	8,7	8,5
Other assets	48,6	40,5
Deffered tax assets	176,1	203,1
Total non-current assets	6 354,1	6 458,7
Inventories	200,8	164,6
Trade receivables	769,4	611,7
Lease receivables	0,6	0,6
Income tax receivables	1,6	4,5
Other assets	151,9	103,1
Cash and cash equivalents	181,5	254,5
Total current assets	1 305,8	1 139,0
Non-current assets classified as held for sale	0,3	15,7
TOTAL ASSETS	7 660,2	7 613,4
EQUITY AND LIABILITIES		
Share capital	2 239,3	2 239,3
Supplementary capital	678,0	771,7
Other items of equity	(65,9)	(75,8)
Exchange differences resulting from conversion of financial statements of foreign operations	176,9	142,5
Retained earnings	204,6	(37,1)
Total equity	3 232,9	3 040,6
Debt liabilities	1 711,5	2 090,3
Trade payables	7,9	2,3
Investment liabilities	46,7	111,8
Provisions for employee benefits	483,5	529,1
Other provisions	0,5	7,0
Deffered tax liability	94,5	93,3
Other liabilities	-	-
Total non-current liabilities	2 344,6	2 833,8
Debt liabilities	660,7	473,9
Trade payables	803,8	639,0
Investment liabilities	143,0	221,4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Provisions for employee benefits	156,7	127,3
Other provisions	21,4	23,3
Other liabilities	297,1	254,1
Total current liabilities	2 082,7	1 739,0
Total liabilities	4 427,3	4 572,8
TOTAL EQUITY AND LIABILITIES	7 660,2	7 613,4

CONSOLIDATED CASH FLOW STATEMENT

	2022	2021
Cash flow on operating activities		
Gross result For the financial year	191,8	(264,4)
Adjustments:		
Depreciation and impairments	733,0	722,0
(Profit) / loss on the sale/liquidation of property, plant and equipment and intangible assets	(18,8)	(19,2)
Foreign exchange (gains)/losses	7,8	4,8
(Profits) / losses on interest, dividends	122,4	50,1
Received / (paid) interest	0,3	0,7
Received / (paid) interest income tax	(14,0)	(11,3)
Change in working capital:	(17,1)	125,1
Other adjustments	13,0	92,0
Net cash on operating activities	1 018,4	699,8
Cash flow on investing activities		
Expenditures to acquire property, plant and equipment and intangible assets	(856,9)	(808,5)
Proceeds from the sale of property, plant and equipment and intangible assets	75,9	158,4
Expenditures to acquire subsidiaries, associates and joint ventures	-	-
Proceeds from dividends received	4,4	2,9
Other inflows from investing activities	3,7	1,6
Net cash (used) / generated in connection with investing activities	(772,9)	(645,6)
Cash flow on financing activities		
Expenditures on financial leases	(140,1)	(128,5)
Proceeds from drawn down loans/ credit facilities	141,4	323,9
Repayment of loans/ credit facilities	(309,0)	(348,6)
Received / (paid) current account overdrafts	(104,6)	(42,4)
Subsidies received	96,1	93,3
Other proceeds / (expenditures) concerning financing activities	(3,3)	(4,1)
Net cash from financing activities	(319,5)	(106,4)
Net increase / (decrease) in cash and cash equivalents	(74,0)	(52,2)
Cash and cash equivalents at the beginning of reported period	254,5	306,0
Impact exerted by FX rate movements on the cash balance in foreign currencies	1,0	0,7
Cash and cash equivalents at the end of the reporting period, including:	181,5	254,5
<i>restricted</i>	<i>47,3</i>	<i>60,6</i>



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About the report

GRI: 2-3, 2-5

This report has been prepared based on the integrated reporting principles as described in the International <IR> Framework (January 2021) drawn up by the International Integrated Reporting Council (IIRC) with reference to indicators set forth in GRI Standards 2021. The report covers the year 2022, i.e. the period from 1 January 2022 to 31 December 2022, and all companies of the PKP CARGO Group whose financial data are consolidated in the financial reports statements (unless the report states to the contrary, e.g. that the scope of companies covered by the report is limited). The report has not been reviewed by an external auditor.

GRI: 3-1

In determining the scope of the report, we were guided by the results of an analysis conducted in late 2022 and early 2023 for the purpose of preparing the Sustainability Report (a stakeholder survey on material topics based on the guidelines set forth in the GRI Standards (GRI 3: Material Topics 2021)).



Contact persons

Should you have any questions regarding the report or information included herein, please feel free to contact:

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GRI Index

Application Statement

PKP CARGO Group reported data for 2022 with reference to GRI standards.

Applied GRI 1

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