

# Separate Financial Statements of **PKP CARGO S.A.** for the financial year ended 31 December 2020

prepared in accordance with IFRS EU



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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	2020	2019	
Revenues from contracts with customers	2,936.6	3,572.0	<i>Note 2.1</i>
Consumption of traction electricity and traction fuel	(446.9)	(527.8)	<i>Note 2.2</i>
Services of access to infrastructure	(516.2)	(576.9)	
Other services	(289.5)	(322.0)	<i>Note 2.2</i>
Employee benefits	(1,239.6)	(1,339.0)	<i>Note 2.2</i>
Other expenses	(147.7)	(182.9)	<i>Note 2.2</i>
Other operating revenue and (expenses)	103.8	0.6	<i>Note 2.3</i>
<b>Operating profit without depreciation (EBITDA)</b>	<b>400.5</b>	<b>624.0</b>	
Depreciation, amortization and impairment losses	(615.1)	(583.8)	<i>Note 2.2</i>
<b>Profit / (loss) on operating activities (EBIT)</b>	<b>(214.6)</b>	<b>40.2</b>	
Financial revenue and (expenses)	(6.9)	(21.0)	<i>Note 2.4</i>
<b>Profit / (loss) before tax</b>	<b>(221.5)</b>	<b>19.2</b>	
Income tax	47.6	(27.5)	<i>Note 3.1</i>
<b>NET PROFIT / (LOSS)</b>	<b>(173.9)</b>	<b>(8.3)</b>	
<b>OTHER COMPREHENSIVE INCOME</b>			
Measurement of hedging instruments	(49.8)	9.4	<i>Note 6.1</i>
Income tax	9.6	(1.8)	<i>Note 3.1</i>
<b>Total other comprehensive income subject to reclassification in the financial result</b>	<b>(40.2)</b>	<b>7.6</b>	
Actuarial profits / (losses) on post-employment benefits	(45.4)	(46.2)	<i>Note 5.10</i>
Income tax	8.6	8.8	<i>Note 3.1</i>
Measurement of equity instruments at fair value	(0.7)	0.7	
<b>Total other comprehensive income not subject to reclassification in the financial result</b>	<b>(37.5)</b>	<b>(36.7)</b>	
<b>Total other comprehensive income</b>	<b>(77.7)</b>	<b>(29.1)</b>	
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(251.6)</b>	<b>(37.4)</b>	
<b>Earnings / (losses) per share (PLN per share)</b>			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings / (losses) per share	<b>(3.88)</b>	<b>(0.19)</b>	



**STATEMENT OF FINANCIAL POSITION**

	31/12/2020	31/12/2019	
<b>ASSETS</b>			
Rolling stock	3,809.2	3,892.3	<i>Note 5.1</i>
Other property, plant and equipment	474.7	492.9	<i>Note 5.1</i>
Rights-of-use assets	641.5	704.0	<i>Note 5.2</i>
Investments in related parties	840.0	807.0	<i>Note 5.3</i>
Lease receivables	24.4	19.7	<i>Note 5.6</i>
Financial assets	4.9	7.4	<i>Note 5.7</i>
Other assets	22.6	39.9	<i>Note 5.8</i>
Deferred tax assets	131.6	67.3	<i>Note 3.1</i>
<b>Total non-current assets</b>	<b>5,948.9</b>	<b>6,030.5</b>	
Inventories	95.0	79.2	<i>Note 5.4</i>
Trade receivables	366.5	391.4	<i>Note 5.5</i>
Lease receivables	2.8	1.2	<i>Note 5.6</i>
Income tax receivables	1.8	50.8	
Financial assets	2.3	4.8	<i>Note 5.7</i>
Other assets	56.5	82.4	<i>Note 5.8</i>
Cash and cash equivalents	180.5	380.0	<i>Note 4.4</i>
<b>Total current assets</b>	<b>705.4</b>	<b>989.8</b>	
Non-current assets classified as held for sale	12.7	-	
<b>TOTAL ASSETS</b>	<b>6,667.0</b>	<b>7,020.3</b>	
<b>EQUITY AND LIABILITIES</b>			
Share capital	2,239.3	2,239.3	<i>Note 4.2</i>
Supplementary capital	744.7	744.7	
Other items of equity	(139.5)	(61.8)	
Retained earnings	114.3	288.2	
<b>Total equity</b>	<b>2,958.8</b>	<b>3,210.4</b>	
Debt liabilities	1,897.6	1,920.0	<i>Note 4.1</i>
Investment liabilities	143.0	153.6	<i>Note 5.9</i>
Provisions for employee benefits	606.1	585.4	<i>Note 5.10</i>
<b>Total long-term liabilities</b>	<b>2,646.7</b>	<b>2,659.0</b>	
Debt liabilities	353.7	336.5	<i>Note 4.1</i>
Trade liabilities	215.6	233.5	
Investment liabilities	141.3	249.5	<i>Note 5.9</i>
Provisions for employee benefits	93.7	100.1	<i>Note 5.10</i>
Other provisions	13.0	33.4	<i>Note 5.11</i>
Other financial liabilities	2.7	2.2	
Other liabilities	241.5	195.7	<i>Note 5.12</i>
<b>Total short-term liabilities</b>	<b>1,061.5</b>	<b>1,150.9</b>	
<b>Total liabilities</b>	<b>3,708.2</b>	<b>3,809.9</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6,667.0</b>	<b>7,020.3</b>	

**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Supplementary capital	Other items of equity			Retained earnings	Total
			Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits/ (losses) on employee benefits	Measurement of hedging instruments		
<b>1/01/2020</b>	<b>2,239.3</b>	<b>744.7</b>	<b>(12.2)</b>	<b>(55.8)</b>	<b>6.2</b>	<b>288.2</b>	<b>3,210.4</b>
Net result for the financial year	-	-	-	-	-	(173.9)	(173.9)
Other comprehensive income for the financial year (net)	-	-	(0.7)	(36.8)	(40.2)	-	(77.7)
<b>Total comprehensive income</b>	-	-	(0.7)	(36.8)	(40.2)	(173.9)	(251.6)
<b>31/12/2020</b>	<b>2,239.3</b>	<b>744.7</b>	<b>(12.9)</b>	<b>(92.6)</b>	<b>(34.0)</b>	<b>114.3</b>	<b>2,958.8</b>
<b>1/01/2019 (audited)</b>	<b>2,239.3</b>	<b>596.7</b>	<b>(12.9)</b>	<b>(18.4)</b>	<b>(1.4)</b>	<b>511.3</b>	<b>3,314.6</b>
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	0.4	0.4
<b>1/01/2019 (restated)</b>	<b>2,239.3</b>	<b>596.7</b>	<b>(12.9)</b>	<b>(18.4)</b>	<b>(1.4)</b>	<b>511.7</b>	<b>3,315.0</b>
Net result for the financial year	-	-	-	-	-	(8.3)	(8.3)
Other comprehensive income for the financial year (net)	-	-	0.7	(37.4)	7.6	-	(29.1)
<b>Total comprehensive income</b>	-	-	0.7	(37.4)	7.6	(8.3)	(37.4)
Dividends	-	-	-	-	-	(67.2)	(67.2)
Other changes for the financial year	-	148.0	-	-	-	(148.0)	-
<b>31/12/2019</b>	<b>2,239.3</b>	<b>744.7</b>	<b>(12.2)</b>	<b>(55.8)</b>	<b>6.2</b>	<b>288.2</b>	<b>3,210.4</b>

Note 4.2



**CASH FLOW STATEMENT**

	2020	2019
<b>Cash flows from operating activities</b>		
<b>Profit / (loss) before tax</b>	<b>(221.5)</b>	<b>19.2</b>
<b>Adjustments</b>		
Depreciation, amortization and impairment losses	615.1	583.8 <i>Note 2.2</i>
(Profits) / losses on the sale and liquidation of non-financial non-current assets	(5.9)	(5.0)
(Profits)/ losses on FX differences	8.7	0.7
(Profits) / losses on interest, dividends	(12.6)	4.4
Received / (paid) interest	1.0	1.1
Received / (paid) income tax	40.8	(40.1)
Movement in working capital	46.9	127.1 <i>Note 4.5</i>
Other adjustments	(55.4)	(41.8) <i>Note 4.5</i>
<b>Net cash from operating activities</b>	<b>417.1</b>	<b>649.4</b>
<b>Cash flows from investing activities</b>		
Expenditures on the acquisition of non-financial non-current assets	(667.6)	(951.0)
Proceeds from the sale of non-financial non-current assets	47.1	15.1
Proceeds from dividends received	58.3	38.8
Inflows / (outflows) from bank deposits over 3 months	-	200.0
Other inflows / (outflows) from investing activities	3.1	3.7
<b>Net cash from investing activities</b>	<b>(559.1)</b>	<b>(693.4)</b>
<b>Cash flow from financing activities</b>		
Payments on lease liabilities	(78.8)	(66.6) <i>Note 4.1</i>
Proceeds from bank loans and borrowings	285.6	549.1 <i>Note 4.1</i>
Repayment of bank loans and borrowings	(280.2)	(226.2) <i>Note 4.1</i>
Interest paid on lease liabilities and bank loans and borrowings	(43.1)	(40.7) <i>Note 4.1</i>
Grants received	68.1	57.1
Dividends paid out to owners	-	(67.2)
Inflow / (outflow) as part of cash pool	(4.5)	0.8
Other outflows from financing activities	(4.6)	(4.7)
<b>Net cash from financing activities</b>	<b>(57.5)</b>	<b>201.6</b>
Net increase / (decrease) in cash and cash equivalents	(199.5)	157.6
Cash and cash equivalents at the beginning of the reporting period	380.0	222.4 <i>Note 4.4</i>
<b>Cash and cash equivalents at the end of the reporting period, including:</b>	<b>180.5</b>	<b>380.0</b> <i>Note 4.4</i>
<i>Restricted cash</i>	33.0	23.9 <i>Note 4.4</i>



## NOTES TO THE STANDALONE FINANCIAL STATEMENTS

### 1. General information

#### 1.1 Key information about the Company's business

##### Information about the Company

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

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

The Company's financial year is the calendar year.

The Company core business is rail transport of cargo. In addition to rail freight transport services, the Company also provides additional services:



The composition of the Company's management and supervisory bodies and the Company's shareholding structure as at 31 December 2020 are presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020 in [Chapters 9.11](#) and [9.4](#), respectively.

##### Information about the Group

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

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 19 subsidiaries. In addition, the Group held shares in 3 associated entities and 1 joint venture.

Additional information about subsidiaries, associates and interests in joint ventures is presented in [Note 5.3](#) to these Standalone Financial Statements.

The duration of individual Group companies is unlimited.

## 1.2 Basis for preparation of the financial statements

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

These Standalone Financial Statements for the year ended 31 December 2020 have been prepared on the assumption that the Company will continue to be a going concern in the foreseeable future. As at the preparation date of these Standalone Financial Statements, there are no circumstances indicating any substantial doubt about the Company's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

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

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

Note	Title	Amount recognized in the Standalone Financial Statements		Accounting Policy	Significant estimates and judgments
		2020	2019		
2.1	Revenues from contracts with customers	2,936.6	3,572.0	X	X
2.2	Operating expenses	(3,255.0)	(3,532.4)		
2.3	Other operating revenue and (expenses)	103.8	0.6		
2.4	Financial revenue and (expenses)	(6.9)	(21.0)		
3.1	Income tax	47.6	(27.5)	X	X
5.1	Rolling stock	3,809.2	3,892.3	X	X
5.1	Other property, plant and equipment	474.7	492.9	X	X
5.2	Rights-of-use assets	641.5	704.0	X	X
5.3	Investments in related parties	840.0	807.0	X	X
3.1	Deferred tax assets	131.6	67.3	X	X
5.4	Inventories	95.0	79.2	X	
5.5	Trade receivables	366.5	391.4	X	X
5.6	Lease receivables	27.2	20.9	X	
	Income tax receivables	1.8	50.8		
5.7	Financial assets	7.2	12.2	X	
5.8	Other assets	79.1	122.3	X	
4.4	Cash and cash equivalents	180.5	380.0	X	
	Non-current assets classified as held for sale	12.7	-		
4.2	Equity	2,958.8	3,210.4	X	
4.1	Debt liabilities	2,251.3	2,256.5	X	X
	Trade liabilities	215.6	233.5		
5.9	Investment liabilities	284.3	403.1	X	
5.10	Provisions for employee benefits	699.8	685.5	X	X
5.11	Other provisions	13.0	33.4	X	
	Other financial liabilities	2.7	2.2		
5.12	Other liabilities	241.5	195.7	X	
7.3	Contingent liabilities	148.2	148.3	X	X



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

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

As at 31 December 2020 and 31 December 2019, for the needs of valuation of the line items of the statement of financial position expressed in currencies other than PLN, the Company used the following exchange rates:

Currency	31/12/2020	31/12/2019
EUR	4.6148	4.2585

These Standalone Financial Statements were approved for publication by the Management Board on 31 March 2021.

### 1.3 Applied International Financial Reporting Standards platform

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

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

Standard / Interpretation	Effective date
Amendments to references to the IFRS Conceptual Framework	1 January 2020
Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of material	1 January 2020
Amendments to IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement" – IBOR reform	1 January 2020
Amendments to IFRS 3 "Business combinations" – Definition of a business	1 January 2020
Amendments to IFRS 16 "Leases" – COVID-19-Related Rent Concessions	1 June 2020

The above standards and interpretations had no material influence on the Accounting Policy applied by the Company.

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

In the opinion of the Management Board, the standards and interpretations mentioned below will not result in any major amendments to the Accounting Policy applied by the Company in the upcoming reporting periods:

Standard / Interpretation	Effective date
Amendments to IFRS 4 "Insurance contracts" – deferral of IFRS 9	1 January 2021
Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance", IFRS 16 "Leases" - IBOR Reform - phase 2	1 January 2021

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

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 31 December 2020 have not yet been endorsed by the EU and have not entered into effect. In the Company's Management Board's opinion, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Company:

Standard / Interpretation	Effective date
Amendments to IFRS 3 "Business combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	1 January 2022
Annual Improvements to IFRS 2018-2020 Cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term	1 January 2023
IFRS 17 "Insurance contracts"	1 January 2023
Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023

#### 1.4 Impact of the COVID - 19 pandemic on the Company's business

##### Impairment of the Company's non-current assets

In the financial year ended 31 December 2020, as a result of the COVID-19 pandemic, the Company achieved financial results that were lower than expected and accordingly an asset impairment test was conducted as at 31 December 2020. Additionally, as at 31 December 2020, impairment tests were conducted by PKP CARGO INTERNATIONAL a.s. and PKP CARGOTABOR Sp. z o.o. The tests showed no need to recognize an impairment loss allowance for assets as at 31 December 2020. Detailed information on the tests are described in [Notes 5.1](#) and [5.3](#) to these Standalone Financial Statements.

##### Assessment of expected credit losses

The Company has conducted an analysis of the impact of the COVID-19 pandemic on the calculation of expected credit losses, by incorporating the additional credit risk related to the current economic situation, which may cause deterioration of liquidity of business partners and consequently affect the ratio of recovery of trade receivables. Based on analysis of the payments of receivables to date, the Company observed that the payment levels of trade receivables presented in the statement of financial position as at 31 December 2020 did not differ significantly from the rates in previous periods. Additionally, some trade receivables are secured. The Company remains in touch with key contractors and has received no signals indicating an increased risk of non-payment of receivables. The Company has been analyzing the situation on an ongoing basis and if such indications arise it will update the assumptions adopted in the model for calculating the expected credit losses.

##### Impact on employee benefits

On 7 May 2020, the Company signed a framework agreements with trade unions regarding the reduction of the employees' working time by 10% but no less than 0.5 of the FTE, in the period from 1 June 2020 to 31 August 2020. At the same time, the employees affected by the reduced working time received their remuneration reduced pro rata to the reduction of working time, however such remuneration was not lower than the minimum employee compensation calculated based on the laws on minimum wages. The reduction of the working time resulted in a decrease in employee benefits in the period from June to August 2020 by PLN 29.4 million.

Under the Anti-Crisis Act, the Company was awarded support from the Guaranteed Employee Benefit Fund for the period from 1 June to 31 August 2020 in the amount of PLN 98.3 million, payable in three tranches, i.e. for each month covered by the framework agreement.

##### Impact on other expenses

Other expenses incurred by the Company for COVID-19 preventive measures amounted to PLN 3.2 million and included mainly the costs incurred for personal protection equipment. Additionally, in April 2020, the Company donated PLN 1.0 million to the PKP Group Foundation for combating the COVID-19 pandemic.

##### Liquidity standing of the Company

As at 31 December 2020, the working capital level fell as compared to 31 December 2019. In the financial year ended 31 December 2020, in order to secure its liquidity position, the Company signed an agreement with the European Investment Bank to grant an investment loan up to the maximum amount of EUR 200 million, of which EUR 60 million was used by 31 December 2020. A drawdown of the remaining amount of the liability in the amount of EUR 140 million is optional and requires prior approval from the Company's Supervisory Board and execution of a separate agreement with the bank. As at 31 December 2020, the Company also had unused credit and lease facilities in the amount of PLN 211.6 million.

Detailed information on the impact of the COVID-19 pandemic on the Company's activities are described in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020 in [Chapter 8.1](#).



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

### 2.1 Revenues from contracts with customers

#### Accounting policy applied

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

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

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

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

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

#### Variable remuneration

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

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

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

#### Assets under contracts with customers

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

#### Liabilities from contracts with customers

The Company recognizes in its statement of financial position a contract liability constituting the Company's obligation to transfer goods or services to the customer in return for which the Company has obtained remuneration (or the amount of remuneration is due) from the customer. The Company recognizes a contract liability chiefly in connection with remuneration received in advance for services that have not yet been provided by the Company. As at 31 December 2020 and 31 December 2019 the Company had no significant liabilities under contracts with customers.



#### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

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

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

## 2.1 Revenues from contracts with customers (cont.)

Structure of revenues from contracts with customers

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

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

2020	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	216.7	246.7	804.1	1,551.2	<b>2,818.7</b>
Revenue from siding and traction services	-	37.3	0.7	9.2	<b>47.2</b>
Revenue from sales of materials	-	3.6	1.7	16.0	<b>21.3</b>
Other revenues	-	34.1	6.0	9.3	<b>49.4</b>
<b>Total</b>	<b>216.7</b>	<b>321.7</b>	<b>812.5</b>	<b>1,585.7</b>	<b>2,936.6</b>
<b>Revenue recognition date</b>					
At a point of time	-	3.6	1.7	16.0	<b>21.3</b>
Over a period	216.7	318.1	810.8	1,569.7	<b>2,915.3</b>
<b>Total</b>	<b>216.7</b>	<b>321.7</b>	<b>812.5</b>	<b>1,585.7</b>	<b>2,936.6</b>

2019	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	363.2	423.0	1,037.2	1,616.9	<b>3,440.3</b>
Revenue from siding and traction services	-	39.5	0.7	9.6	<b>49.8</b>
Revenue from sales of materials	-	9.3	2.2	22.5	<b>34.0</b>
Other revenues	-	30.8	4.4	12.7	<b>47.9</b>
<b>Total</b>	<b>363.2</b>	<b>502.6</b>	<b>1,044.5</b>	<b>1,661.7</b>	<b>3,572.0</b>
<b>Revenue recognition date</b>					
At a point of time	-	9.3	2.2	22.5	<b>34.0</b>
Over a period	363.2	493.3	1,042.3	1,639.2	<b>3,538.0</b>
<b>Total</b>	<b>363.2</b>	<b>502.6</b>	<b>1,044.5</b>	<b>1,661.7</b>	<b>3,572.0</b>

### Transaction price assigned to other unfulfilled (or partially unfulfilled) performance commitments

In accordance with IFRS 15.121, in the case of executed commercial agreements, the Company takes advantage of a practical simplification and refrains from disclosing information on the total transaction price assigned to a performance commitment that was not fulfilled at the end of the period and refrains from disclosing the period in which revenue from fulfilling the performance commitment is expected to be recognized. The possibility of applying this simplification is due to the fact that a significant portion of contracts are entered into for a period not longer than 12 months or the Company has the right to recognize revenue in the invoiced amount.



## 2.1 Revenues from contracts with customers (cont.)

### Geography

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

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the financial year ended 31 December 2020 and 31 December 2019 did not exceed 15% of total revenues from contracts with customers. There is no single geographic area (outside of Poland) which generated more than 8% of revenues from contracts with customers.

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

	2020	2019
Poland	2,517.0	3,222.8
Germany	219.2	154.7
Czech Republic	97.3	79.7
Slovakia	38.5	51.9
Other countries	64.6	62.9
<b>Total</b>	<b>2,936.6</b>	<b>3,572.0</b>

### Information on key customers

In the financial year ended 31 December 2020, there was no group, to which sales exceeded 10% of total revenues from contracts with customers. In the financial year ended 31 December 2019, sales of services to two groups exceeded 10% and amounted to 11.4% and 10.2% of the total revenues from contracts with customers, respectively.

### Assets from contracts with customers

	2020	2019
<b>As at the beginning of the reporting period</b>	<b>19.7</b>	<b>43.9</b>
Recognition of revenue before the payment due date	20.0	19.7
Reclassification to receivables	(19.7)	(43.9)
<b>As at the end of the reporting period</b>	<b>20.0</b>	<b>19.7</b>



## 2.2 Operating expenses

### Consumption of electricity and traction fuel

	2020	2019
Consumption of traction fuel	(86.4)	(137.9)
Consumption of traction electricity	(360.5)	(389.9)
<b>Total</b>	<b>(446.9)</b>	<b>(527.8)</b>

### Other services

	2020	2019
Repair and maintenance services for non-current assets	(89.7)	(106.9)
Rent and fees for the use of real properties and rolling stock	(42.3)	(56.7)
Transport services	(67.8)	(67.1)
Telecommunications services	(4.0)	(4.2)
Legal, consulting and similar services	(5.2)	(7.5)
IT services	(42.6)	(43.2)
Transshipment services	(5.4)	(10.3)
Other services	(32.5)	(26.1)
<b>Total</b>	<b>(289.5)</b>	<b>(322.0)</b>

### Employee benefits

	2020	2019
Payroll	(960.6)	(1,016.9)
Social security expenses	(187.4)	(200.3)
Expenses for contributions to the Company Social Benefits Fund	(28.8)	(22.2)
Other employee benefits during employment	(31.3)	(34.1)
Post-employment benefits	(3.4)	(2.7)
Movement in provisions for employee benefits	(28.1)	(62.8)
<b>Total</b>	<b>(1,239.6)</b>	<b>(1,339.0)</b>

### Other expenses

	2020	2019
Consumption of non-traction fuel	(5.3)	(7.4)
Consumption of electricity, gas and water	(25.2)	(24.5)
Consumption of materials	(39.8)	(50.1)
Taxes and charges	(28.8)	(28.2)
Cost of materials sold	(12.9)	(23.9)
Business trips	(22.1)	(27.1)
Other	(13.6)	(21.7)
<b>Total</b>	<b>(147.7)</b>	<b>(182.9)</b>

### Depreciation, amortization and impairment losses

	2020	2019
Depreciation of rolling stock	(492.1)	(463.3)
Depreciation of other property, plant and equipment	(37.2)	(39.1)
Depreciation of rights-of-use assets	(73.5)	(69.1)
Amortization of intangible assets	(9.9)	(12.2)
(Recognized) / reversed impairment losses:		
Rolling stock	(1.8)	0.2
Other property, plant and equipment	(0.9)	(0.3)
Non-current assets classified as held for sale	0.3	-
<b>Total</b>	<b>(615.1)</b>	<b>(583.8)</b>

### 2.3 Other operating revenue and (expenses)

#### Other operating revenue and (expenses)

	2020	2019
Income from the Anti-Crisis Shield <sup>(1)</sup>	98.3	-
Profit on sales of non-financial non-current assets	5.4	5.5
Reversed impairment losses on trade receivables	3.0	4.2
Penalties and compensations	11.4	15.4
Interest on trade and other receivables	2.2	1.9
Net result on FX differences on trade receivables and liabilities	1.8	-
Other	3.3	2.4
<b>Total other operating revenue</b>	<b>125.4</b>	<b>29.4</b>
Recognized impairment losses on trade receivables	(4.6)	(7.9)
Penalties and compensations	(6.6)	(7.1)
Costs of liquidation of non-current and current assets	(5.3)	(4.8)
Recognized other provisions	(0.8)	(3.6)
Net result on FX differences on trade receivables and liabilities	-	(1.4)
Other	(4.3)	(4.0)
<b>Total other operating expenses</b>	<b>(21.6)</b>	<b>(28.8)</b>
<b>Other operating revenue and (expenses)</b>	<b>103.8</b>	<b>0.6</b>

<sup>(1)</sup> This item represents the co-financing of employee salaries awarded to the Company from the Guaranteed Employee Benefits Fund.

### 2.4 Financial revenue and (expenses)

#### Financial revenue and (expenses)

	2020	2019
Interest income	2.2	3.7
Dividend income	58.3	38.8
Other		
Net result on FX differences	-	0.5
Other	-	0.1
<b>Total financial revenue</b>	<b>60.5</b>	<b>43.1</b>
Interest expenses	(48.1)	(45.9)
Other		
Settlement of the discount on provisions for employee benefits	(13.1)	(15.9)
Net result on FX differences	(4.1)	-
Other	(2.1)	(2.3)
<b>Total financial expenses</b>	<b>(67.4)</b>	<b>(64.1)</b>
<b>Financial revenue and (expenses)</b>	<b>(6.9)</b>	<b>(21.0)</b>

### 3. Explanatory notes on taxation

#### 3.1 Income tax

##### Accounting policy applied

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

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

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

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



##### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

#### Income tax recognized in profit / loss

	2020	2019
<b>Current income tax</b>		
Current tax charge	(0.1)	(0.1)
Adjustments recognized in the current year relating to tax from previous years	1.6	(0.6)
<b>Deferred tax</b>		
Deferred income tax of the reporting period	46.1	(26.8)
<b>Income tax recognized in profit / loss</b>	<b>47.6</b>	<b>(27.5)</b>

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

#### Deferred income tax recognized in other comprehensive income

	2020	2019
Deferred tax on the measurement of hedging instruments	9.6	(1.8)
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	8.6	8.8
<b>Deferred income tax recognized in other comprehensive income</b>	<b>18.2</b>	<b>7.0</b>



### 3.1 Income tax (cont.)

#### Reconciliation of the effective tax rate

	2020	2019
<b>Profit/ (loss) before tax</b>	<b>(221.5)</b>	<b>19.2</b>
Income tax expense at 19%	42.1	(3.6)
<b>Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:</b>		
Dividend	11.1	7.4
Reversal of non-tax provisions and impairment losses	0.2	0.3
Recovered VAT	-	0.4
Other	0.1	0.1
<b>Tax effect of non-deductible expenses within the meaning of tax regulations, including:</b>		
Unused tax losses	-	(23.1)
PFRON disability fund	(3.9)	(4.0)
Permanent differences in expenses related with property, plant and equipment	(0.9)	(2.4)
Representation expenses	(0.4)	(0.5)
Penalties and compensations	(0.8)	(1.1)
Value added tax and other public law liabilities	(0.2)	(0.2)
Other	(0.8)	(0.8)
<b>Adjustments disclosed in the current year with reference to past years' tax</b>	<b>1.1</b>	<b>-</b>
<b>Income tax recognized in profit / loss</b>	<b>47.6</b>	<b>(27.5)</b>
<b>Effective tax rate</b>	<b>21.5%</b>	<b>143.4%</b>

The corporate income tax rate effective in Poland in the years 2019-2020 amounted to 19%.

#### Balance of deferred tax assets and liabilities

	31/12/2020	31/12/2019
Deferred tax assets	230.7	175.8
Deferred tax liabilities	(99.1)	(108.5)
<b>Total</b>	<b>131.6</b>	<b>67.3</b>

#### Movements in deferred tax

2020	1/01/2020	Recognized in profit or loss	Recognized in other comprehensive income	31/12/2020
<b>Temporary differences relating to deferred tax (liabilities) / assets:</b>				
Non-financial non-current assets	(98.2)	14.4	-	(83.8)
Rights-of-use assets and lease liabilities	6.2	(0.1)	-	6.1
Other provisions and liabilities	10.0	(1.0)	-	9.0
Inventories	(5.1)	(5.1)	-	(10.2)
Trade receivables	(3.7)	(1.4)	-	(5.1)
Provisions for employee benefits	130.3	(5.9)	8.6	133.0
Other	1.0	5.1	9.6	15.7
Unused tax losses	26.8	40.1	-	66.9
<b>Total</b>	<b>67.3</b>	<b>46.1</b>	<b>18.2</b>	<b>131.6</b>

As at 31 December 2020, the Company disclosed deferred tax assets on the tax loss incurred in the period from 1 January to 31 December 2020 and from 1 April to 31 December 2016. Due to the fact that in 2017-2019 the Company made its tax settlements within the framework of a Tax Group, the loss incurred in 2016 can be deducted until the end of 2024, while the loss of the current period can be deducted by the end of 2025. According to the Company's Management Board, there is low risk as at 31 December 2020 that it will be impossible to realize the above assets.

### 3.1 Income tax (cont.)

2019	1/01/2019 (audited)	Effect of the implementation of IFRS 16	1/01/2019 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	31/12/2019
<b>Temporary differences relating to deferred tax (liabilities) / assets:</b>						
Non-financial non-current assets	<b>(54.9)</b>	3.2	<b>(51.7)</b>	(46.5)	-	<b>(98.2)</b>
Rights-of-use assets and lease liabilities	-	1.8	<b>1.8</b>	4.4	-	<b>6.2</b>
Other provisions and liabilities	<b>5.5</b>	(0.7)	<b>4.8</b>	5.2	-	<b>10.0</b>
Inventories	<b>(4.5)</b>	-	<b>(4.5)</b>	(0.6)	-	<b>(5.1)</b>
Trade receivables	<b>(3.9)</b>	(4.4)	<b>(8.3)</b>	4.6	-	<b>(3.7)</b>
Provisions for employee benefits	<b>118.0</b>	-	<b>118.0</b>	3.5	8.8	<b>130.3</b>
Other	<b>0.4</b>	-	<b>0.4</b>	2.4	(1.8)	<b>1.0</b>
Unused tax losses	<b>26.6</b>	-	<b>26.6</b>	0.2	-	<b>26.8</b>
<b>Total</b>	<b>87.2</b>	<b>(0.1)</b>	<b>87.1</b>	<b>(26.8)</b>	<b>7.0</b>	<b>67.3</b>

#### Tax loss not recognized in calculation of deferred tax assets

The tax loss generated by the Company for 2019 in the amount of PLN 118.7 million was not included in the calculation of deferred tax assets since it was incurred when the Tax Group was in effect and it cannot be settled in subsequent reporting periods.

## 4. Explanatory notes on debt, liquidity management and equity management

### 4.1 Reconciliation of debt liabilities

Accounting policy applied
<p>Bank loans and borrowings are initially recognized at fair value less the incurred transaction costs. After initial recognition, loans and borrowings are carried according to amortized cost using the effective interest rate method.</p> <p>A lease liability is measured at the present value of the lease payments that are not paid on such date, which include:</p> <ul style="list-style-type: none"> <li>▪ fixed lease payments, including in-substance fixed payments;</li> <li>▪ variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;</li> <li>▪ amounts expected to be payable by the lessee under residual value guarantees;</li> <li>▪ the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;</li> <li>▪ cash penalties for lease termination if the lessee is reasonably certain not to exercise the early termination option.</li> </ul> <p>The current value of future lease payments is calculated using the interest rate applicable to the lease. If the interest rate applicable to a lease is unknown, the Company applies the lessee's incremental borrowing rate for the lease in question.</p> <p>After the initial recognition, the Company measures the lease liability by:</p> <ul style="list-style-type: none"> <li>▪ increasing the carrying amount to reflect interest on the lease liability;</li> <li>▪ reducing the carrying amount to reflect the lease payments; and</li> <li>▪ remeasuring the carrying amount to reflect any reassessment or lease modifications.</li> </ul> <p>The Company takes advantage of an exemption and does not apply the requirements for measurement of lease liabilities and rights-of-use assets in respect of:</p> <ul style="list-style-type: none"> <li>▪ short-term leases, i.e. leases with a term of up to 12 months and without a purchase option;</li> <li>▪ leases for which the underlying asset is low value. The Company defines assets of low value as those whose value, when new, does not exceed PLN 25 thousand.</li> </ul> <p>In cases where the exemptions referred to above are applied, the Company recognizes lease payments as an expense falling under the straight-line method over the lease term or under another method that provides a better reflection of the benefits obtained by the Company.</p>

#### 4.1 Reconciliation of debt liabilities (cont.)



#### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

**a) the discount rate**

The Company discounts lease payments using the interest rate implicit in the lease, if that rate can be readily determined; otherwise it uses the incremental borrowing rate.

The incremental borrowing rate is calculated on the basis of the following two components:

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

**b) lease term**

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

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

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

The Company's debt liabilities consist of the following two main categories: bank loans and borrowings and leases. Loan agreements were signed mainly to finance current activity, finance and refinance the investment plan and acquisitions. Liabilities contracted under the signed loan agreements are repaid in PLN and EUR.

Lease agreements are signed in PLN, EUR and CZK and pertain mainly to property and rolling stock.

As at 31 December 2020 and 31 December 2019 the Company did not have any assets securing repayment of its liabilities.

#### Items in foreign currencies

31/12/2020	In the functional currency – PLN	In a foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	993.3	599.1	-	<b>1,592.4</b>
Leases	606.5	52.2	0.2	<b>658.9</b>
Total	1,599.8	651.3	0.2	2,251.3

31/12/2019	In the functional currency – PLN	In a foreign currency		Total
		EUR		
Bank loans and borrowings		1,074.0	469.7	<b>1,543.7</b>
Leases		638.8	74.0	<b>712.8</b>
Total		1,712.8	543.7	2,256.5



#### 4.1 Reconciliation of debt liabilities (cont.)

##### Reconciliation of debt liabilities

2020	Bank loans and borrowings	Leases	Total
<b>1/01/2020</b>	<b>1,543.7</b>	<b>712.8</b>	<b>2,256.5</b>
New liabilities contracted	285.6	9.7	<b>295.3</b>
Modifications of existing agreements	-	18.7	<b>18.7</b>
Transaction costs	2.0	-	<b>2.0</b>
Accrual of interest	19.6	24.7	<b>44.3</b>
Payments under debt, including:			
Repayments of the principal	(280.2)	(78.8)	<b>(359.0)</b>
Interest paid	(20.1)	(23.0)	<b>(43.1)</b>
Transaction costs	(1.6)	-	<b>(1.6)</b>
Other	-	(10.3)	<b>(10.3)</b>
FX valuation	43.4	5.1	<b>48.5</b>
<b>31/12/2020</b>	<b>1,592.4</b>	<b>658.9</b>	<b>2,251.3</b>
Long-term	1,321.9	575.7	<b>1,897.6</b>
Short-term	270.5	83.2	<b>353.7</b>
<b>Total</b>	<b>1,592.4</b>	<b>658.9</b>	<b>2,251.3</b>

2019	Bank loans and borrowings	Leases	Total
<b>1/01/2019 (audited)</b>	<b>1,225.9</b>	<b>5.3</b>	<b>1,231.2</b>
Effect of the implementation of IFRS 16	-	595.2	<b>595.2</b>
<b>1/01/2019 (restated)</b>	<b>1,225.9</b>	<b>600.5</b>	<b>1,826.4</b>
New liabilities contracted	549.1	141.4	<b>690.5</b>
Modifications of existing agreements	-	42.9	<b>42.9</b>
Transaction costs	2.2	-	<b>2.2</b>
Accrual of interest	19.8	23.3	<b>43.1</b>
Payments under debt, including:			
Repayments of the principal	(226.2)	(66.6)	<b>(292.8)</b>
Interest paid	(19.6)	(21.1)	<b>(40.7)</b>
Transaction costs	(2.2)	-	<b>(2.2)</b>
Other	-	(6.9)	<b>(6.9)</b>
FX valuation	(5.3)	(0.7)	<b>(6.0)</b>
<b>31/12/2019</b>	<b>1,543.7</b>	<b>712.8</b>	<b>2,256.5</b>
Long-term	1,293.2	626.8	<b>1,920.0</b>
Short-term	250.5	86.0	<b>336.5</b>
<b>Total</b>	<b>1,543.7</b>	<b>712.8</b>	<b>2,256.5</b>

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

Presentation in the statement of profit or loss and other comprehensive income		2020	2019
Revenues from operating leases	Revenues from contracts with customers	34.7	33.0
Interest income from leases	Financial revenue	0.9	1.0
Costs on account of:			
Short-term leases	Other services	(7.1)	(16.6)
Leases of low-value assets	Other services	(2.2)	(0.5)



#### 4.1 Reconciliation of debt liabilities (cont.)

##### Terms and conditions of loan agreements

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

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

According to the provisions of most of the agreements signed by the Company, compliance with the terms and conditions of loan agreements is reviewed at the end of each financial year. In the case of two agreements, the above-mentioned ratios are reviewed semi-annually.

The Net Debt/EBITDA is the level of debt less cash to the generated EBITDA and, in the case of most bank loans contracts, is calculated without taking into account the impact of IFRS 16. The maximum permitted level of the Net Debt/EBITDA ratio must not exceed 3.0. As at 31 December 2020, the level of net debt is calculated on the basis of balance-sheet data, while the EBITDA parameter takes into account the actual 2020 result. For selected contracts, the Net Debt/EBITDA ratio is additionally calculated on the basis of projected 2021 EBITDA and net debt as at 30 June 2021.

The total debt ratio, which is defined as the ratio of total liabilities to total assets, cannot exceed 60%. The ratio is calculated on the basis of actual data as at 31 December 2020 and, for selected contracts, also based on the projected data as at 31 December 2021.

As at 31 December 2020, the value of the net debt / EBITDA ratios based on the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group exceeded the level of 3.0 stipulated in the loan agreements, however before the balance sheet date, the Company had obtained from the creditors a one-time waiver of the covenant to maintain the net debt / EBITDA ratios at that level.

In contracts with two financing banks the waiver was granted with a provision that the Net Debt/EBITDA ratio based on the PKP CARGO Group's consolidated data must not exceed 4.0. This condition was met as at 31 December 2020 and therefore the liabilities under the loans do not have to be reclassified from the long to the short part.

##### Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2020	31/12/2019
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/12/2021	PLN	99.9	100.0
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2021	PLN	100.0	100.0
Investment loan	European Investment Bank	19/07/2020	EUR	-	22.0
Leasing facility	Millennium Leasing Sp. z o.o.	02/12/2021	PLN	11.7	51.3
<b>Total</b>				<b>211.6</b>	<b>273.3</b>



#### 4.2 Equity and capital management policy

##### Accounting policy applied

The share capital is presented in the standalone financial statements at nominal value, in the amount corresponding to the Articles of Association, regardless of the entry in the National Court Register (the 'substance over form' rule).

Supplementary capital includes the excess of the issue value over the nominal value of shares (agio), profit of previous years transferred to supplementary capital and the reserve capital created from the retirement of shares.

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

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

##### Share capital

	31/12/2020	31/12/2019
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 31 December 2020 and 31 December 2019, the share capital consisted of common shares with a par value of PLN 50 each. Fully paid common shares with the par value of PLN 50 are equivalent to one vote at the shareholder meeting and entail the right to dividend.

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

**In the financial year ended 31 December 2020 and 31 December 2019, no changes in the share capital of the Company took place.**

##### Movement in supplementary capital and retained earnings

In 2020 there were no changes in the supplementary capital of the Company.

In 2019 supplementary capital increased by PLN 148.0 million as a result of the distribution of the profit generated in 2018.

On 29 June 2020, the Company's Ordinary Shareholder Meeting adopted a resolution to cover the net loss incurred in 2019 in the amount of PLN 8.3 million with retained earnings from previous years.

On 31 March 2021, the Company's Management Board adopted a resolution on the recommendation to cover the loss for 2020 shown in the Standalone Financial Statements with undistributed earnings from previous years.

##### Equity management

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

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

	31/12/2020	31/12/2019
Total liabilities	3,708.2	3,809.9
Total balance sheet	6,667.0	7,020.3
<b>Total debt ratio</b>	<b>56%</b>	<b>54%</b>

### 4.3 Liquidity risk management

The Company may be exposed to liquidity risk following from the ratio of current assets to current liabilities. Additionally, to secure its long-term liquidity, the Company used investment loans and leases (financing of capital expenditures).

To minimize the risk of cash flow disturbances and the risk of liquidity loss as well as to optimize financial expenses in the PKP CARGO Group, a cash pool system is in place and comprises, as at 31 December 2020, 8 Group companies. The cash pool, independently of the cash collected by particular participants, is associated with a flexible line of credit in the form of a current account overdraft facility. As at 31 December 2020, the Company had unused overdraft credit facilities in the aggregate amount of PLN 199.9 million and an unused leasing facility in the amount of PLN 11.7 million.

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

31/12/2020	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	106.8	280.7	1,308.7	764.5	2,460.7	2,251.3
Trade liabilities	215.6	-	-	-	215.6	215.6
Investment liabilities	100.2	43.6	145.7	-	289.5	284.3
Derivative instruments – FX forwards	1.1	1.6	-	-	2.7	2.7
Liabilities on the purchase of shares	33.0	-	-	-	33.0	33.0
<b>Total</b>	<b>456.7</b>	<b>325.9</b>	<b>1,454.4</b>	<b>764.5</b>	<b>3,001.5</b>	<b>2,786.9</b>

31/12/2019	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	116.6	272.8	1,369.9	784.2	2,543.5	2,256.5
Cash pool	2.2	-	-	-	2.2	2.2
Trade liabilities	233.5	-	-	-	233.5	233.5
Investment liabilities	216.1	35.9	157.3	-	409.3	403.1
<b>Total</b>	<b>568.4</b>	<b>308.7</b>	<b>1,527.2</b>	<b>784.2</b>	<b>3,188.5</b>	<b>2,895.3</b>

### 4.4 Cash and cash equivalents

#### Accounting policy applied

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

#### Structure of cash and cash equivalents

	31/12/2020	31/12/2019
Cash on hand and on bank accounts	27.7	78.0
Bank deposits up to 3 months	152.4	302.0
Other cash	0.4	-
<b>Total</b>	<b>180.5</b>	<b>380.0</b>
<i>including restricted cash</i>	33.0	23.9

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

#### 4.5 Notes to the cash flow statement

##### Movement in working capital

2020	Movement in statement of financial position	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(15.8)	33.4	-	17.6
Trade receivables	24.9	(5.1)	0.8	20.6
Other assets	43.2	(15.1)	7.0	35.1
Provisions	(6.1)	-	-	(6.1)
Trade liabilities	(17.9)	(1.8)	(0.2)	(19.9)
Investment liabilities	(118.8)	92.5	-	(26.3)
Other liabilities	45.8	(32.3)	12.4	25.9
<b>Total working capital</b>	<b>(44.7)</b>	<b>71.6</b>	<b>20.0</b>	<b>46.9</b>

2019	Movement in statement of financial position	Effect of the implementation of IFRS 16	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	5.0	-	7.0	-	12.0
Trade receivables	88.0	-	(0.8)	0.2	87.4
Other assets	0.5	(0.5)	15.7	(17.7)	(2.0)
Provisions	63.9	-	-	-	63.9
Trade liabilities	(59.1)	9.5	-	-	(49.6)
Investment liabilities	67.9	-	(89.3)	-	(21.4)
Other liabilities	43.7	-	0.6	(7.5)	36.8
<b>Total working capital</b>	<b>209.9</b>	<b>9.0</b>	<b>(66.8)</b>	<b>(25.0)</b>	<b>127.1</b>

##### Other adjustments

	2020	2019
Actuarial profits / (losses) on employee benefits recognized in other comprehensive income	(45.4)	(46.2)
Measurement of hedging instruments	(9.3)	3.7
Measurement of equity instruments at fair value	(0.7)	0.7
<b>Other adjustments in the cash flow statement</b>	<b>(55.4)</b>	<b>(41.8)</b>

##### Non-cash transactions

In the financial years ended 31 December 2020 and 31 December 2019, major non-financial transactions concerning investing and financial activity which were not reflected in the cash flow statement were as follows:

- Offsetting off mutual settlements

The Company set off trade receivables with liabilities arising from the purchase of non-financial non-current assets. The total amount of set offs in 2020 amounted to PLN 5.1 million, whereas in 2019 it was PLN 0.8 million.

- Liquidation of rolling stock

When it is decided to liquidate a rolling stock component, its residual value is posted in the item of inventories. In 2020, the residual value of non-current assets reclassified to inventories amounted to PLN 33.4 million, whereas in 2019 it was PLN 7.0 million.



## 5. Explanatory notes to the statement of financial position

### 5.1 Rolling stock and other property, plant and equipment

#### Accounting policy applied

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

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

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

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

#### Repairs and inspections of rolling stock

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

After completing repair or modernization at level 4 and 5, a technical railworthiness certificate is issued. A technical railworthiness certificate confirms that the given rolling stock asset is allowed to be used until the next repair at level P4 or P5. An asset may be operated in the entire certificate validity period provided also that a P3 inspection is carried out halfway through the cycle.

If no repair/inspection at levels P3, P4 and P5 is carried out, the rolling stock asset loses its operational capacity and cannot be used in rail transport. The Company considers periodic repairs and inspections at levels P3, P4 and P5 as the condition for continuous use of rolling stock asset item and at the moment of performing such a repair, if the criteria for its recognition are satisfied, the costs of the repair is recognized in the carrying amount of the rolling stock asset and are depreciated in the period between repairs.

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





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

#### Accounting policy applied

##### Residual value of rolling stock

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

##### Depreciation of property, plant and equipment

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

Freehold land and rights of perpetual usufruct of land are not subject to depreciation.

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

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

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

##### Impairment of property, plant and equipment

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

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

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

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



### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

#### Economic useful lives of fixed assets

The Company estimates the economic useful lives of individual items of property, plant and equipment and on this basis determines the depreciation rates for these items. The estimates are based on the expected economic useful lives of the assets. Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation charges and the net carrying amount of specific items of property, plant and equipment in future periods. The verification of the useful lives of property, plant and equipment conducted as at 31 December 2020 and 31 December 2019 did not reveal the need to correct the previously applied depreciation rates.

#### Residual value of the rolling stock

As at 31 December 2020, the Company verified the residual value of its rolling stock. In connection with the increased prices of scrap metal on the market, the Company decided to update the residual value of its rolling stock, however this change did not have a material impact on the value of the impairment loss on rolling stock.

#### Impairment of non-current assets

In accordance with IAS 36, the Company assesses at the end of each reporting period whether there is any objective evidence of impairment of non-current assets. As at 31 December 2020, the key indication of a possible impairment of the selected assets was the fact that the market value of the Company's net assets continued to be lower than their carrying amounts. Hence, the Company decided to perform an impairment test.

The test was performed on a cash-generating unit by determining its recoverable amount at the level of its value in use. The cash-generating unit consisted of all assets of the Company in view of the uniformity of its business.

The recoverable amount of the analyzed assets was determined on the basis of their estimated value in use using the net discounted cash flows method, in line with detailed financial projections developed for 2021-2030. In the opinion of the Company's Management Board, it is reasonable to adopt financial projections for more than five years because the property, plant and equipment used by the Company have a considerably longer period of economic life.

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

- in the whole period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 2.5% in real terms,
- in the whole period covered by the detailed projection, capital expenditures will reach the level of 15.3% of annual operating revenue in real terms,
- the after-tax weighted average cost of capital (WACC) will be at 6.0% in real terms,
- after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the assets tested as at 31 December 2020, the Company recognized no impairment loss for the assets.

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

Additionally, as at 31 December 2020, the Company evaluated the usefulness of the individual property, plant and equipment items and, following an analysis, it decided to recognize an additional impairment allowance for the value of rolling stock and other property, plant and equipment in the total amount of PLN 2.7 million.

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

Change in the balance of property, plant and equipment

2020	Rolling stock	Other property, plant and equipment					Total
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	
<b>Gross value</b>							
<b>1/01/2020</b>	<b>6,110.8</b>	<b>560.4</b>	<b>212.8</b>	<b>31.0</b>	<b>24.7</b>	<b>16.1</b>	<b>845.0</b>
<i>Increases / (decreases):</i>							
Periodic repairs of rolling stock	-	-	-	-	-	249.7	249.7
Purchase of new assets / modernization	-	-	-	-	-	334.5	334.5
Purchases of leased items	-	-	0.7	-	-	-	0.7
Settlement of fixed assets under construction	564.3	8.1	6.6	-	0.5	(579.5)	(564.3)
Grant for non-current assets	(68.1)	-	-	-	-	-	-
Sales	(17.6)	-	(0.3)	(2.2)	-	-	(2.5)
Liquidation <sup>(1)</sup>	(205.6)	(2.6)	(0.2)	(0.1)	(0.1)	(0.6)	(3.6)
Reclassified to assets held for sale <sup>(2)</sup>	(128.9)	-	-	-	-	-	-
Other	-	(0.1)	0.1	-	-	-	-
<b>31/12/2020</b>	<b>6,254.9</b>	<b>565.8</b>	<b>219.7</b>	<b>28.7</b>	<b>25.1</b>	<b>20.2</b>	<b>859.5</b>
<b>Accumulated depreciation</b>							
<b>1/01/2020</b>	<b>(2,114.3)</b>	<b>(135.0)</b>	<b>(161.7)</b>	<b>(29.6)</b>	<b>(21.5)</b>	-	<b>(347.8)</b>
<i>Increases / (decreases):</i>							
Depreciation	(492.1)	(17.7)	(17.2)	(0.8)	(1.5)	-	(37.2)
Purchases of leased items	-	-	(0.6)	-	-	-	(0.6)
Sales	9.3	-	0.3	2.2	-	-	2.5
Liquidation <sup>(1)</sup>	163.3	2.6	0.2	0.1	0.1	-	3.0
Reclassified to assets held for sale <sup>(2)</sup>	63.3	-	-	-	-	-	-
Other	-	-	(0.1)	-	-	-	(0.1)
<b>31/12/2020</b>	<b>(2,370.5)</b>	<b>(150.1)</b>	<b>(179.1)</b>	<b>(28.1)</b>	<b>(22.9)</b>	-	<b>(380.2)</b>
<b>Accumulated impairment</b>							
<b>1/01/2020</b>	<b>(104.2)</b>	<b>(1.5)</b>	-	-	-	<b>(2.8)</b>	<b>(4.3)</b>
<i>Increases / (decreases):</i>							
Recognition	(1.8)	-	(0.1)	-	-	(0.8)	(0.9)
Utilization <sup>(1)</sup>	12.3	-	-	-	-	0.6	0.6
Reclassified to assets held for sale <sup>(2)</sup>	18.5	-	-	-	-	-	-
<b>31/12/2020</b>	<b>(75.2)</b>	<b>(1.5)</b>	<b>(0.1)</b>	-	-	<b>(3.0)</b>	<b>(4.6)</b>
<b>Net value</b>							
<b>1/01/2020</b>	<b>3,892.3</b>	<b>423.9</b>	<b>51.1</b>	<b>1.4</b>	<b>3.2</b>	<b>13.3</b>	<b>492.9</b>
<b>31/12/2020</b>	<b>3,809.2</b>	<b>414.2</b>	<b>40.5</b>	<b>0.6</b>	<b>2.2</b>	<b>17.2</b>	<b>474.7</b>

<sup>(1)</sup> In 2020, the Company made a decision on physical liquidation of:

- 1,521 wagons with the book value of PLN 18.6 million, and
- 109 locomotives with the book value of PLN 14.8 million.

These assets were recognized as inventories designated for scrapping.

<sup>(2)</sup> In 2020, the Company decided to sell and reclassify to assets held for sale:

- 2,761 wagons with the book value of PLN 29.8 million,
- 210 locomotives with the book value of PLN 17.3 million.

The sale is pending. As at 31 December 2020 the book value of locomotives and wagons remaining for sale was, respectively PLN 9.1 million and PLN 3.6 million.

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

2019	Rolling stock	Other property, plant and equipment					Fixed assets under construction	Total
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets			
<b>Gross value</b>								
<b>1/01/2019 (audited)</b>	<b>5,521.2</b>	<b>592.9</b>	<b>220.3</b>	<b>34.8</b>	<b>23.3</b>	<b>16.7</b>	<b>888.0</b>	
Effect of the implementation of IFRS 16	(25.3)	(30.2)	(0.7)	(2.4)	-	-	(33.3)	
<b>1/01/2019 (restated)</b>	<b>5,495.9</b>	<b>562.7</b>	<b>219.6</b>	<b>32.4</b>	<b>23.3</b>	<b>16.7</b>	<b>854.7</b>	
<i>Increases / (decreases):</i>								
Periodic repairs of rolling stock	-	-	-	-	-	617.1	<b>617.1</b>	
Purchases of new assets / modernization	-	-	-	-	-	407.7	<b>407.7</b>	
Purchase of leased items	25.3	-	-	2.4	-	-	<b>2.4</b>	
Settlement of fixed assets under construction	1,003.7	7.3	12.4	0.2	1.6	(1,025.2)	<b>(1,003.7)</b>	
Grant for non-current assets	(58.2)	-	-	-	-	-	-	
Sales	(20.6)	-	(2.8)	(4.0)	(0.1)	-	<b>(6.9)</b>	
Liquidation	(335.2)	(9.6)	(16.4)	-	(0.1)	(0.2)	<b>(26.3)</b>	
Other	(0.1)	-	-	-	-	-	-	
<b>31/12/2019</b>	<b>6,110.8</b>	<b>560.4</b>	<b>212.8</b>	<b>31.0</b>	<b>24.7</b>	<b>16.1</b>	<b>845.0</b>	
<b>Accumulated depreciation</b>								
<b>1/01/2019 (audited)</b>	<b>(1,988.6)</b>	<b>(123.4)</b>	<b>(165.6)</b>	<b>(31.9)</b>	<b>(19.8)</b>	-	<b>(340.7)</b>	
Effect of the implementation of IFRS 16	4.4	-	0.4	1.3	-	-	<b>1.7</b>	
<b>1/01/2019 (restated)</b>	<b>(1,984.2)</b>	<b>(123.4)</b>	<b>(165.2)</b>	<b>(30.6)</b>	<b>(19.8)</b>	-	<b>(339.0)</b>	
<i>Increases / (decreases):</i>								
Depreciation	(463.3)	(20.8)	(14.9)	(1.5)	(1.9)	-	<b>(39.1)</b>	
Purchases of leased items	(4.6)	-	-	(1.5)	-	-	<b>(1.5)</b>	
Sales	10.3	-	2.1	4.0	0.1	-	<b>6.2</b>	
Liquidation	327.4	9.2	16.3	-	0.1	-	<b>25.6</b>	
Other	0.1	-	-	-	-	-	-	
<b>31/12/2019</b>	<b>(2,114.3)</b>	<b>(135.0)</b>	<b>(161.7)</b>	<b>(29.6)</b>	<b>(21.5)</b>	-	<b>(347.8)</b>	
<b>Accumulated impairment</b>								
<b>1/01/2019 (audited)</b>	<b>(106.9)</b>	<b>(1.6)</b>	-	-	-	<b>(2.6)</b>	<b>(4.2)</b>	
Effect of the implementation of IFRS 16	-	-	-	-	-	-	-	
<b>1/01/2019 (restated)</b>	<b>(106.9)</b>	<b>(1.6)</b>	-	-	-	<b>(2.6)</b>	<b>(4.2)</b>	
<i>Increases / (decreases):</i>								
Recognition	-	-	-	-	-	(0.3)	<b>(0.3)</b>	
Derecognition	0.2	-	-	-	-	-	-	
Utilization	2.5	0.1	-	-	-	0.1	<b>0.2</b>	
<b>31/12/2019</b>	<b>(104.2)</b>	<b>(1.5)</b>	-	-	-	<b>(2.8)</b>	<b>(4.3)</b>	
<b>Net value</b>								
<b>1/01/2019 (restated)</b>	<b>3,404.8</b>	<b>437.7</b>	<b>54.4</b>	<b>1.8</b>	<b>3.5</b>	<b>14.1</b>	<b>511.5</b>	
<b>31/12/2019</b>	<b>3,892.3</b>	<b>423.9</b>	<b>51.1</b>	<b>1.4</b>	<b>3.2</b>	<b>13.3</b>	<b>492.9</b>	

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

**A technical railworthiness certificate is a document issued individually for each rail vehicle, confirming the validity of vehicle inspection and their suitability for transport.**

A technical railworthiness certificate is issued immediately after performing level P4 or P5 maintenance activities and upon entering new and modernized vehicles into service. Rolling stock without valid technical railworthiness certificates is treated by the Company:

- as a backup from which additional resources can be drawn from to increase freight turnover following P4 and P5 level repairs,
- as a necessary set of rail vehicles to be rotated in the maintenance process. Performing a P4 or P5 level repair takes from 30 to 90 days depending on vehicle type. To prevent the number of operated wagons and locomotives with valid technical railworthiness certificate from decreasing, it is necessary to have a larger pool of vehicles so that a vehicle whose technical railworthiness certificates expires can be replaced at least on the same day with another that has been repaired and had a technical railworthiness certificate issued.

As at 31 December 2020 and 31 December 2019, the carrying amount of rolling stock without valid technical railworthiness certificates, for which the Company recognized an impairment loss, was PLN 321.3 million and PLN 297.0 million, respectively.

### 5.2 Rights-of-use assets

#### Accounting policy applied

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

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

After the initial recognition, the Company measures the rights-of-use asset at cost minus any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

In the case of expenditures on repairs and periodic inspections of rights-of-use assets, the Company applies IAS 16, i.e. presents assets related to repairs and their periodic inspections in the same item of the statement of financial position, i.e. in the rights-of-use assets item.

#### Useful lives of rights-of-use assets

The Company uses straight-line depreciation. The value of a rights-of-use asset is distributed systematically over its useful life.

The useful lives of rights-of-use assets in leases were as follows:

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

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



## 5.2 Rights-of-use assets (cont.)



### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

#### Useful lives of rights-of-use assets

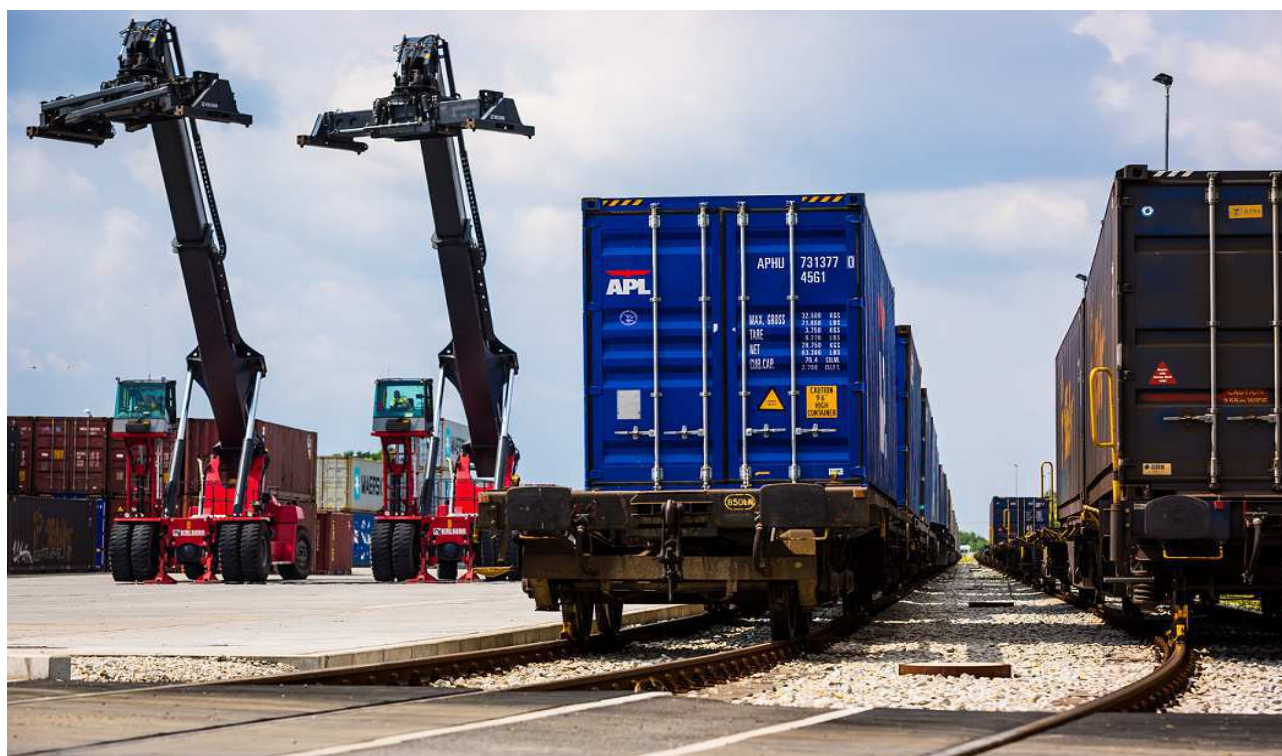
The Company estimates the economic useful lives of individual items of rights-of-use assets and on this basis determines the depreciation rates for these items. If the lease transfers ownership of the underlying asset to the Company before the end of the lease term or if the Company expects to exercise its purchase option, the Company will depreciate the rights-of-use asset from the commencement date to the end of the useful life of the asset. Otherwise, the Company depreciates the rights-of-use asset until the earlier of: the end of the useful life of the asset or the end of the lease term. Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation charges and the carrying amount of specific items of rights-of-use assets. The verification of the useful lives of rights-of-use assets conducted as at 31 December 2020 and 31 December 2019 did not reveal the need to correct the previously applied depreciation rates.

#### Movement in rights-of-use assets

	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
<b>Gross value</b>						
<b>1/01/2020</b>	<b>184.3</b>	<b>570.5</b>	<b>8.8</b>	<b>7.4</b>	<b>0.7</b>	<b>771.7</b>
<i>Increases / (decreases):</i>						
New leases	0.4	8.2	0.6	0.5	-	<b>9.7</b>
Modifications of existing agreements	(2.9)	13.9	0.1	-	-	<b>11.1</b>
Return of leased items	(10.2)	(9.5)	(0.1)	-	-	<b>(19.8)</b>
Purchases of leased items	-	-	(0.7)	-	-	<b>(0.7)</b>
Other	-	0.1	-	-	-	<b>0.1</b>
<b>31/12/2020</b>	<b>171.6</b>	<b>583.2</b>	<b>8.7</b>	<b>7.9</b>	<b>0.7</b>	<b>772.1</b>
<b>Accumulated depreciation</b>						
<b>1/01/2020</b>	<b>(24.8)</b>	<b>(40.4)</b>	<b>(0.7)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>(67.7)</b>
<i>Increases / (decreases):</i>						
Depreciation	(25.6)	(43.9)	(1.6)	(2.2)	(0.2)	<b>(73.5)</b>
Return of leased items	10.0	1.5	-	-	-	<b>11.5</b>
Purchases of leased items	-	-	0.6	-	-	<b>0.6</b>
Other	(1.3)	(0.2)	-	-	-	<b>(1.5)</b>
<b>31/12/2020</b>	<b>(41.7)</b>	<b>(83.0)</b>	<b>(1.7)</b>	<b>(3.9)</b>	<b>(0.3)</b>	<b>(130.6)</b>
<b>Net value</b>						
<b>1/01/2020</b>	<b>159.5</b>	<b>530.1</b>	<b>8.1</b>	<b>5.7</b>	<b>0.6</b>	<b>704.0</b>
<b>31/12/2020</b>	<b>129.9</b>	<b>500.2</b>	<b>7.0</b>	<b>4.0</b>	<b>0.4</b>	<b>641.5</b>

**5.2 Rights-of-use assets (cont.)**

	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
<b>Gross value</b>						
Effect of the implementation of IFRS 16	91.5	526.9	0.7	2.4	0.6	<b>622.1</b>
<b>1/01/2019 (restated)</b>	<b>91.5</b>	<b>526.9</b>	<b>0.7</b>	<b>2.4</b>	<b>0.6</b>	<b>622.1</b>
<i>Increases / (decreases):</i>						
New leases	125.3	1.7	6.9	7.4	0.1	<b>141.4</b>
Modifications of existing agreements	(1.3)	44.1	1.2	-	-	<b>44.0</b>
Return of leased items	(5.9)	(2.4)	-	-	-	<b>(8.3)</b>
Purchases of leased items	(25.3)	-	-	(2.4)	-	<b>(27.7)</b>
Other	-	0.2	-	-	-	<b>0.2</b>
<b>31/12/2019</b>	<b>184.3</b>	<b>570.5</b>	<b>8.8</b>	<b>7.4</b>	<b>0.7</b>	<b>771.7</b>
<b>Accumulated depreciation</b>						
Effect of the implementation of IFRS 16	(4.4)	-	(0.4)	(1.3)	-	<b>(6.1)</b>
<b>1/01/2019 (restated)</b>	<b>(4.4)</b>	<b>-</b>	<b>(0.4)</b>	<b>(1.3)</b>	<b>-</b>	<b>(6.1)</b>
<i>Increases / (decreases):</i>						
Depreciation	(26.3)	(40.5)	(0.3)	(1.9)	(0.1)	<b>(69.1)</b>
Return of leased items	2.2	0.1	-	-	-	<b>2.3</b>
Purchases of leased items	4.6	-	-	1.5	-	<b>6.1</b>
Other	(0.9)	-	-	-	-	<b>(0.9)</b>
<b>31/12/2019</b>	<b>(24.8)</b>	<b>(40.4)</b>	<b>(0.7)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>(67.7)</b>
<b>Net value</b>						
<b>1/01/2019 (restated)</b>	<b>87.1</b>	<b>526.9</b>	<b>0.3</b>	<b>1.1</b>	<b>0.6</b>	<b>616.0</b>
<b>31/12/2019</b>	<b>159.5</b>	<b>530.1</b>	<b>8.1</b>	<b>5.7</b>	<b>0.6</b>	<b>704.0</b>



### 5.3 Investments in related parties

#### Accounting policy applied

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



#### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at each balance sheet date, the Company analyzes whether or not objective grounds exist that might imply an impairment loss on investments in related parties. If such grounds exist, the Company is required to perform impairment tests.

As at 31 December 2020, impairment tests were conducted in PKP CARGOTABOR Sp. z o.o. and PKP CARGO INTERNATIONAL a.s., as their financial performance was worse than expected. The tests were performed on cash-generating units, defined for each of the tested companies separately. The recoverable amount of the analyzed assets was determined on the basis of their estimated value in use using the net discounted cash flows method, in line with detailed financial projections developed for the period from 2021 to 2030. In the opinion of the Company's Management Board, adopting financial projections for more than five years was reasonable because the property, plant and equipment used by the tested cash-generating units have a considerably longer economic useful lives.

##### PKP CARGOTABOR Sp. z o.o.

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

- in the period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 1.8% in real terms,
- in the whole period covered by the detailed projection, capital expenditures will reach the level of 4.1% of annual operating revenue in real terms,
- the after-tax weighted average cost of capital (WACC) will be at 6.0% in real terms,
- after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

##### PKP CARGO INTERNATIONAL a.s.

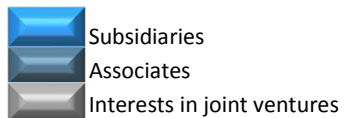
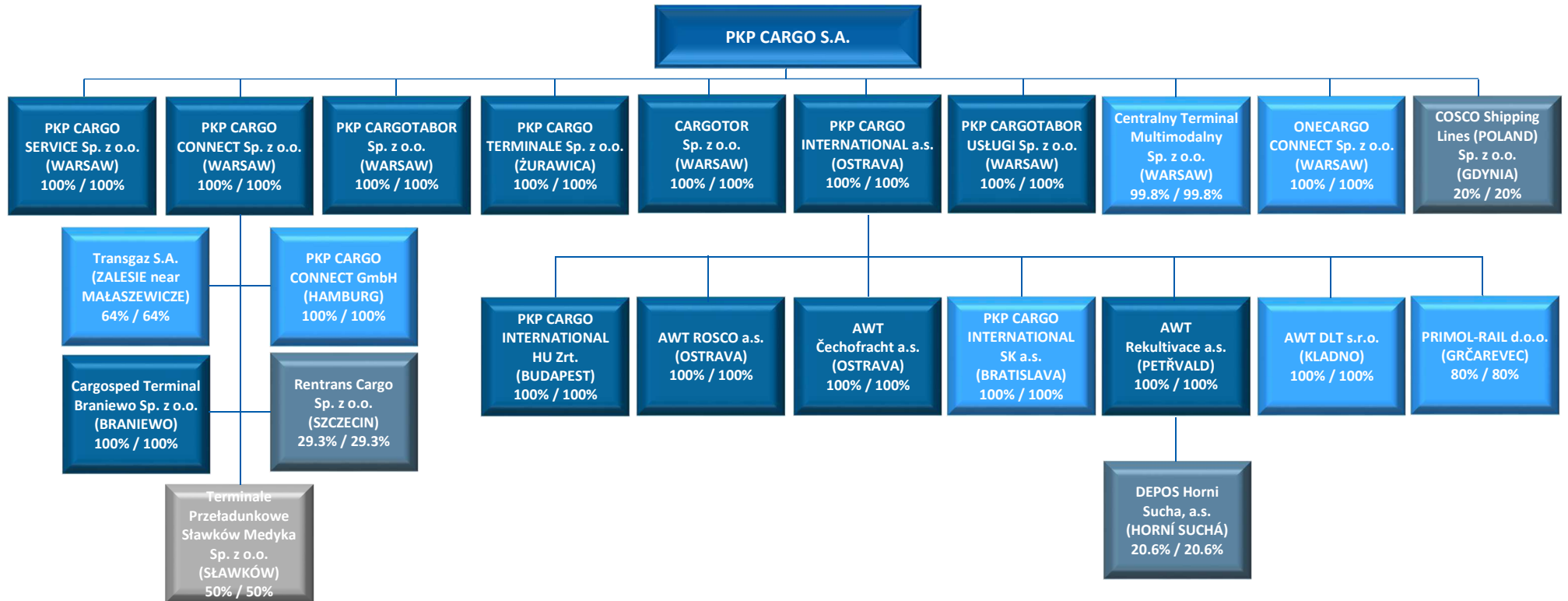
Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:

- the cash-generating unit was considered to be all assets owned by the PKP CARGO INTERNATIONAL Group, used mainly to service customers on the Czech rail market,
- in the period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 1.7% in real terms,
- in the whole period covered by the detailed projection, capital expenditures will reach the level of 5.7% of annual operating revenue in real terms,
- the after-tax weighted average cost of capital (WACC) will be at 6.2% in real terms,
- after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

As at 31 December 2020, the recoverable amount determined as a result of the tests exceeded the carrying amount of the tested assets, the Company recognized no impairment loss on the shares in PKP CARGOTABOR Sp. z o.o. and PKP CARGO INTERNATIONAL a.s.

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

5.3 Investments in related parties (cont.)



### 5.3 Investments in related parties (cont.)

Effective as of 1 January 2020, a cross-border merger of AWT Reklivitace a.s. and AWT Reklivitace PL Sp. z o.o. was effected, as a result of which the acquired company AWT Reklivitace PL Sp. z o.o. was removed from the National Court Register.

On 10 February 2020, the name of the company AWT Rail HU Zrt. was changed to PKP CARGO INTERNATIONAL HU Zrt.

On 13 June 2020, the company P.P.H.U. "UKPOL" Sp. z o.o. was dissolved pursuant to a decision of the District Court in Rzeszów. As a result of the above, P.P.H.U. "UKPOL" Sp. z o.o. ceased to be a related party to the PKP CARGO Group.

On 24 June 2020, the name of the company AWT Rail SK a.s. was changed to PKP CARGO INTERNATIONAL SK a.s.

On 7 December 2020, the share capital of PKP CARGOTABOR Sp. z o.o. was increased through creation of new shares, which were covered by a cash contribution made by the Company in the amount of PLN 33.0 million. The change was registered in the National Court Register on 17 December 2020.

On 22 March 2021, the company PKP CARGO CONNECT Sp. z o.o. concluded an agreement for the sale of its shares in Rentrans Cargo Sp. z o.o. for the price of PLN 7.0 million, therefore Rentrans Cargo Sp. z o.o. ceased to be a related party to the PKP CARGO Group.

#### List of investments in related parties

	31/12/2020	31/12/2019
CARGOTOR Sp. z o.o.	20.2	20.2
Centralny Terminal Multimodalny Sp. z o.o.	1.5	1.5
COSCO Shipping Lines (Poland) Sp. z o.o.	1.1	1.1
ONECARGO CONNECT Sp. z o.o.	-	-
PKP CARGO CONNECT Sp. z o.o.	123.2	123.2
PKP CARGO INTERNATIONAL a.s.	499.7	499.7
PKP CARGO SERVICE Sp. z o.o.	15.4	15.4
PKP CARGO TERMINALE Sp. z o.o.	51.1	51.1
PKP CARGOTABOR Sp. z o.o.	117.7	84.7
PKP CARGOTABOR USŁUGI Sp. z o.o.	10.1	10.1
<b>Total</b>	<b>840.0</b>	<b>807.0</b>

### 5.4 Inventories

#### Accounting policy applied

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

#### Structure of inventories

	31/12/2020	31/12/2019
Strategic inventories	27.7	27.4
Rolling stock during liquidation	39.8	13.5
Other inventories	28.8	41.3
Impairment losses	(1.3)	(3.0)
<b>Net inventories</b>	<b>95.0</b>	<b>79.2</b>

#### List of changes in impairment losses for inventories

	2020	2019
<b>As at the beginning of the reporting period</b>	<b>(3.0)</b>	<b>(2.9)</b>
Recognition	(0.3)	(0.2)
Utilization	2.0	0.1
<b>As at the end of the reporting period</b>	<b>(1.3)</b>	<b>(3.0)</b>



## 5.5 Trade receivables

### Accounting policy applied

Trade receivables are treated as financial instruments and measured at amortized cost in accordance with the business model applied by the Company, the purpose of which is to obtain contractual cash flows constituting the sole repayment of the nominal value and interest on specific dates.

The Company applies a simplified approach, as permitted by IFRS 9, and measures its impairment losses in an amount equal to credit losses expected throughout the lifetime of trade receivables.

The probability of incurred credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges.

For this purpose, the indicators of default by counterparties for each aging range were estimated, in accordance with the table breaking down the aging structure of trade receivables.

Impairment losses are calculated by taking into account the rates of default and the amount of unpaid receivables as at the balance sheet date for each interval in the aging structure.

Moreover, the Company recognizes impairment losses on an individual basis in cases where an objective proof exists that the Company will be unable to recover the amounts due.



### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The calculation and measurement of impairment losses on trade receivables and assets arising from contracts with customers is an area that requires estimation. Expected credit losses are calculated on the basis of an individual assessment of the recoverability of a given receivable and taking into account the model applied by the Company to estimate its counterparty default ratio. Impairment losses determined on a case by case basis require judgment

of whether the receivable in question will be repaid by the counterparty, taking into account the established security and settlements made, if any. Such judgment is made by the Company's debt collection unit. The model of estimation of the counterparty default ratio applied by the Company is based on a simplified impairment loss matrix for each aging range based on the expected credit losses throughout the lifetime of the receivables. The estimation of the expected credit losses is based on a method that makes use of expected counterparty default ratios calculated on the basis of historical data for the years 2017-2020 obtained from financial and accounting systems. The COVID-19 pandemic had no material impact on the level of expected credit losses, which is described in **Note 1.4**. The reconciliation of impairment losses on receivables is presented in the tables below.

### Structure of trade receivables

	31/12/2020	31/12/2019
Trade receivables	406.8	429.7
Impairment loss on receivables	(40.3)	(38.3)
<b>Total</b>	<b>366.5</b>	<b>391.4</b>
Current assets	366.5	391.4
<b>Total</b>	<b>366.5</b>	<b>391.4</b>

### Reconciliation of impairment losses on trade receivables

	Lifetime expected credit losses					
	2020			2019		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
<b>As at the beginning of the reporting period</b>	<b>(0.8)</b>	<b>(37.5)</b>	<b>(38.3)</b>	<b>(1.4)</b>	<b>(46.0)</b>	<b>(47.4)</b>
Recognition	(0.4)	(4.2)	(4.6)	-	(7.9)	(7.9)
Reversal	-	3.0	3.0	0.6	3.6	4.2
Utilization	-	0.3	0.3	-	12.3	12.3
FX valuation	-	(0.7)	(0.7)	-	0.5	0.5
<b>As at the end of the reporting period</b>	<b>(1.2)</b>	<b>(39.1)</b>	<b>(40.3)</b>	<b>(0.8)</b>	<b>(37.5)</b>	<b>(38.3)</b>

### 5.5 Trade receivables (cont.)

Movement in the carrying amount of gross trade receivables

	2020			2019		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
<b>As at the beginning of the reporting period</b>	<b>392.2</b>	<b>37.5</b>	<b>429.7</b>	<b>478.4</b>	<b>48.4</b>	<b>526.8</b>
Recognized	3,480.3	-	<b>3,480.3</b>	4,273.4	-	<b>4,273.4</b>
Interest accrued	2.1	0.2	<b>2.3</b>	1.4	0.1	<b>1.5</b>
Written off	(0.1)	(0.3)	<b>(0.4)</b>	-	(12.3)	<b>(12.3)</b>
Repaid	(3,505.2)	(3.0)	<b>(3,508.2)</b>	(4,353.2)	(5.9)	<b>(4,359.1)</b>
Transferred	(4.0)	4.0	-	(7.8)	7.8	-
FX valuation	2.4	0.7	<b>3.1</b>	-	(0.6)	<b>(0.6)</b>
<b>As at the end of the reporting period</b>	<b>367.7</b>	<b>39.1</b>	<b>406.8</b>	<b>392.2</b>	<b>37.5</b>	<b>429.7</b>

Age analysis of trade receivables

	31/12/2020			31/12/2019		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	340.4	(1.1)	339.3	366.4	(0.7)	365.7
Overdue receivables						
to 30 days	13.1	(0.2)	12.9	18.9	(0.3)	18.6
31 - 90 days	5.7	(0.9)	4.8	3.0	(0.1)	2.9
91-180 days	1.6	(0.2)	1.4	2.9	(2.6)	0.3
181 - 365 days	8.1	(1.9)	6.2	5.1	(3.3)	1.8
over 365 days	37.9	(36.0)	1.9	33.4	(31.3)	2.1
<b>Total</b>	<b>406.8</b>	<b>(40.3)</b>	<b>366.5</b>	<b>429.7</b>	<b>(38.3)</b>	<b>391.4</b>

### 5.6 Lease receivables

#### Accounting policy applied

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

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

Reconciliation of lease receivables

	2020	2019
Effect of the implementation of IFRS 16	-	23.2
<b>As at the beginning of the reporting period</b>	<b>20.9</b>	<b>23.2</b>
Modifications of existing agreements	7.2	(1.4)
Accrual of interest	0.9	1.0
Repayment of receivables, including:		
Principal received	(1.2)	(1.0)
Interest received	(0.9)	(0.9)
Other changes	0.3	-
<b>As at the end of the reporting period</b>	<b>27.2</b>	<b>20.9</b>

## 5.6 Lease receivables (cont.)

### Lease receivables

31/12/2020	Undiscounted lease payments	Unearned finance income	Present value of minimum fees
Up to 1 year	3.9	(1.1)	2.8
From 1 year to 5 years	10.0	(3.6)	6.4
Over 5 years	21.6	(3.6)	18.0
<b>Total</b>	<b>35.5</b>	<b>(8.3)</b>	<b>27.2</b>
Non-current receivables	31.6	(7.2)	24.4
Current receivables	3.9	(1.1)	2.8
<b>Total</b>	<b>35.5</b>	<b>(8.3)</b>	<b>27.2</b>

31/12/2019	Undiscounted lease payments	Unearned finance income	Present value of minimum fees
Up to 1 year	2.1	(0.9)	1.2
From 1 year to 5 years	7.6	(3.0)	4.6
Over 5 years	18.4	(3.3)	15.1
<b>Total</b>	<b>28.1</b>	<b>(7.2)</b>	<b>20.9</b>
Non-current receivables	26.0	(6.3)	19.7
Current receivables	2.1	(0.9)	1.2
<b>Total</b>	<b>28.1</b>	<b>(7.2)</b>	<b>20.9</b>

## 5.7 Financial assets

### Accounting policy applied

The accounting policy pertaining to financial instruments is described in [Note 6](#) to these Standalone Financial Statements.

### Structure of financial assets

	31/12/2020	31/12/2019
FX forwards	-	6.6
Shares in unlisted companies	4.9	5.6
Cash pool	2.3	-
<b>Total</b>	<b>7.2</b>	<b>12.2</b>
Non-current assets	4.9	7.4
Current assets	2.3	4.8
<b>Total</b>	<b>7.2</b>	<b>12.2</b>



### 5.8 Other assets

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

#### Structure of other assets

	31/12/2020	31/12/2019
<b>Non-financial assets</b>		
Costs settled in time		
Prepayments for purchase of electricity	23.2	26.4
Insurance	4.9	5.8
IT services	7.3	8.2
Other costs settled over time	0.4	2.8
Other	0.4	8.6
<b>Other receivables</b>		
VAT settlements	16.7	39.0
Other	6.2	5.2
<b>Intangible assets</b>		
Licenses	19.2	22.6
Intangible assets under development	0.8	3.7
<b>Total</b>	<b>79.1</b>	<b>122.3</b>
Non-current assets	22.6	39.9
Current assets	56.5	82.4
<b>Total</b>	<b>79.1</b>	<b>122.3</b>

### 5.9 Investment liabilities

Accounting policy applied
Investment liabilities include obligations related to the purchase of non-financial non-current assets. Initially, they are carried at fair value adjusted for transaction costs and subsequently at amortized cost. This applies to liabilities with a maturity of over 1 year for which the liability value corresponds to the amount that would be paid in a single cash transaction. The difference between this amount and the total payments is recognized as interest expense over the period of commercial credit. Liabilities with a maturity of up to 1 year are measured in the amount payable.

#### Structure of investment liabilities

	31/12/2020	31/12/2019
Investment liabilities related to rolling stock	275.5	383.0
Investment liabilities related to real properties	4.8	3.9
Other	4.0	16.2
<b>Total</b>	<b>284.3</b>	<b>403.1</b>
Long-term liabilities	143.0	153.6
Short-term liabilities	141.3	249.5
<b>Total</b>	<b>284.3</b>	<b>403.1</b>

### 5.10 Provisions for employee benefits

#### Accounting policy applied

The Company provides its employees with long-term benefits during their employment (jubilee awards) as well as benefits after expiration of the tenure of their employment (retirement and disability severance pays, transportation allowances and benefits from the Company Social Benefits Fund for retirement and disability pensioners, death benefits). Jubilee awards are paid out to the employees after working for specified number of years. Retirement and disability severance pays are paid out once when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The Company is establishing provisions for future liabilities arising out of the foregoing virtues to assign the costs to the respective periods.

In its statement of financial position, the Company recognizes the foregoing benefits at the current value of the liability as at the date ending the reporting period.

The amount of long-term benefits during the employment period and post-employment benefits is calculated by an independent actuarial firm using the projected individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. Current employment cost reflects the increase in the defined benefit obligation resulting from employee service in the current period and is recognized in profit and loss as employee benefits, except when it is recognized as the cost of manufacturing an asset. The costs of past employment are recognized directly in the financial result. Net interest cost is calculated by applying a discount rate to the net value of the defined benefit obligation and presented in financial expenses. Actuarial earnings and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.



#### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2020 and 31 December 2019, the actuarial valuation of provisions for employee benefits was based on the following main assumptions:

	Valuation as at [%]	
	31/12/2020	31/12/2019
Discount rate	1.4	2.1
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 2.5	up to 2.5
Assumed growth of the price of transportation benefits	2.5	2.5
Assumed average annual growth of the base for calculation of provisions on account of charge for Company Benefits Fund	4.0	4.0
Weighted average employee mobility ratio	up to 2.5	2.0

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



#### Sensitivity analysis of provisions for employee benefits

	31/12/2020	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
		Jubilee awards	267.3	(4.6)	4.8	4.7	(4.6)
Retirement and disability severance benefits	208.4	(3.8)	3.9	3.8	(3.7)	(2.5)	2.5
Post-mortem benefits	5.5	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	165.2	(7.7)	8.3	7.1	(6.7)	(0.9)	1.0
Transportation benefits	37.3	(1.7)	1.8	1.6	(1.5)	(0.2)	0.2
<b>Total</b>	<b>683.7</b>	<b>(17.9)</b>	<b>18.9</b>	<b>17.3</b>	<b>(16.6)</b>	<b>(7.3)</b>	<b>7.5</b>



**5.10 Provisions for employee benefits (cont.)**

	31/12/2019	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	287.1	(4.3)	4.5	3.7	(3.6)	(3.8)	3.8
Retirement and disability severance benefits	210.5	(3.5)	3.7	3.0	(3.0)	(3.1)	3.2
Post-mortem benefits	6.6	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	128.8	(5.5)	5.8	4.7	(4.5)	(0.9)	0.9
Transportation benefits	34.7	(1.4)	1.5	1.2	(1.2)	(0.3)	0.3
<b>Total</b>	<b>667.7</b>	<b>(14.8)</b>	<b>15.6</b>	<b>12.7</b>	<b>(12.4)</b>	<b>(8.2)</b>	<b>8.3</b>

**Movement in provisions for employee benefits**

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
<b>1/01/2020</b>	<b>210.5</b>	<b>128.8</b>	<b>34.7</b>	<b>6.6</b>	<b>287.1</b>	<b>17.8</b>	<b>685.5</b>
Current service cost	7.3	2.4	0.6	0.4	13.1	-	<b>23.8</b>
Interest expenses	3.9	2.7	0.7	0.1	5.7	-	<b>13.1</b>
Actuarial (profits)/ losses recognized in other comprehensive income	7.2	36.3	2.3	(0.4)	-	-	<b>45.4</b>
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	6.0	-	<b>6.0</b>
Reversal of provisions	-	-	-	-	-	(1.7)	<b>(1.7)</b>
Benefits paid out	(20.5)	(5.0)	(1.0)	(1.2)	(44.6)	-	<b>(72.3)</b>
<b>31/12/2020</b>	<b>208.4</b>	<b>165.2</b>	<b>37.3</b>	<b>5.5</b>	<b>267.3</b>	<b>16.1</b>	<b>699.8</b>
Long-term provisions	177.5	160.0	36.1	4.8	227.7	-	<b>606.1</b>
Short-term provisions	30.9	5.2	1.2	0.7	39.6	16.1	<b>93.7</b>
<b>Total</b>	<b>208.4</b>	<b>165.2</b>	<b>37.3</b>	<b>5.5</b>	<b>267.3</b>	<b>16.1</b>	<b>699.8</b>

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
<b>1/01/2019</b>	<b>177.1</b>	<b>121.6</b>	<b>31.0</b>	<b>6.1</b>	<b>265.3</b>	<b>20.3</b>	<b>621.4</b>
Current service cost	5.7	1.9	0.6	0.3	10.4	-	<b>18.9</b>
Interest expenses	4.5	3.5	0.9	0.2	6.8	-	<b>15.9</b>
Actuarial (profits)/ losses recognized in other comprehensive income	34.0	8.2	3.2	0.8	-	-	<b>46.2</b>
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	46.4	-	<b>46.4</b>
Reversal of provisions	-	-	-	-	-	(2.5)	<b>(2.5)</b>
Benefits paid out	(10.8)	(6.4)	(1.0)	(0.8)	(41.8)	-	<b>(60.8)</b>
<b>31/12/2019</b>	<b>210.5</b>	<b>128.8</b>	<b>34.7</b>	<b>6.6</b>	<b>287.1</b>	<b>17.8</b>	<b>685.5</b>
Long-term provisions	176.9	124.6	33.6	5.5	244.8	-	<b>585.4</b>
Short-term provisions	33.6	4.2	1.1	1.1	42.3	17.8	<b>100.1</b>
<b>Total</b>	<b>210.5</b>	<b>128.8</b>	<b>34.7</b>	<b>6.6</b>	<b>287.1</b>	<b>17.8</b>	<b>685.5</b>

### 5.10 Provisions for employee benefits (cont.)

Items recognized in the result in reference to employee benefits programs

	31/12/2020	31/12/2019
Employee benefits	(28.1)	(62.8)
Financial expenses	(13.1)	(15.9)
<b>Total recognized in the profit before tax</b>	<b>(41.2)</b>	<b>(78.7)</b>

#### Actuarial (profits) / losses

2020	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
<b>Actuarial losses / (profits) – post-employment benefits</b>				
Retirement and disability severance benefits	6.2	4.2	(3.2)	7.2
Company Social Benefits Fund	0.7	16.6	19.0	36.3
Transportation benefits	0.3	3.6	(1.6)	2.3
Post-mortem benefits	(0.3)	0.1	(0.2)	(0.4)
<b>Actuarial losses / (profits) – other long-term benefits</b>				
Jubilee awards	(0.7)	4.4	2.3	6.0
<b>Total</b>	<b>6.2</b>	<b>28.9</b>	<b>16.3</b>	<b>51.4</b>

2019	Change of financial assumptions	Other changes	Total
<b>Actuarial losses / (profits) – post-employment benefits</b>			
Retirement and disability severance benefits	16.6	17.4	34.0
Company Social Benefits Fund	14.9	(6.7)	8.2
Transportation benefits	3.9	(0.7)	3.2
Post-mortem benefits	0.4	0.4	0.8
<b>Actuarial losses / (profits) – other long-term benefits</b>			
Jubilee awards	19.9	26.5	46.4
<b>Total</b>	<b>55.7</b>	<b>36.9</b>	<b>92.6</b>

#### Analysis of maturities of paid out employee benefits

31/12/2020	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	30.9	5.2	1.2	0.7	39.6	16.1	93.7
1 to 5 years	76.4	22.3	5.1	2.2	112.1	-	218.1
over 5 years	101.1	137.7	31.0	2.6	115.6	-	388.0
<b>Total</b>	<b>208.4</b>	<b>165.2</b>	<b>37.3</b>	<b>5.5</b>	<b>267.3</b>	<b>16.1</b>	<b>699.8</b>

31/12/2019	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	33.6	4.2	1.1	1.1	42.3	17.8	100.1
1 to 5 years	72.1	19.4	5.3	2.6	123.2	-	222.6
over 5 years	104.8	105.2	28.3	2.9	121.6	-	362.8
<b>Total</b>	<b>210.5</b>	<b>128.8</b>	<b>34.7</b>	<b>6.6</b>	<b>287.1</b>	<b>17.8</b>	<b>685.5</b>

The average maturity of employee benefits was 12 years as at 31 December 2020.

### 5.11 Other provisions

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

#### Structure of other provisions

2020	Provisions for penalties imposed by UOKiK	Other provisions	Total
<b>1/01/2020</b>	<b>14.2</b>	<b>19.2</b>	<b>33.4</b>
Recognition	-	1.1	1.1
Reversal	-	(3.0)	(3.0)
Utilization	(14.2)	(4.3)	(18.5)
<b>31/12/2020</b>	<b>-</b>	<b>13.0</b>	<b>13.0</b>
Short-term provisions	-	13.0	13.0
<b>Total</b>	<b>-</b>	<b>13.0</b>	<b>13.0</b>

2019	Provisions for penalties imposed by UOKiK	Other provisions	Total
<b>1/01/2019</b>	<b>14.2</b>	<b>19.4</b>	<b>33.6</b>
Recognition	-	3.6	3.6
Reversal	-	(2.0)	(2.0)
Utilization	-	(1.8)	(1.8)
<b>31/12/2019</b>	<b>14.2</b>	<b>19.2</b>	<b>33.4</b>
Short-term provisions	14.2	19.2	33.4
<b>Total</b>	<b>14.2</b>	<b>19.2</b>	<b>33.4</b>

#### Provisions for penalties imposed by UOKiK

As at 31 December 2019, the provision represented an estimate by the Company's Management Board in connection with the likelihood of payment of a fine imposed by the Decision of 31 December 2015 of the President of the Office of Competition and Consumer Protection (hereinafter referred to as "UOKiK", "Office") in the amount of PLN 14.2 million.

As at 31 December 2020, in connection with the judgment of 2 July 2020 handed down by the Appellate Court in Warsaw dismissing the Company's appeal in this case, the Company reclassified the claim amount to the other liabilities item. The Company paid the whole amount due to the Office in January 2021.

#### Other provisions

This line item mostly includes the provisions established for disputed settlements, litigation and liquidated damages in the event of which it is more likely that there will be an outflow of cash in connection with the performance of those claims than it will not.

According to the Company's Management Board, the amount of other provisions as at 31 December 2020, and as at 31 December 2019, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation.

## 5.12 Other liabilities

### Accounting policy applied

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

### Structure of other liabilities

	31/12/2020	31/12/2019
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	31.7	22.4
Liabilities on the purchase of shares <sup>(1)</sup>	33.0	-
Public law liabilities	96.3	90.1
Settlements with employees	71.8	71.0
Other settlements	7.1	12.2
VAT settlements	1.6	-
<b>Total</b>	<b>241.5</b>	<b>195.7</b>
Short-term liabilities	241.5	195.7
<b>Total</b>	<b>241.5</b>	<b>195.7</b>

<sup>(1)</sup> This item represents a liability related to the subscription to new shares in connection with the increase of the share capital of PKP CARGOTABOR Sp. z o.o., as described in [Note 5.3](#) of these Standalone Financial Statements. The liability on this account was settled in January 2021.

## 6. Financial instruments and principles of financial risk management

### Accounting policy applied

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

- a) at amortized cost,
- b) at fair value through other comprehensive income,
- c) at fair value through profit or loss.

Such classification is based on:

- a) the entity's business model for managing financial assets,
- b) the contractual cash flow characteristics of the financial asset, i.e. whether the contractual cash flows are solely payments of principal and interest. The nature and the purpose of financial assets are determined at the moment of initial recognition.

#### Financial assets carried at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows;
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In this category, the Company classifies mainly:

- a) trade receivables,
- b) bank deposits over 3 months,
- c) cash and cash equivalents.

As at 31 December 2020 and 31 December 2019, the Company did not have any financial assets of a debt nature measured at fair value through other comprehensive income or measured at fair value through profit or loss.

#### Investments in equity instruments

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

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

### Financial liabilities

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

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

All financial liabilities held by the Company were classified as measured at amortized cost. Additionally, for other financial assets and financial liabilities, the Company presents FX forward derivatives. These instruments are used to hedge future cash flows. Upon provision of the hedge, the Company defines the hedging relationship. The effective portion of profits or losses related to a hedging instrument is recognized in other comprehensive income.

The non-effective portion of profits or losses related to the hedging instrument is recognized in the period's profit or loss unless its value is immaterial. Profits/losses related to the measurement of hedging instruments and recognized in other comprehensive income are recognized in profit or loss at the moment the hedged item affects the financial result.

The Company derecognizes a financial asset when, and only when, the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and all related risks and rewards of ownership of the financial asset to another entity.

### 6.1 Financial instruments

#### Categories and classes of financial instruments

Financial assets by categories and classes	Note	31/12/2020	31/12/2019
<b>Hedging financial instruments</b>			
Derivatives	Note 5.7	-	6.6
<b>Financial assets measured at fair value through other comprehensive income</b>			
Investments in equity instruments	Note 5.7	4.9	5.6
<b>Financial assets measured at amortized cost</b>			
Trade receivables	Note 5.5	366.5	391.4
Cash pool	Note 5.7	2.3	-
Cash and cash equivalents	Note 4.4	180.5	380.0
Receivables on account of sale of non-financial non-current assets		0.1	0.5
<b>Financial assets excluded from the scope of IFRS 9</b>	Note 5.6	27.2	20.9
<b>Total</b>		<b>581.5</b>	<b>805.0</b>

Financial liabilities by categories and classes	Note	31/12/2020	31/12/2019
<b>Hedging financial instruments</b>			
Derivatives		2.7	-
Bank loans and borrowings	Note 4.1	599.0	469.7
<b>Financial liabilities measured at amortized cost</b>			
Bank loans and borrowings	Note 4.1	993.4	1,074.0
Trade liabilities		215.6	233.5
Investment liabilities	Note 5.9	284.3	403.1
Cash pool		-	2.2
Liabilities on the purchase of shares	Note 5.12	33.0	-
<b>Financial liabilities excluded from the scope of IFRS 9</b>	Note 4.1	658.9	712.8
<b>Total</b>		<b>2,786.9</b>	<b>2,895.3</b>

Impairment losses on trade receivables are presented in [Note 5.5](#) to these Standalone Financial Statements.



## 6.1 Financial instruments (cont.)

### Hedge accounting

In the period from 1 January 2020 to 31 December 2020, the Company applied cash flow hedging accounting. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 31 December 2020, the following hedging instruments were established:

- investment loans denominated in EUR. The hedged cash flows will be realized until January 2035. As at 31 December 2020, the nominal amount of the hedging instrument was EUR 129.8 million, which is an equivalent of PLN 599.0 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 31 December 2020, the value of liabilities from measurement of a hedging instrument was PLN 2.7 million.

### Fair value hierarchy

As at 31 December 2020 and 31 December 2019, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	31/12/2020		31/12/2019	
	Level 2	Level 3	Level 2	Level 3
<b>Assets</b>				
Derivatives – FX forward contracts	-	-	6.6	-
Investments in equity instruments - shares in unlisted companies	-	4.9	-	5.6
<b>Liabilities</b>				
Derivatives – FX forward contracts	2.7	-	-	-

### Measurement methods for financial instruments carried at fair value

#### a) FX forward contracts

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



#### b) Investments in equity instruments

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

#### c) Other financial instruments

For the category of financial instruments that are not measured at fair value as at the balance sheet date, the Company does not disclose fair value because as at 31 December 2020 and 31 December 2019 fair value was not materially different from the value presented in the statement of financial position.

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

	2020	2019
<b>As at the beginning of the reporting period</b>	<b>5.6</b>	<b>4.9</b>
Profits / (losses) for the period recognized in other comprehensive income	(0.7)	0.7
<b>As at the end of the reporting period</b>	<b>4.9</b>	<b>5.6</b>

In the financial year ended 31 December 2020 and 31 December 2019, there were no transfers between levels 2 and 3 of the fair value hierarchy.

### 6.1 Financial instruments (cont.)

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

2020	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(2.4)	-	3.4	0.9	(21.2)	(24.7)	<b>(44.0)</b>
FX differences	-	-	4.6	-	(1.6)	(5.2)	<b>(2.2)</b>
Impairment losses / revaluation	(0.1)	-	(1.6)	-	-	-	<b>(1.7)</b>
Transaction costs related to loans	-	-	-	-	(2.0)	-	<b>(2.0)</b>
Effect of settlement of cash flow hedge accounting	(2.6)	-	-	-	-	-	<b>(2.6)</b>
<b>Profit / (loss) before tax</b>	<b>(5.1)</b>	-	<b>6.4</b>	<b>0.9</b>	<b>(24.8)</b>	<b>(29.9)</b>	<b>(52.5)</b>
Revaluation	(49.8)	(0.7)	-	-	-	-	<b>(50.5)</b>
<b>Other comprehensive income</b>	<b>(49.8)</b>	<b>(0.7)</b>	-	-	-	-	<b>(50.5)</b>

In the financial year ended 31 December 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (2.6) million. The change in the measurement of hedging financial instruments included a change in the measurement of derivatives in the amount of PLN (9.3) million and bank loans in the amount of PLN (40.5) million, recognized as part of the hedge accounting applied by the Company.

2019	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(2.7)	-	4.1	0.9	(20.2)	(23.3)	<b>(41.2)</b>
FX differences	(0.1)	-	(0.6)	-	(1.8)	0.7	<b>(1.8)</b>
Impairment losses / revaluation	(0.1)	-	(3.7)	-	-	-	<b>(3.8)</b>
Transaction costs related to loans	-	-	-	-	(2.2)	-	<b>(2.2)</b>
Effect of settlement of cash flow hedge accounting	3.7	-	-	-	-	-	<b>3.7</b>
<b>Profit / (loss) before tax</b>	<b>0.8</b>	-	<b>(0.2)</b>	<b>0.9</b>	<b>(24.2)</b>	<b>(22.6)</b>	<b>(45.3)</b>
Revaluation	9.4	0.7	-	-	-	-	<b>10.1</b>
<b>Other comprehensive income</b>	<b>9.4</b>	<b>0.7</b>	-	-	-	-	<b>10.1</b>

In the financial year ended 31 December 2019, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (3.7) million. The change in the measurement of hedging financial instruments included a change in the measurement of derivatives in the amount of PLN 3.7 million and bank loans in the amount of PLN 5.7 million, recognized as part of the hedge accounting applied by the Company.

### 6.1 Financial instruments (cont.)

#### Offsetting financial assets

31/12/2020	Gross value of recognized financial assets	Gross value of recognized financial liabilities offset in the statement of financial position	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	366.5	-	366.5	(0.9)	365.6
Cash pool	35.3	(33.0)	2.3	-	2.3
<b>Total</b>	<b>401.8</b>	<b>(33.0)</b>	<b>368.8</b>	<b>(0.9)</b>	<b>367.9</b>

31/12/2019	Gross value of recognized financial assets	Gross value of recognized financial liabilities offset in the statement of financial position	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	391.4	-	391.4	(1.0)	390.4
<b>Total</b>	<b>391.4</b>	<b>-</b>	<b>391.4</b>	<b>(1.0)</b>	<b>390.4</b>

#### Offsetting financial liabilities

31/12/2020	Gross value of recognized financial liabilities	Gross value of recognized assets offset in the statement of financial position	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	215.6	-	215.6	(0.1)	215.5
<b>Total</b>	<b>215.6</b>	<b>-</b>	<b>215.6</b>	<b>(0.1)</b>	<b>215.5</b>

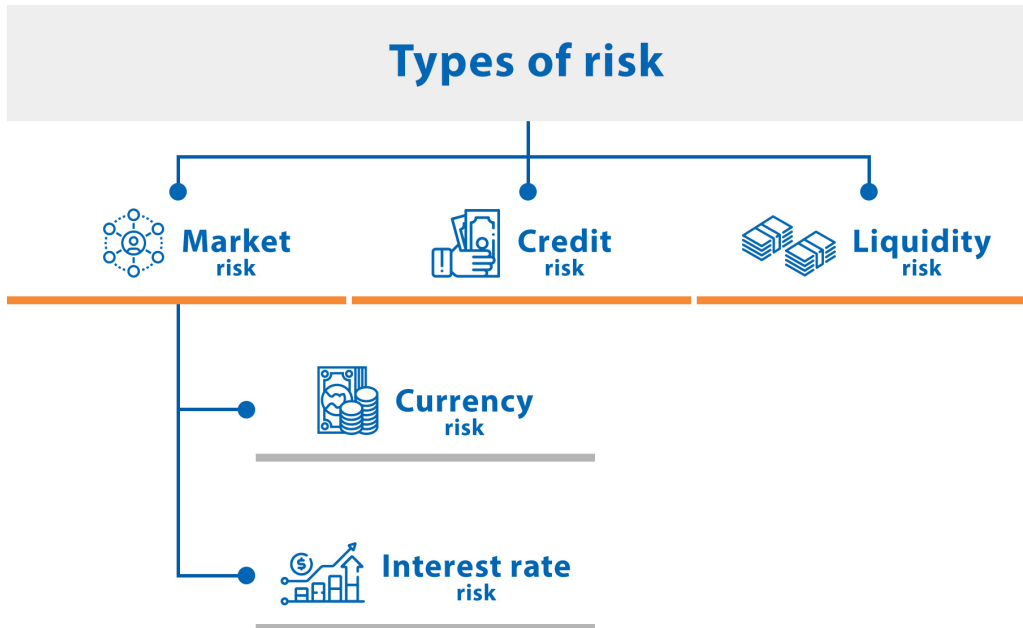
31/12/2019	Gross value of recognized financial liabilities	Gross value of recognized assets offset in the statement of financial position	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade liabilities	233.5	-	233.5	(0.1)	233.4
Cash pool	25.8	(23.6)	2.2	-	2.2
<b>Total</b>	<b>259.3</b>	<b>(23.6)</b>	<b>235.7</b>	<b>(0.1)</b>	<b>235.6</b>

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

## 6.2 Objectives and principles of financial risk management

### Objectives and principles of financial risk management

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



#### Market risk

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

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

According to the Financial Risk Management Policy prevailing in the Company, in 2020, the Company used FX risk management transactions for the EUR/PLN currency pair.

#### Foreign exchange risk management

As at 31 December 2020, the Company was exposed to foreign exchange risk concerning for the most part trade receivables and debt liabilities denominated in EUR.

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

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

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that revenues from contracts with customers in EUR are partly balanced out by costs in the same currency. The FX risk management transactions used by the Company are aimed at hedging the net free position exposed to change of the value in PLN. For this purpose, the Company applied forward transactions for the currency pair EUR/PLN in 2019-2020 and established hedging relationships between cash flows arising from bank loans denominated in EUR and future highly probable cash flows arising from operating activities denominated in EUR.



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

Items in foreign currencies

31/12/2020	Total value of items in PLN	EUR/PLN	
		in a foreign currency	in PLN
<b>ASSETS</b>			
<b>Current assets</b>			
Trade receivables	57.5	12.5	57.5
Cash and cash equivalents	3.2	0.7	3.2
<b>Total</b>	<b>60.7</b>	<b>13.2</b>	<b>60.7</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Long-term liabilities</b>			
Debt liabilities	551.7	119.5	551.7
<b>Short-term liabilities</b>			
Debt liabilities	99.6	21.6	99.6
Trade liabilities	19.0	4.2	19.0
Other financial liabilities – FX forward contracts <sup>(1)</sup>	2.7	18.9	2.7
Other liabilities	2.0	0.4	2.0
<b>Total</b>	<b>675.0</b>	<b>164.6</b>	<b>675.0</b>
<b>Net currency item</b>	<b>(614.3)</b>	<b>(151.4)</b>	<b>(614.3)</b>

31/12/2019	Total value of items in PLN	EUR/PLN	
		in a foreign currency	in PLN
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets – FX forward contracts <sup>(1)</sup>	1.8	17.9	1.8
<b>Current assets</b>			
Trade receivables	44.3	10.4	44.3
Financial assets – FX forward contracts <sup>(1)</sup>	4.8	33.8	4.8
Cash and cash equivalents	11.7	2.7	11.7
<b>Total</b>	<b>62.6</b>	<b>64.8</b>	<b>62.6</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Long-term liabilities</b>			
Debt liabilities	467.8	109.9	467.8
<b>Short-term liabilities</b>			
Debt liabilities	75.9	17.8	75.9
Trade liabilities	15.6	3.7	15.6
<b>Total</b>	<b>559.3</b>	<b>131.4</b>	<b>559.3</b>
<b>Net currency item</b>	<b>(496.7)</b>	<b>(66.6)</b>	<b>(496.7)</b>

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



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

### Sensitivity to FX risk

The Company is exposed to the foreign exchange risk regarding the currency pair EUR/PLN in connection with its operating and financing activities. Deviations in exchange rates were calculated based on the average daily volatility of exchange rates in the period under analysis. Sensitivity of financial instruments to foreign exchange risk has been calculated as the difference between the original carrying amount of the financial instruments and their potential value while assuming changes to foreign exchange rates. The tables below present the Company's exposure to the foreign exchange risk in 2020 and 2019.

31/12/2020	value of the item in PLN	EUR/PLN			
		impact on the result		impact on other comprehensive income	
		+2%	-2%	+2%	-2%
<b>ASSETS</b>					
<b>Current assets</b>					
Trade receivables	57.5	1.2	(1.2)	-	-
Cash and cash equivalents	3.2	0.1	(0.1)	-	-
<b>EQUITY AND LIABILITIES</b>					
<b>Long-term liabilities</b>					
Debt liabilities	551.7	(0.6)	0.6	(10.4)	10.4
<b>Short-term liabilities</b>					
Debt liabilities	99.6	(0.4)	0.4	(1.6)	1.6
Trade liabilities	19.0	(0.4)	0.4	-	-
Other financial liabilities – FX forward contracts	2.7	-	-	(1.7)	1.7
Other liabilities	2.0	-	-	-	-
<b>Total gross effect</b>		<b>(0.1)</b>	<b>0.1</b>	<b>(13.7)</b>	<b>13.7</b>

31/12/2019	value of the item in PLN	EUR/PLN			
		impact on the result		impact on other comprehensive income	
		+3%	-3%	+3%	-3%
<b>ASSETS</b>					
<b>Non-current assets</b>					
Financial assets – FX forward contracts	1.8	-	-	(2.4)	2.4
<b>Current assets</b>					
Trade receivables	44.3	1.3	(1.3)	-	-
Financial assets – FX forward contracts	4.8	-	-	(4.5)	4.5
Cash and cash equivalents	11.7	0.3	(0.3)	-	-
<b>EQUITY AND LIABILITIES</b>					
<b>Long-term liabilities</b>					
Debt liabilities	467.8	(1.5)	1.5	(12.5)	12.5
<b>Short-term liabilities</b>					
Debt liabilities	75.9	(0.7)	0.7	(1.6)	1.6
Trade liabilities	15.6	(0.5)	0.5	-	-
<b>Total gross effect</b>		<b>(1.1)</b>	<b>1.1</b>	<b>(21.0)</b>	<b>21.0</b>

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

### FX forward transactions

To manage the foreign exchange risk in 2020 and 2019, FX forward transactions were applied on the EUR/PLN currency pair (sale of currency).

### List of unrealized FX forward contracts

As at 31 December 2020

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of liabilities
Bank A	forward	01/2019 - 09/2019	01/2021 - 08/2021	EUR/PLN	3.5	15.8	(0.4)
Bank B	forward	01/2019 - 08/2019	01/2020 - 06/2021	EUR/PLN	5.1	22.8	(0.8)
Bank C	forward	02/2019 - 01/2020	01/2021 - 01/2022	EUR/PLN	7.9	35.4	(1.1)
Bank D	forward	02/2019 - 09/2019	01/2021 - 09/2021	EUR/PLN	2.4	10.8	(0.4)
<b>Total</b>					<b>18.9</b>	<b>84.8</b>	<b>(2.7)</b>

As at 31 December 2019

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of assets
Bank A	forward	02/2018 - 09/2019	01/2020 - 08/2020	EUR/PLN	6.9	30.8	0.8
Bank B	forward	02/2018 - 08/2019	01/2020 - 06/2021	EUR/PLN	14.6	65.2	1.9
Bank C	forward	02/2018 - 10/2019	01/2020 - 09/2021	EUR/PLN	20.0	89.1	2.5
Bank D	forward	03/2018 - 09/2019	01/2020 - 09/2021	EUR/PLN	9.7	43.3	1.3
Bank E	forward	07/2018	03/2020 - 06/2020	EUR/PLN	0.5	2.2	0.1
<b>Total</b>					<b>51.7</b>	<b>230.6</b>	<b>6.6</b>

### Interest rate risk management

As at 31 December 2020, the Company was exposed to the risk of volatility of interest rate cash flows following from bank loans and lease agreements based on variable interest rates. Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. In 2020, the reference rate for lease contracts denominated in PLN was WIBOR 1M. As part of its fixed-rate lease liabilities, the Company recognizes, for the most part, liabilities arising from lease and tenancy contracts containing price indexation provisions based on the rate of inflation. In accordance with IFRS 16, changes in future lease payments caused by price indexation will not result in a change in the discount rate applied to the measurement of such liabilities.

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

The cash held by the Company as at 31 December 2020 was mainly in the form of fixed rate bank deposits which were concluded with time horizons depending on the Company's liquidity needs. In future periods, as a result of changes in the deposit interest rates, the cash position may be exposed to interest rate risk.

In 2020, the Company did not use derivative instruments to hedge the interest rate risk.

### Financial instruments by interest rate type

As at 31 December 2020 and 31 December 2019, financial assets were interest-bearing at a fixed interest rate.

	31/12/2020	31/12/2019
Lease receivables	27.2	20.9
Receivables from sale of non-financial non-current assets	0.1	0.5
Cash pool	2.3	-
Cash and cash equivalents	180.5	380.0
<b>Total</b>	<b>210.1</b>	<b>401.4</b>

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

Financial liabilities	31/12/2020			31/12/2019		
	Interest rate		Total	Interest rate		Total
	at a fixed interest rate	at a variable interest rate		at a fixed interest rate	at a variable interest rate	
Debt liabilities	696.9	1,554.4	<b>2,251.3</b>	608.7	1,647.8	<b>2,256.5</b>
Investment liabilities	198.6	-	<b>198.6</b>	198.9	-	<b>198.9</b>
Cash pool	-	-	-	2.2	-	<b>2.2</b>
<b>Total</b>	<b>895.5</b>	<b>1,554.4</b>	<b>2,449.9</b>	<b>809.8</b>	<b>1,647.8</b>	<b>2,457.6</b>

### Interest rate fluctuation sensitivity

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

31/12/2020	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result		impact on the result	
		+ 100 bps	- 100 bps	+ 25 bps	- 25 bps
<b>EQUITY AND LIABILITIES</b>					
<b>Non-current liabilities</b>					
Debt liabilities	1,289.2	(8.8)	8.8	(1.0)	1.0
<b>Current liabilities</b>					
Debt liabilities	264.3	(2.1)	2.1	(0.1)	0.1
<b>Total gross effect</b>		<b>(10.9)</b>	<b>10.9</b>	<b>(1.1)</b>	<b>1.1</b>

31/12/2019	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result		impact on the result	
		+ 50 bps	- 50 bps	+ 50 bps	- 50 bps
<b>EQUITY AND LIABILITIES</b>					
<b>Non-current liabilities</b>					
Debt liabilities	1,382.9	(4.8)	4.8	(2.1)	2.1
<b>Current liabilities</b>					
Debt liabilities	263.9	(1.1)	1.1	(0.3)	0.3
<b>Total gross effect</b>		<b>(5.9)</b>	<b>5.9</b>	<b>(2.4)</b>	<b>2.4</b>

### Credit risk management

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

	31/12/2020	31/12/2019
Trade receivables	366.5	391.4
Lease receivables	27.2	20.9
FX forwards	-	6.6
Cash and cash equivalents	180.5	380.0
Cash pool	2.3	-
Receivables on account of sale of non-financial non-current assets	0.1	0.5
<b>Total</b>	<b>576.6</b>	<b>799.4</b>

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

Conducting its commercial activity, the Company sells services to business entities with a deferred payment date, which may lead to the risk that receivables from counterparties for services provided may not be received. To minimize the credit risk, the Company manages the risk through a prevailing client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. As part of its internal policy, the Company makes application of the deferred term of payment conditional on acceptability of the counterparty's condition and positive history of cooperation. Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy.



### Structure of trade receivables in terms of entity types

	31/12/2020	31/12/2019
Group of entities related to the biggest external counterparty	14.0%	13.2%
PKP Group related parties	12.9%	17.9%
State Treasury related parties	26.9%	30.1%
Other entities	46.2%	38.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from their customers in the form of, among others: bank/insurance guarantees, assignment of contracts and promissory notes. As at 31 December 2020, 10.6% of trade receivables were secured.

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

Bank	Credit rating agency	Rating	31/12/2020
Bank A	Fitch	A-	84.4%
Bank B	Moody's	A2	9.6%
Bank C	Moody's	Baa1	2.8%
Bank D	Standard & Poor's	BBB	2.2%
Other			1.0%
<b>Total</b>			<b>100.0%</b>

## 7. Other notes

### 7.1 Related party transactions

#### Transactions with the State Treasury and its other related parties

In the financial year ended 31 December 2020 and the financial year ended 31 December 2019, the State Treasury was for the Company an upper level parent entity. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Company's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Standalone Financial Statements, the Management Board has disclosed transactions with material related parties identified as such according to the best knowledge of the Management Board.

In the financial year ended 31 December 2020 and 31 December 2019, there were no individual transactions effected between the Company and other parties related to the State Treasury which would be material due to a non-standard scope or amount. In the periods covered by these Standalone Financial Statements, the Company's most important clients among other parties related to the State Treasury were members of the following groups: PGE, JSW, ENEA and Azoty. The Company's most important suppliers related to the State Treasury were PKN Orlen Group entities.

### 7.1 Related party transactions (cont.)

#### Transactions with PKP Group related parties

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

	2020		31/12/2020	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	59.9	1.0	495.5
Subsidiaries / co-subsiaries	299.5	366.1	70.2	57.8
Associates	7.8	-	-	-
Other PKP Group related parties	14.0	484.5	1.9	58.7

	2019		31/12/2019	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	59.3	1.0	504.6
Subsidiaries / co-subsiaries	486.7	681.6	86.2	133.5
Associates	0.1	-	-	-
Other PKP Group related parties	15.5	552.1	2.5	50.9

Purchase transactions with the parent company (PKP S.A.) pertained in particular to lease agreements, the supply of utilities and occupational medicine services.

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

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

In addition to commercial transactions, the Company had cash pooling settlements presented in [Note 5.7](#). In addition the Company granted sureties to its subsidiaries described in [Note 7.3](#) to these Standalone Financial Statements.

#### Loans granted to / received from related parties

In the financial year ended 31 December 2020 and 31 December 2019, the Company did not grant or take any loans from its related parties.

#### Remunerations of key management personnel

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

Compensation of Management Board Members	2020	2019
Short-term benefits	2.4	2.6
Post-employment benefits	0.3	-
Termination benefits	0.1	-
<b>Total</b>	<b>2.8</b>	<b>2.6</b>

Compensation of Supervisory Board Members	2020	2019
Short-term benefits	1.3	1.2
<b>Total</b>	<b>1.3</b>	<b>1.2</b>



### 7.1 Related party transactions (cont.)

Compensation of other members of key management personnel	2020	2019
Short-term benefits	6.9	6.8
Post-employment benefits	-	0.1
Termination benefits	-	0.1
<b>Total</b>	<b>6.9</b>	<b>7.0</b>

In the financial year ended 31 December 2020 and 31 December 2019, the members of the key management personnel did not enter into any loan and guarantee transactions with the Company.

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

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

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

	31/12/2020	31/12/2019
Contractual liabilities relating to the purchase of non-financial non-current assets	932.0	1,701.9
<b>Total</b>	<b>932.0</b>	<b>1,701.9</b>

As at 31 December 2020, contractual liabilities relating to the purchase of non-financial non-current assets resulted mainly from the purchase and periodic repairs of the rolling stock and from the performance of agreements concluded in previous periods. The Company was awarded co-financing from the European Union aid funds in the amount of approx. PLN 132.7 million for the performance of those agreements.

Additionally, on 6 July 2020, the Company's Supervisory Board gave its consent to change the liability incurred by signing an annex to the contract with Pojazdy Szynowe PESA Bydgoszcz S.A. to conduct level five maintenance repairs and replace combustion engines in 38 ST44 diesel locomotives. As a result of the change, the number of locomotives to be repaired was reduced to 25, with the time limit for the repairs extended to 28 May 2021 and a decrease in the total liability to the contractor from PLN 176.3 million to PLN 116.0 million.

On 26 January 2021, the Company signed two agreements with PKP CARGOTABOR Sp. z o.o. for periodic inspections and repairs of wagons up to the total amount of PLN 221.9 million, to be performed by the end of 2021.

### 7.3 Contingent liabilities

#### Accounting policy applied

According to the Company's accounting policy, a contingent liability is:

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



#### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

### 7.3 Contingent liabilities (cont.)

#### Structure of contingent liabilities

	31/12/2020	31/12/2019
Sureties for subsidiaries	1.5	1.5
Guarantees issued at PKP CARGO S.A.'s order	35.4	37.8
Other contingent liabilities	111.3	109.0
<b>Total</b>	<b>148.2</b>	<b>148.3</b>

#### Sureties granted for subsidiaries

As at 31 December 2020 and 31 December 2019, there was an outstanding loan agreement surety granted by the Company for PKP CARGOTABOR Sp. z o.o. The surety was secured with a blank promissory note.

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

As at 31 December 2020 there were outstanding guarantees issued by banks on the Company's order for commercial business partners. The guarantees comprised performance bonds (for PLN 26.3 million), payment guarantees (for PLN 7.6 million) and tender bonds (for PLN 1.5 million).

As at 31 December 2019 there were outstanding guarantees issued by banks on the Company's order for commercial business partners. The guarantees comprised performance bonds (for PLN 29.2 million), payment guarantees (for PLN 7.0 million) and tender bonds (for PLN 1.6 million).

#### Other contingent liabilities

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

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

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

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

The Company allocates the items of the statement of comprehensive income to respective activities on the basis of accounting records. The Company keeps a record of expenses by nature using the Cost Centers and controlling orders. The analytical records of controlling objects makes it possible to single out and properly allocate the sales revenue items and direct and indirect operating expenses to its respective activities. Administrative expenses are allocated to respective activities using an allocation key based on the structure of the technical cost of services.

The items of other operating revenues and operating expenses are subject to detailed identification on the basis of accounting records. Since the Company has not identified any material items related to service infrastructure activities, these items were allocated fully to the Company's other activities.

Financial revenue and expense items are excluded from the division, except for the costs of settlement of the discount on account of the provision for employee benefits and interest expense on leases, which are allocated to individual activities using an allocation key and interest related to lease liabilities, which are subject to a detailed identification. Items excluded from such allocation include income tax and other comprehensive income items, since they are related to the activity of the whole Company.

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

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

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

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

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

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

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

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

In the case of the property, plant and equipment items and rights-of-use assets the Company performed a detailed identification of individual components used in the service infrastructure activities. As at 31 December 2020, assets identified as used in several separate types of activity were allocated to the type of activity which they are involved in for the most part.

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

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

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

**b) an allocation key**

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

**c) exclusion of certain items from allocation**

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

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

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

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



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

Breakdown of the statement of profit or loss and other comprehensive income and the statement of financial position for 2019-2020 by type of activity:

#### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Service infrastructure activities	Elimination of capitalized expenses	Other activities	Excluded items	2020
Revenues from contracts with customers	6.8	-	2,929.8	-	<b>2,936.6</b>
Consumption of traction electricity and traction fuel	-	-	(446.9)	-	<b>(446.9)</b>
Services of access to infrastructure	-	-	(516.2)	-	<b>(516.2)</b>
Other services	(28.1)	6.5	(267.9)	-	<b>(289.5)</b>
Employee benefits	(182.7)	21.7	(1,078.6)	-	<b>(1,239.6)</b>
Other expenses	(83.9)	19.5	(83.3)	-	<b>(147.7)</b>
Other operating revenue and (expenses)	-	-	103.8	-	<b>103.8</b>
<b>Operating profit / (loss) without depreciation (EBITDA)</b>	<b>(287.9)</b>	<b>47.7</b>	<b>640.7</b>	-	<b>400.5</b>
Depreciation, amortization and impairment losses	(21.8)	-	(593.3)	-	<b>(615.1)</b>
<b>Profit / (loss) on operating activities (EBIT)</b>	<b>(309.7)</b>	<b>47.7</b>	<b>47.4</b>	-	<b>(214.6)</b>
Financial revenue and (expenses)	(7.4)	-	(11.4)	11.9	<b>(6.9)</b>
<b>Profit / (loss) before tax</b>	<b>(317.1)</b>	<b>47.7</b>	<b>36.0</b>	<b>11.9</b>	<b>(221.5)</b>
Income tax	-	-	-	47.6	<b>47.6</b>
<b>NET PROFIT / (LOSS)</b>	<b>(317.1)</b>	<b>47.7</b>	<b>36.0</b>	<b>59.5</b>	<b>(173.9)</b>

	Service infrastructure activities	Elimination of capitalized expenses	Other activities	Excluded items	2019
Revenues from contracts with customers	6.6	-	3,565.4	-	<b>3,572.0</b>
Consumption of traction electricity and traction fuel	-	-	(527.8)	-	<b>(527.8)</b>
Services of access to infrastructure	-	-	(576.9)	-	<b>(576.9)</b>
Other services	(43.3)	10.5	(289.2)	-	<b>(322.0)</b>
Employee benefits	(213.7)	29.8	(1,155.1)	-	<b>(1,339.0)</b>
Other expenses	(148.6)	53.8	(88.1)	-	<b>(182.9)</b>
Other operating revenue and (expenses)	-	-	0.6	-	<b>0.6</b>
<b>Operating profit / (loss) without depreciation (EBITDA)</b>	<b>(399.0)</b>	<b>94.1</b>	<b>928.9</b>	-	<b>624.0</b>
Depreciation, amortization and impairment losses	(22.5)	-	(561.3)	-	<b>(583.8)</b>
<b>Profit / (loss) on operating activities (EBIT)</b>	<b>(421.5)</b>	<b>94.1</b>	<b>367.6</b>	-	<b>40.2</b>
Financial revenue and (expenses)	(7.8)	-	(13.7)	0.5	<b>(21.0)</b>
<b>Profit / (loss) before tax</b>	<b>(429.3)</b>	<b>94.1</b>	<b>353.9</b>	<b>0.5</b>	<b>19.2</b>
Income tax	-	-	-	(27.5)	<b>(27.5)</b>
<b>NET PROFIT / (LOSS)</b>	<b>(429.3)</b>	<b>94.1</b>	<b>353.9</b>	<b>(27.0)</b>	<b>(8.3)</b>

As part of the service infrastructure activities, costs were incurred in connection with the services performed for the needs of the Company's core business in the amount of approx. PLN 313.4 million in 2020 and approx. PLN 423.4 million in 2019.



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

**STATEMENT OF FINANCIAL POSITION**

	Service infrastructure activities	Other activities	Excluded items	31/12/2020
<b>ASSETS</b>				
Rolling stock	-	3,809.2	-	<b>3,809.2</b>
Other property, plant and equipment	108.4	366.3	-	<b>474.7</b>
Rights-of-use assets	118.7	522.8	-	<b>641.5</b>
Investments in related parties	-	-	840.0	<b>840.0</b>
Lease receivables	-	-	24.4	<b>24.4</b>
Financial assets	-	-	4.9	<b>4.9</b>
Other assets	-	22.6	-	<b>22.6</b>
Deferred tax assets	-	-	131.6	<b>131.6</b>
<b>Total non-current assets</b>	<b>227.1</b>	<b>4,720.9</b>	<b>1,000.9</b>	<b>5,948.9</b>
Inventories	43.6	51.4	-	<b>95.0</b>
Trade receivables	1.0	365.5	-	<b>366.5</b>
Lease receivables	-	-	2.8	<b>2.8</b>
Income tax receivables	-	-	1.8	<b>1.8</b>
Financial assets	-	-	2.3	<b>2.3</b>
Other assets	-	33.7	22.8	<b>56.5</b>
Cash and cash equivalents	-	-	180.5	<b>180.5</b>
<b>Total current assets</b>	<b>44.6</b>	<b>450.6</b>	<b>210.2</b>	<b>705.4</b>
Non-current assets classified as held for sale	-	-	12.7	<b>12.7</b>
<b>TOTAL ASSETS</b>	<b>271.7</b>	<b>5,171.5</b>	<b>1,223.8</b>	<b>6,667.0</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	-	-	2,239.3	<b>2,239.3</b>
Supplementary capital	-	-	744.7	<b>744.7</b>
Other items of equity	-	-	(139.5)	<b>(139.5)</b>
Retained earnings	-	-	114.3	<b>114.3</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>2,958.8</b>	<b>2,958.8</b>
Debt liabilities	119.1	456.6	1,321.9	<b>1,897.6</b>
Investment liabilities	-	143.0	-	<b>143.0</b>
Provisions for employee benefits	80.7	525.4	-	<b>606.1</b>
<b>Total long-term liabilities</b>	<b>199.8</b>	<b>1,125.0</b>	<b>1,321.9</b>	<b>2,646.7</b>
Debt liabilities	10.5	72.7	270.5	<b>353.7</b>
Trade liabilities	8.4	207.2	-	<b>215.6</b>
Investment liabilities	-	141.3	-	<b>141.3</b>
Provisions for employee benefits	9.1	84.6	-	<b>93.7</b>
Other provisions	-	13.0	-	<b>13.0</b>
Other financial liabilities	-	-	2.7	<b>2.7</b>
Other liabilities	16.7	55.1	169.7	<b>241.5</b>
<b>Total short-term liabilities</b>	<b>44.7</b>	<b>573.9</b>	<b>442.9</b>	<b>1,061.5</b>
<b>Total liabilities</b>	<b>244.5</b>	<b>1,698.9</b>	<b>1,764.8</b>	<b>3,708.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>244.5</b>	<b>1,698.9</b>	<b>4,723.6</b>	<b>6,667.0</b>

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

**STATEMENT OF FINANCIAL POSITION**

	Service infrastructure activities	Other activities	Excluded items	31/12/2019
<b>ASSETS</b>				
Rolling stock	-	3,892.3	-	<b>3,892.3</b>
Other property, plant and equipment	113.6	379.3	-	<b>492.9</b>
Rights-of-use assets	111.8	592.2	-	<b>704.0</b>
Investments in related parties	-	-	807.0	<b>807.0</b>
Lease receivables	-	-	19.7	<b>19.7</b>
Financial assets	-	-	7.4	<b>7.4</b>
Other assets	-	39.9	-	<b>39.9</b>
Deferred tax assets	-	-	67.3	<b>67.3</b>
<b>Total non-current assets</b>	<b>225.4</b>	<b>4,903.7</b>	<b>901.4</b>	<b>6,030.5</b>
Inventories	48.2	31.0	-	<b>79.2</b>
Trade receivables	1.2	390.2	-	<b>391.4</b>
Lease receivables	-	-	1.2	<b>1.2</b>
Income tax receivables	-	-	50.8	<b>50.8</b>
Financial assets	-	-	4.8	<b>4.8</b>
Other assets	-	38.7	43.7	<b>82.4</b>
Cash and cash equivalents	-	-	380.0	<b>380.0</b>
<b>Total current assets</b>	<b>49.4</b>	<b>459.9</b>	<b>480.5</b>	<b>989.8</b>
<b>TOTAL ASSETS</b>	<b>274.8</b>	<b>5,363.6</b>	<b>1,381.9</b>	<b>7,020.3</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	-	-	2,239.3	<b>2,239.3</b>
Supplementary capital	-	-	744.7	<b>744.7</b>
Other items of equity	-	-	(61.8)	<b>(61.8)</b>
Retained earnings	-	-	288.2	<b>288.2</b>
<b>Total equity</b>	-	-	<b>3,210.4</b>	<b>3,210.4</b>
Debt liabilities	105.8	521.0	1,293.2	<b>1,920.0</b>
Investment liabilities	-	153.6	-	<b>153.6</b>
Provisions for employee benefits	78.8	506.6	-	<b>585.4</b>
<b>Total long-term liabilities</b>	<b>184.6</b>	<b>1,181.2</b>	<b>1,293.2</b>	<b>2,659.0</b>
Debt liabilities	8.9	77.1	250.5	<b>336.5</b>
Trade liabilities	3.2	230.3	-	<b>233.5</b>
Investment liabilities	-	249.5	-	<b>249.5</b>
Provisions for employee benefits	9.6	90.5	-	<b>100.1</b>
Other provisions	-	33.4	-	<b>33.4</b>
Other financial liabilities	-	-	2.2	<b>2.2</b>
Other liabilities	18.2	52.8	124.7	<b>195.7</b>
<b>Total short-term liabilities</b>	<b>39.9</b>	<b>733.6</b>	<b>377.4</b>	<b>1,150.9</b>
<b>Total liabilities</b>	<b>224.5</b>	<b>1,914.8</b>	<b>1,670.6</b>	<b>3,809.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>224.5</b>	<b>1,914.8</b>	<b>4,881.0</b>	<b>7,020.3</b>

### 7.5 Subsequent events

Subsequent events are described in [Notes 4.2, 5.3, 5.11, 5.12](#) and [7.2](#) of these Standalone Financial Statements and in [Section 6.1](#) of the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020.

### 7.6 Approval of the financial statements

These Standalone Financial Statements were approved for publication by the Company's Management Board on 31 March 2021.



**Management Board**

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Czesław Warsewicz  
President of the Management Board

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Leszek Borowiec  
Management Board Member

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Witold Bawor  
Management Board Member

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Piotr Wasaty  
Management Board Member

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Zenon Kozendra  
Management Board Member

Warsaw, 31 March 2021