Separate Financial Statements of **PKP CARGO S.A.** for the financial year ended 31 december 2019

Prepared in accordance with IFRS EU

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according to EU IFRS (in millions of PLN)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2019	2018	
Revenues from contracts with customers	3,572.0	3,910.8	Note 2.1
Consumption of traction electricity and traction fuel	(527.8)	(549.7)	Note 2.2
Services of access to infrastructure	(576.9)	(733.6)	
Other services	(322.0)	(430.0)	Note 2.2
Employee benefits	(1,339.0)	(1,265.2)	Note 2.2
Other expenses	(182.9)	(170.2)	Note 2.2
Other operating revenue and (expenses)	0.6	9.1	Note 2.3
Operating profit without depreciation (EBITDA)	**624.0**	**771.2**	
Depreciation, amortization and impairment losses	(583.8)	(453.0)	Note 2.2
Profit on operating activities (EBIT)	**40.2**	**318.2**	
Financial revenue and (expenses)	(21.0)	2.5	Note 2.4
Profit before tax	**19.2**	**320.7**	
Income tax	(27.5)	(66.7)	Note 3.1
NET PROFIT / (LOSS)	**(8.3)**	**254.0**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	9.4	(22.5)	Note 6.1
Income tax	(1.8)	4.3	Note 3.1
Total other comprehensive income subject to reclassification in the financial result	**7.6**	**(18.2)**	
Actuarial profits / (losses) on post-employment benefits	(46.2)	(9.4)	Note 5.10
Income tax	8.8	1.8	Note 3.1
Measurement of equity instruments at fair value	0.7	-	
Total other comprehensive income not subject to reclassification in the financial result	**(36.7)**	**(7.6)**	
Total other comprehensive income	**(29.1)**	**(25.8)**	
TOTAL COMPREHENSIVE INCOME	**(37.4)**	**228.2**	
Earnings / (losses) per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings / (losses) per share	**(0.19)**	**5.67**	

according to EU IFRS (in millions of PLN)

STATEMENT OF FINANCIAL POSITION

	31/12/2019	31/12/2018	
ASSETS			
Rolling stock	3,892.3	3,425.7	*Note 5.1*
Other property, plant and equipment	492.9	543.1	*Note 5.1*
Rights-of-use assets	704.0	-	*Note 5.2*
Investments in related parties	807.0	805.5	*Note 5.3*
Lease receivables	19.7	-	*Note 5.6*
Financial assets	7.4	5.7	*Note 5.7*
Other assets	39.9	35.3	*Note 5.8*
Deferred tax assets	67.3	87.2	*Note 3.1*
Total non-current assets	**6,030.5**	**4,902.5**	
Inventories	79.2	84.2	*Note 5.4*
Trade receivables	391.4	479.4	*Note 5.5*
Lease receivables	1.2	-	*Note 5.6*
Income tax receivables	50.8	2.9	
Financial assets	4.8	203.4	*Note 5.7*
Other assets	82.4	87.5	*Note 5.8*
Cash and cash equivalents	380.0	222.4	*Note 4.4*
Total current assets	**989.8**	**1,079.8**	
TOTAL ASSETS	**7,020.3**	**5,982.3**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	744.7	596.7	
Other items of equity	(61.8)	(32.7)	
Retained earnings	288.2	511.3	
Total equity	**3,210.4**	**3,314.6**	
Debt liabilities	1,920.0	999.9	*Note 4.1*
Investment liabilities	153.6	109.7	*Note 5.9*
Provisions for employee benefits	585.4	528.8	*Note 5.10*
Other provisions	-	14.2	*Note 5.11*
Total long-term liabilities	**2,659.0**	**1,652.6**	
Debt liabilities	336.5	231.3	*Note 4.1*
Trade liabilities	233.5	292.6	
Investment liabilities	249.5	225.5	*Note 5.9*
Provisions for employee benefits	100.1	92.6	*Note 5.10*
Other provisions	33.4	19.4	*Note 5.11*
Other financial liabilities	2.2	1.7	
Other liabilities	195.7	152.0	*Note 5.12*
Total short-term liabilities	**1,150.9**	**1,015.1**	
Total liabilities	**3,809.9**	**2,667.7**	
TOTAL EQUITY AND LIABILITIES	**7,020.3**	**5,982.3**	

according to EU IFRS (in millions of PLN)

STATEMENT OF CHANGES IN EQUITY

			Other items of equity					
	Share capital	Supplementary capital	Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Measurement of hedging instruments	Retained earnings	Total	
1/01/2019 (audited)	**2,239.3**	**596.7**	**(12.9)**	**(18.4)**	**(1.4)**	**511.3**	**3,314.6**	
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	0.4	**0.4**	*Note 1.3*
1/01/2019 (restated)	**2,239.3**	**596.7**	**(12.9)**	**(18.4)**	**(1.4)**	**511.7**	**3,315.0**	
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)**	
Total comprehensive income	-	-	0.7	(37.4)	7.6	(8.3)	**(37.4)**	
Dividends	-	-	-	-	-	(67.2)	**(67.2)**	*Note 4.2*
Other changes for the financial year	-	148.0	-	-	-	(148.0)	**-**	*Note 4.2*
31/12/2019	**2,239.3**	**744.7**	**(12.2)**	**(55.8)**	**6.2**	**288.2**	**3,210.4**	
1/01/2018 (audited)	**2,239.3**	**589.2**	-	**(10.8)**	**16.8**	**254.4**	**3,088.9**	
Changes resulting from the implementation of IFRS 9	-	-	(12.9)	-	-	10.4	**(2.5)**	
1/01/2018 (restated)	**2,239.3**	**589.2**	**(12.9)**	**(10.8)**	**16.8**	**264.8**	**3,086.4**	
Net result for the financial year	-	-	-	-	-	254.0	**254.0**	
Other comprehensive income for the financial year (net)	-	-	-	(7.6)	(18.2)	-	**(25.8)**	
Total comprehensive income	-	-	-	(7.6)	(18.2)	254.0	**228.2**	
Other changes for the financial year	-	7.5	-	-	-	(7.5)	**-**	
31/12/2018	**2,239.3**	**596.7**	**(12.9)**	**(18.4)**	**(1.4)**	**511.3**	**3,314.6**	

according to EU IFRS (in millions of PLN)

STATEMENT OF CASH FLOWS

	2019	2018	
Cash flow from operating activities			
Profit before tax	**19.2**	**320.7**	
Adjustments			
Depreciation, amortization and impairment losses	583.8	453.0	*Note 2.2*
(Profits) / losses on interest, dividends	4.4	(22.1)	
Received / (paid) interest	1.1	3.5	
Received / (paid) income tax	(40.1)	(55.2)	
Movement in working capital	127.1	30.6	*Note 4.5*
Other adjustments	(46.1)	(20.8)	*Note 4.5*
Net cash from operating activities	**649.4**	**709.7**	
Cash flow from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(951.0)	(655.5)	
Proceeds from the sale of non-financial non-current assets	15.1	20.4	
Proceeds from dividends received	38.8	35.7	
Inflows / (outflows) from bank deposits over 3 months	200.0	50.0	
Other inflows / (outflows) from investing activities	3.7	13.1	
Net cash from investing activities	**(693.4)**	**(536.3)**	
Cash flow from financing activities			
Payments on financial lease liabilities	(66.6)	(29.8)	*Note 4.1*
Proceeds from bank loans and borrowings	549.1	-	*Note 4.1*
Repayment of bank loans and borrowings	(226.2)	(219.5)	*Note 4.1*
Interest paid on financial lease liabilities and bank loans and borrowings	(40.7)	(23.9)	*Note 4.1*
Grants received	57.1	3.0	
Dividends paid out to owners	(67.2)	-	
Inflows / (outflows) as part of cash pool	0.8	24.8	
Other inflows / (outflows) from financing activities	(4.7)	(1.5)	
Net cash from financing activities	**201.6**	**(246.9)**	
Net increase / (decrease) in cash and cash equivalents	157.6	(73.5)	
Cash and cash equivalents at the beginning of the reporting period	222.4	295.9	*Note 4.4*
Cash and cash equivalents as at the end of the reporting period, including:	**380.0**	**222.4**	*Note 4.4*
Restricted cash	*23.9*	*17.7*	*Note 4.4*

EXPLANATORY 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). The Company's seat is Warsaw, at. Grójecka Street no 17. The Company was registered in the National Court Register in the District Court in Katowice, Commercial Division of the National Court Register under file number KRS 0000027702. Currently, as a consequence of moving the Company's registered office, the registration files are kept by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. The Company was assigned the REGON statistical number 277586360 and the 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 2019 were presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2019 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 21 subsidiaries. In addition, the Group held shares in 3 associated entities and 1 joint venture.

Additional information about subsidiaries, associates and shares in joint ventures is presented in **Note 5.3** to these Standalone Financial Statements.

The duration of individual Group companies is unlimited.

according to EU IFRS (in millions of PLN)

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, as amended) ("Regulation").

These Standalone Financial Statements for the year ended 31 December 2019 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, except for changes resulting from the entry into force of IFRS 16, as described in Note 1.3 to these Standalone Financial Statements. 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
		2019	2018		
2.1	Revenues from contracts with customers	3,572.0	3,910.8	X	X
2.2	Operating expenses	(3,532.4)	(3,601.7)		
2.3	Other operating revenue and (expenses)	0.6	9.1		
2.4	Financial revenue and (expenses)	(21.0)	2.5		
3.1	Income tax	(27.5)	(66.7)	X	X
5.1	Rolling stock	3,892.3	3,425.7	X	X
5.1	Other property, plant and equipment	492.9	543.1	X	X
5.2	Rights-of-use assets	704.0	-	X	X
5.3	Investments in related parties	807.0	805.5	X	X
5.4	Inventories	79.2	84.2	X	
5.5	Trade receivables	391.4	479.4	X	X
5.6	Lease receivables	20.9	-	X	
	Income tax receivables	50.8	2.9		
5.7	Financial assets	12.2	209.1	X	
5.8	Other assets	122.3	122.8	X	
3.1	Deferred tax assets	67.3	87.2		X
4.4	Cash and cash equivalents	380.0	222.4	X	
4.2	Equity	3,210.4	3,314.6	X	
4.1	Debt liabilities	2,256.5	1,231.2	X	X
	Trade liabilities	233.5	292.6		
5.9	Investment liabilities	403.1	335.2	X	
5.10	Provisions for employee benefits	685.5	621.4	X	X
5.11	Other provisions	33.4	33.6	X	
5.12	Other liabilities	195.7	152.0	X	
7.3	Contingent liabilities	148.3	149.8	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 2019 and 31 December 2018, 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	31/12/2019	31/12/2018
EUR	4.2585	4.3000
CZK	0.1676	0.1673
CHF	3.9213	3.8166

These Standalone Financial Statements were approved for publication by the Management Board on 23 March 2020.

1.3 Applied International Financial Reporting Standards platform

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

IFRS 16 "Leases" – as of 1 January 2019, the Company applied the new IFRS 16 regarding the measurement and presentation of lease contracts. In accordance with the new standard, the lessee recognizes a right-of-use asset and a lease liability.
The accounting policies are described in **Notes 4.1** and **5.2** to these Standalone Financial Statements.

Effect of application of the new standard

The Company chose the option of implementing the standard provided in IFRS 16 Annex C item 5b, i.e. retrospectively with the combined effect of the first application of this standard recognized as at 1 January 2019 as an adjustment to the opening balance of retained earnings. In line with the selected implementation option, the Company has not yet restated its comparative data. As at the date of implementation of IFRS 16, the Company recognized the right-of-use assets in an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position directly before the date of initial application.

Moreover, the Company chose to apply certain practical solutions permitted by the standard, including:

- application of a single discount rate to the measurement of the portfolio of leases with relatively similar characteristics,
- exclusion of initial direct costs from the measurement of right-of-use assets as at 1 January 2019,
- the use of post-factual knowledge and experience in determining the term of the lease if the contract contains options for extend or termination,
- not recognizing the right-of-use assets and liabilities for contracts for which the remaining lease term as at 1 January 2019 was shorter than 12 months.

The most significant leases recognized by the Company pertain to built-up properties serving as rolling stock repair points and loading points of strategic importance for the Company's operations. Other such contracts pertain predominantly to rolling stock and other real properties. Moreover, the Company also presented as leases under IFRS 16 those of its contracts that pertain to the right of perpetual usufruct of land in the case of which the Company pays fees exchange for their use.

The lessee's incremental rates applied for the purposes of estimation of the value of lease liabilities ranged from 1.31% to 4.29%. The diversification of the rates was a result of the following factors having been taken into account:

- currency of the contract,
- term of the contract.

The weighted average lease rate applied for the measurement of liabilities was 3.93%.

according to EU IFRS (in millions of PLN)

1.3 Applied International Financial Reporting Standards platform (cont.)

Standalone Statement of Financial Position as at 1 January 2019

	31/12/2018	Effect of the implementation of IFRS 16	1/01/2019
ASSETS			
Rolling stock	3,425.7	(20.9)	3,404.8
Other property, plant and equipment	543.1	(31.6)	511.5
Rights-of-use assets	-	616.0	616.0
Lease receivables	-	22.2	22.2
Deferred tax assets	87.2	(0.1)	87.1
Total non-current assets	**4,902.5**	**585.6**	**5,488.1**
Lease receivables	-	1.0	1.0
Other assets	87.5	(0.5)	87.0
Total current assets	**1,079.8**	**0.5**	**1,080.3**
TOTAL ASSETS	**5,982.3**	**586.1**	**6,568.4**
EQUITY AND LIABILITIES			
Retained earnings	511.3	0.4	511.7
Total equity	**3,314.6**	**0.4**	**3,315.0**
Debt liabilities	999.9	533.5	1,533.4
Total long-term liabilities	**1,652.6**	**533.5**	**2,186.1**
Debt liabilities	231.3	61.7	293.0
Trade liabilities	292.6	(9.5)	283.1
Total short-term liabilities	**1,015.1**	**52.2**	**1,067.3**
Total liabilities	**2,667.7**	**585.7**	**3,253.4**
TOTAL EQUITY AND LIABILITIES	**5,982.3**	**586.1**	**6,568.4**

Standalone statement of profit or loss and other comprehensive income

The implementation of IFRS 16 has also affected the structure of the statement of profit or loss and other comprehensive income. In 12M 2019, due to the implementation of the new standard, depreciation increased by PLN 68.0 million, the operating result increased by PLN 17.5 million and the pre-tax result fell by PLN 4.2 million. Implementation of the new standard caused that EBITDA went up by approximately PLN 85.5 million.

Presented below is an explanation of the key differences between the amounts of future payments, as described in **Note 7.2** to these Standalone Financial Statements for the year ended 31 December 2018, and the value of lease liabilities that were additionally recognized due to the application of IFRS 16.

Amount of future minimum lease payments under non-cancellable operating leases	**126.9**
Operating lease liabilities recognized as at 31 December 2018 as trade liabilities	**6.4**
Finance lease liabilities recognized as at 31 December 2018	**5.3**
Adjustments	**656.1**
Extension and termination options which the Company is highly likely to exercise	617.6
Exemptions for short-term leases and leases of assets with a low initial value	(12.5)
Perpetual usufruct right to land	49.1
Other	1.9
Lease liabilities recognized as at 31 December 2018, adjusted	**794.7**
Discount	(194.2)
Lease liabilities as at 1 January 2019	**600.5**
including the effect of recognition under IFRS 16	595.2

according to EU IFRS (in millions of PLN)

1.3 Applied International Financial Reporting Standards platform (cont.)

The main differences are due to the fact that the period of adopted lease payment projections in accordance with IAS 17 applied only to non-cancellable lease periods, which the Company considered to be the termination notice periods. Meanwhile, in accordance with IFRS 16, the lease period over which lease liabilities should be recognized also includes any periods resulting from an extension or early termination of the contract if one of any aforementioned scenario is sufficiently certain in the Company's opinion. In the case of contracts with an extension option and contracts entered into for an indefinite term for which the Company has estimated the lease period, the lease liability is correspondingly higher.
In order to calculate the amount of lease liabilities recognized in accordance with IFRS 16, the total amounts of future minimum fees arising from the executed operating lease contracts as at 31 December 2018 have been adjusted to the current value by applying the pertinent discount rate.

The standards and interpretations mentioned below did not result in any major amendments to the Accounting Policy applied by the Company:

Standard / Interpretation	Effective date
Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation	1 January 2019
Interpretation of IFRIC 23 "Uncertainty over income tax treatments"	1 January 2019
Amendments to IAS 28 "Investments in associates and joint ventures" – measurement of long-term investments	1 January 2019
Amendments to IFRS (cycle 2015-2017) – IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
Amendment to IAS 19 "Employee benefits" – amendments to a defined benefit plan	1 January 2019

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

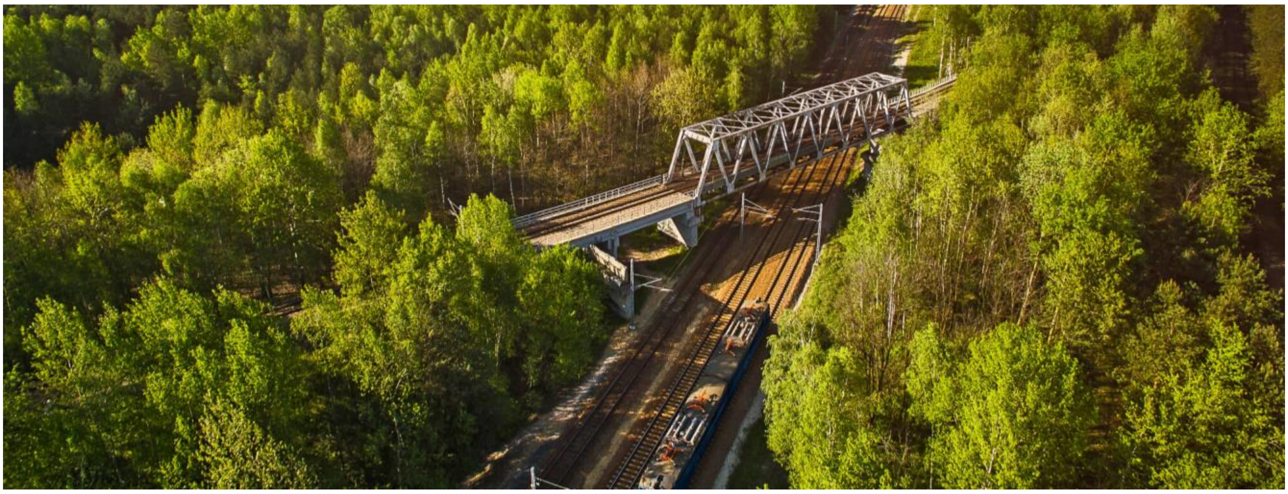
In the Management Board's opinion, the standards and interpretations mentioned below will not result in any major amendments to the Accounting Policy applied by the Company in the upcoming reporting periods:

Standard / Interpretation	Effective date
Amendments to 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

Standards and interpretations adopted by the IASB but not yet endorsed by the EU which have not entered into effect

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 2019 have not yet been approved by the EU and have not entered into effect.
In the 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" – Definition of a business	1 January 2020
IFRS 17 "Insurance contracts"	1 January 2021



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 remuneration expected to be payable to the Company in return. Revenues 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 are 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.

Revenues from sales of materials are 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 consideration

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 mainly assets related to services that have not yet been invoiced but 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.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

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

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

according to EU IFRS (in millions of PLN)

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.

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	**3,440.3**
Revenue from siding and traction services	-	39.5	0.7	9.6	**49.8**
Revenue from sales of materials	-	9.3	2.2	22.5	**34.0**
Revenue from lease of assets and other revenue	-	30.8	4.4	12.7	**47.9**
Total	**363.2**	**502.6**	**1,044.5**	**1,661.7**	**3,572.0**
Revenue recognition date					
At a point of time	-	9.3	2.2	22.5	**34.0**
Over a period	363.2	493.3	1,042.3	1,639.2	**3,538.0**
Total	**363.2**	**502.6**	**1,044.5**	**1,661.7**	**3,572.0**

2018	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	421.4	573.6	974.6	1,827.5	**3,797.1**
Revenue from siding and traction services	-	34.4	0.4	11.0	**45.8**
Revenue from sales of materials	-	12.4	-	21.3	**33.7**
Revenue from lease of assets and other revenue	-	22.3	3.8	8.1	**34.2**
Total	**421.4**	**642.7**	**978.8**	**1,867.9**	**3,910.8**
Revenue recognition date					
At a point of time	-	12.4	-	21.3	**33.7**
Over a period	421.4	630.3	978.8	1,846.6	**3,877.1**
Total	**421.4**	**642.7**	**978.8**	**1,867.9**	**3,910.8**

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.

according to EU IFRS (in millions of PLN)

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 2019 and 31 December 2018 did not exceed 12% of total revenues from contracts with customers. There is no single geographic area (outside of Poland) which generated more than 5% 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:

	2019	2018
Poland	3,222.8	3,449.2
Germany	154.7	154.2
Slovakia	51.9	107.8
Czech Republic	79.7	98.0
Other countries	62.9	101.6
Total	**3,572.0**	**3,910.8**

Information on key customers

In the financial year ended 31 December 2019, sales to two groups exceeded 10% and amounted to 11.4% and 10.2% of the total revenues from contracts with customers, respectively. In the financial year ended 31 December 2018, sales to two groups exceeded 10% and amounted to 14.1% and 10.8% of the total revenues from contracts with customers, respectively.

Assets from contracts with customers

	2019	2018
As at the beginning of the reporting period	**43.9**	**51.5**
Recognition of revenue before the payment due date	19.7	43.9
Reclassification to receivables	(43.9)	(51.5)
As at the end of the reporting period	**19.7**	**43.9**

Liabilities from contracts with customers

	2019	2018
As at the beginning of the reporting period	**1.6**	**0.8**
Recognition of revenues:		
From the opening balance of liabilities from contracts with customers	(1.6)	(0.8)
Payment received or due in advance	0.1	1.6
As at the end of the reporting period	**0.1**	**1.6**

according to EU IFRS (in millions of PLN)

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	2019	2018
Consumption of traction fuel	(137.9)	(160.2)
Consumption of traction electricity	(389.9)	(389.5)
Total	**(527.8)**	**(549.7)**

Other services

	2019	2018
Repair services	(69.8)	(71.7)
Rent and fees for the use of real properties and rolling stock	(56.7)	(147.9)
Transport services	(67.1)	(85.7)
Telecommunications services	(4.2)	(4.0)
Legal, consulting and similar services	(7.5)	(7.5)
IT services	(43.2)	(40.7)
Maintenance and operation services for facilities and fixed assets	(37.1)	(29.3)
Transshipment services	(10.3)	(18.7)
Other services	(26.1)	(24.5)
Total	**(322.0)**	**(430.0)**

Employee benefits

	2019	2018
Payroll	(1,016.9)	(970.3)
Social security expenses	(200.3)	(192.7)
Expenses for contributions to the Company Social Benefits Fund	(22.2)	(19.5)
Other employee benefits during employment	(34.1)	(29.4)
Post-employment benefits	(2.7)	(4.1)
Movement in provisions for employee benefits	(62.8)	(49.2)
Total	**(1,339.0)**	**(1,265.2)**

Other expenses

	2019	2018
Consumption of non-traction fuel	(7.4)	(8.0)
Consumption of electricity, gas and water	(24.5)	(23.1)
Consumption of materials	(50.1)	(49.3)
Taxes and charges	(28.2)	(19.8)
Cost of goods and materials sold	(23.9)	(22.5)
Business trips	(27.1)	(27.4)
Other	(21.7)	(20.1)
Total	**(182.9)**	**(170.2)**

Depreciation, amortization and impairment losses

	2019	2018
Depreciation of rolling stock	(463.3)	(397.8)
Depreciation of other property, plant and equipment	(39.1)	(39.6)
Depreciation of rights-of-use assets	(69.1)	-
Amortization of intangible assets	(12.2)	(15.6)
Recognized / (reversed) impairment losses:		
Rolling stock	0.2	-
Other property, plant and equipment	(0.3)	-
Total	**(583.8)**	**(453.0)**

according to EU IFRS (in millions of PLN)

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	2019	2018
Profit on sales of non-financial non-current assets	5.5	2.5
Reversed impairment losses on trade receivables	4.2	6.8
Other, including:		
Penalties and compensations	15.4	12.7
Interest on trade and other receivables	1.9	3.5
Net result on FX differences on trade receivables and liabilities	-	1.5
Other	2.4	1.4
Total other operating revenue	**29.4**	**28.4**
Recognized impairment losses on trade receivables	(7.9)	(3.9)
Other, including:		
Penalties and compensations	(7.1)	(7.0)
Costs of liquidation of non-current and current assets	(4.8)	(4.1)
Other provisions	(3.6)	(0.5)
Net result on FX differences on trade receivables and liabilities	(1.4)	-
Other	(4.0)	(3.8)
Total other operating expenses	**(28.8)**	**(19.3)**
Other operating revenue and (expenses)	**0.6**	**9.1**

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2019	2018
Interest income	3.7	8.8
Dividend income	38.8	35.7
Other, including:		
Profit on sales of shares and stocks	-	3.5
Net result on FX differences	0.5	-
Other	0.1	-
Total financial revenue	**43.1**	**48.0**
Interest expenses (1)	(45.9)	(25.6)
Other, including:		
Settlement of the discount on provisions for employee benefits	(15.9)	(17.6)
Net result on FX differences	-	(0.7)
Other	(2.3)	(1.6)
Total financial expenses	**(64.1)**	**(45.5)**
Financial revenue and (expenses)	**(21.0)**	**2.5**

(1) The increase in interest expenses during the financial year ended 31 December 2019 was caused chiefly by the recognition of interest expense on leases in the amount of PLN 22.6 million resulting from the entry into force of IFRS 16.

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 value of an asset or liability and the corresponding carrying amount. Deferred tax liabilities are recognized with respect to positive temporary differences. Deferred tax assets are recognized with reference to negative 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 pertain to income tax charged by the same tax authorities if it is intended to settle the balances in net amounts.

The Tax Group

In the period from 1 January 2017 to 31 December 2019, PKP CARGO Group companies formed a tax group. The Tax Group consisted of:

- PKP CARGO S.A.,
- PKP CARGO SERVICE Sp. z o.o.,
- PKP CARGOTABOR Sp. z o.o.,
- PKP CARGOTABOR USŁUGI Sp. z o.o.,
- PKP CARGO TERMINALE Sp. z o.o.
- PKP CARGO CONNECT Sp. z o.o.

PKP CARGO S.A. was the parent of the Tax Group and represented the Tax Group with respect to the obligations provided for in the CIT Act and the Tax Ordinance Act. On 31 December 2019, the Tax Group ceased to exist in connection with the expiration of the agreement.

In the year ended 31 December 2019, the Tax Group incurred a tax loss of PLN 89.3 million, of which the tax loss of PKP CARGO S.A. was PLN 121.5 million.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The Company recognizes a deferred tax asset based on the assumption that the 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 are not impaired as at the balance sheet date. A future deterioration of the tax results might lead to this assumption becoming unfounded.

according to EU IFRS (in millions of PLN)

3.1 Income tax (cont.)

Income tax recognized in profit / loss

	2019	2018
Current income tax		
Current tax liability	(0.1)	(52.0)
Adjustments recognized in the current year relating to tax from previous years	(0.6)	(1.5)
Deferred tax		
Deferred income tax of the reporting period	(26.8)	(13.2)
Income tax recognized in profit / loss	**(27.5)**	**(66.7)**

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

	2019	2018
Deferred tax on the measurement of hedging instruments	(1.8)	4.3
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	8.8	1.8
Deferred income tax recognized in other comprehensive income	**7.0**	**6.1**

Reconciliation of the effective tax rate

	2019	2018
Profit before tax	**19.2**	**320.7**
Income tax expense at 19%	(3.6)	(60.9)
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Dividends	7.4	6.8
Reversal of non-tax provisions and impairment losses	0.3	0.4
Recovered VAT	0.4	1.7
Other	0.1	0.3
Tax effect of non-deductible expenses within the meaning of tax regulations, including:		
Unused tax losses	(23.1)	-
PFRON disability fund	(4.0)	(3.8)
Permanent differences in expenses related with property, plant and equipment	(2.4)	(4.5)
Representation expenses	(0.5)	(0.6)
Penalties and compensations	(1.1)	(0.9)
Value added tax and other public law liabilities	(0.2)	(0.3)
Other	(0.8)	(4.9)
Income tax recognized in profit / loss	**(27.5)**	**(66.7)**
Effective tax rate	**143.4%**	**20.8%**

The corporate income tax rate effective in Poland in the years 2018 - 2019 amounted to 19%.

Balance of deferred tax assets and liabilities

	31/12/2019	31/12/2018
Deferred tax assets	175.8	155.7
Deferred tax liabilities	(108.5)	(68.5)
Total	**67.3**	**87.2**

according to EU IFRS (in millions of PLN)

3.1 Income tax (cont.)

Movements in deferred tax

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
Temporary differences relating to deferred tax (liabilities) / assets:						
Non-financial non-current assets	(54.9)	3.2	(51.7)	(46.5)	-	**(98.2)**
Rights-of-use assets and lease liabilities	-	1.8	1.8	4.4	-	**6.2**
Other provisions and liabilities	5.5	(0.7)	4.8	7.8	-	**12.6**
Inventories	(4.5)	-	(4.5)	(0.6)	-	**(5.1)**
Trade receivables	(3.9)	(4.4)	(8.3)	4.6	-	**(3.7)**
Provisions for employee benefits	118.0	-	118.0	3.5	8.8	**130.3**
Other	0.4	-	0.4	(0.2)	(1.8)	**(1.6)**
Unused tax losses	26.6	-	26.6	0.2	-	**26.8**
Total	**87.2**	**(0.1)**	**87.1**	**(26.8)**	**7.0**	**67.3**

As at 31 December 2019, the Company disclosed deferred tax assets on tax loss incurred in the period from 1 April to 31 December 2016. This loss will be deductible over a period of five successive tax years. Based on the long-term forecasts adopted in the Company, as at 31 December 2019, the Company's Management Board believes the risk that the above assets cannot be realized is low.

2018	1/01/2018 (audited)	Effect of the implementation of IFRS 9	1/01/2018 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	31/12/2018
Temporary differences relating to deferred tax (liabilities) / assets:						
Non-financial non-current assets	(41.8)	-	(41.8)	(13.1)	-	**(54.9)**
Other provisions and liabilities	5.1	-	5.1	0.4	-	**5.5**
Inventories	(3.0)	-	(3.0)	(1.5)	-	**(4.5)**
Trade receivables	(4.3)	0.3	(4.0)	0.1	-	**(3.9)**
Provisions for employee benefits	115.0	-	115.0	1.2	1.8	**118.0**
Other	(3.6)	-	(3.6)	(0.3)	4.3	**0.4**
Unused tax losses	26.6	-	26.6	-	-	**26.6**
Total	**94.0**	**0.3**	**94.3**	**(13.2)**	**6.1**	**87.2**

Tax loss not recognized in calculation of deferred tax assets

As at 31 December 2019, the Company generated a tax loss of PLN 121.5 million, where the loss cannot be used in next reporting periods because of the fact, that it was incurred during the term of the Tax Group. This is why the above tax loss has not been included in the calculation of deferred tax assets. As at 31 December 2018, there was no tax loss not recognized in calculation of deferred tax assets.

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

4.1 Reconciliation of debt liabilities

Accounting policy applied

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

Accounting policy applied since 1 January 2019

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

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

The current value of future lease payments is calculated using the interest rate applicable to the lease. If the interest rate applicable to a lease is unknown, the Company applies the lessee's incremental interest rate for the lease contract.

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

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

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

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option;
- leases for which the underlying asset is amount of low value. The Company defines assets of low value as those whose value, when new, does not exceed PLN 25,000.

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.

Accounting policy applied until 31 December 2018

As at 31 December 2018, the Company presented lease agreements under IAS 17, classifying each of its agreements as finance lease agreements and operating lease agreements. A lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership. Otherwise, the agreement was classified as an operating lease agreement.
Finance lease liabilities were presented in the statement of financial position under long-term or short-term debt liabilities, depending on their maturity. In the statement of financial position, the Company did not present liabilities and assets under operating leases, except for lease payments that were not paid by the balance sheet date and were recognized on the accrual basis.

according to EU IFRS (in millions of PLN)

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 interest rate. As regards the agreements recognized as at 1 January 2019 in connection with the implementation of IFRS 16, due to the limited scope of available data necessary to determine it, the Company has ascertained the current value of the lease liability based on the lessee's incremental interest rate. The incremental interest 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 and the financial situation of each company in which leases have been identified.

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. The repayment of liabilities contracted under the executed loan agreements is made in PLN and EUR.
Lease agreements are signed in PLN and EUR and pertain mainly to real properties and rolling stock.
As at 31 December 2019 and 31 December 2018 the Company did not have any assets securing repayment of its liabilities.

Items in foreign currencies

31/12/2019	In the functional currency – PLN	In foreign currency - EUR	Total
Bank loans and borrowings	1,074.0	469.7	**1,543.7**
Leases	638.8	74.0	**712.8**
Total	**1,712.8**	**543.7**	**2,256.5**
Variable-interest-rate liabilities	1,178.1	469.7	**1,647.8**
Fixed-interest-rate liabilities	534.7	74.0	**608.7**
Total	**1,712.8**	**543.7**	**2,256.5**

31/12/2018	In the functional currency – PLN	In foreign currency - EUR	Total
Bank loans and borrowings	757.8	468.1	**1,225.9**
Finance leases	0.6	4.7	**5.3**
Total	**758.4**	**472.8**	**1,231.2**
Variable-interest-rate liabilities	758.4	472.8	**1,231.2**
Total	**758.4**	**472.8**	**1,231.2**

according to EU IFRS (in millions of PLN)

4.1 Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

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

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	2019
Revenue from operating leases	Revenues from contracts with customers	33.0
Interest income from finance leases	Financial revenue	1.0
Costs on account of:		
Short-term leases	Other services	(16.6)
Leases of low-value assets	Other services	(0.5)

2018	Bank loans and borrowings	Finance leases	Total
1/01/2018	**1,430.5**	**34.4**	**1,464.9**
Transaction costs	1.5	-	**1.5**
Accrual of interest	23.3	0.4	**23.7**
Payments under debt, including:			
Repayments of the principal	(219.5)	(29.8)	**(249.3)**
Interest paid	(23.5)	(0.4)	**(23.9)**
Transaction costs	(1.5)	-	**(1.5)**
FX valuation	15.1	0.7	**15.8**
31/12/2018	**1,225.9**	**5.3**	**1,231.2**
Long-term	999.7	0.2	**999.9**
Short-term	226.2	5.1	**231.3**
Total	**1,225.9**	**5.3**	**1,231.2**

according to EU IFRS (in millions of PLN)

4.1 Reconciliation of debt liabilities (cont.)

Net debt

Net debt is construed by the Company as the sum of bank loans, borrowings, lease liabilities and other financial liabilities, i.e. cash pool liabilities less cash and cash equivalents and selected financial assets, i.e. bank deposits over 3 months and cash pool assets. EBITDA is defined in the statement of profit or loss and other comprehensive income as operating profit plus depreciation, amortization and impairment losses.

Net debt/EBITDA is one of the key indicators taken into consideration by the Company's Management Board in analyzing financial liquidity and creditworthiness.

In the case of most loan agreements, the net debt/EBITDA ratio contained therein is calculated without taking into account the impact of IFRS 16. Consequently, the data presented below in respect of lease liabilities and EBITDA as at 31 December 2019 have been cleaned of the IFRS 16 impact.

	31/12/2019	31/12/2018
Bank loans and borrowings	1,543.7	1,225.9
Leases	104.1	5.3
Other financial liabilities	2.2	1.5
Total debt	**1,650.0**	**1,232.7**
Cash and cash equivalents	(380.0)	(222.4)
Bank deposits over 3 months	-	(201.1)
Total net debt	**1,270.0**	**809.2**
EBITDA	538.5	771.2
Net debt/EBITDA	**2.4**	**1.0**

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2019	31/12/2018
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/12/2021	PLN	100.0	-
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2020	PLN	100.0	100.0
Investment loan	European Investment Bank	19/07/2020	EUR	22.0	70.7
Leasing facility	Millennium Leasing Sp. z o.o.	02/12/2020	PLN	51.3	-
Total				**273.3**	**170.7**

In 2019, the Company signed two loan agreements with Bank Polska Kasa Opieki S.A. up to the total maximum amount of PLN 250 million and two loan agreements with Bank Gospodarstwa Krajowego up to the total maximum amount of PLN 250 million, which were launched in 2019 and their repayment date expires on 20 December 2024.
On 3 December 2019, the Company signed a leasing facility agreement with Millennium Leasing Sp. z o.o. with the total value of PLN 150 million, for the period of 12 months with an extension option, of which by 31 December 2019 it has used PLN 98.7 million.
The above agreements were concluded for the financing and refinancing of the capital expenditure plan for 2018-2019 and acquisitions. On 19 December 2019, the Company signed a loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. up to the total maximum amount of PLN 100 million. The subject matter of the loan agreement is financing the Company's current activity. The end of the availability period and the final repayment date is 19 December 2021.

Breaches of the terms and conditions of loan agreements

As at 31 December 2019, there were no breaches of any loan agreements.

according to EU IFRS (in millions of PLN)

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 from previous years transferred to supplementary capital and the reserve capital created from the retirement of shares.

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

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

Share capital

	31/12/2019	31/12/2018
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 31 December 2019 and 31 December 2018, the Company's 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 2019 and 31 December 2018, no changes in the share capital of the Company took place.

Movement in supplementary capital and retained earnings

On 26 June 2019, the Company's Ordinary Shareholder Meeting adopted a resolution on the distribution of the net profit earned in 2018 of PLN 254.0 million as follows:
a) allocate PLN 148.0 million to increase the supplementary capital,
b) allocate PLN 38.8 million to cover losses from previous years,
c) allocate PLN 67.2 million to the disbursement of a dividend (PLN 1.50 per share).
The dividend was paid on 10 July 2019.

As at 1 January 2019, retained earnings were restated in connection with the implementation of IFRS 16, as described in **Note 1.3** to these Standalone Financial Statements.

On 23 March 2020, the Company's Management Board adopted a resolution to cover the loss for 2019 with retained earnings.

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 (hence equity may not be lower than 40% of total assets). The debt level is monitored by the Company as at the end of each quarter. The assumed capital structure can be ensured through: issue of new shares, sale of assets, return of capital to the shareholders or adjustment of the dividend amount.

Total debt ratio

	31/12/2019	31/12/2018
Total liabilities	3,809.9	2,667.7
Total balance sheet	7,020.3	5,982.3
Total debt ratio	**54%**	**45%**

according to EU IFRS (in millions of PLN)

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). As at 31 December 2019, the Company had an unused credit facility in the amount of PLN 22.0 million and an unused leasing facility in the amount of PLN 51.3 million.
In addition, 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 2019, 7 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 2019, the Company had in aggregate two unused overdraft facilities up to the amount of PLN 200.0 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)

31/12/2019	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**
Total	**568.4**	**308.7**	**1,527.2**	**784.2**	**3,188.5**	**2,895.3**

31/12/2018	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	66.5	183.4	687.5	365.9	**1,303.3**	**1,231.2**
Cash pool	1.5	-	-	-	**1.5**	**1.5**
Trade liabilities	292.6	-	-	-	**292.6**	**292.6**
Investment liabilities	206.5	20.7	110.1	3.1	**340.4**	**335.2**
Derivative instruments – FX forwards	-	0.1	0.1	-	**0.2**	**0.2**
Total	**567.1**	**204.2**	**797.7**	**369.0**	**1,938.0**	**1,860.7**

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

	31/12/2019	31/12/2018
Cash on hand and on bank accounts	78.0	70.2
Bank deposits up to 3 months	302.0	152.2
Total	**380.0**	**222.4**
including restricted cash	*23.9*	*17.7*

Restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.

according to EU IFRS (in millions of PLN)

4.5 Notes to the statement of cash flows

Movement in working capital

2019	Movement in statement of financial position	Effect of the implementation of IFRS 16	Movement in tax settlements	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)	(1.3)	15.7	(16.4)	**(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	-	(7.3)	0.6	(0.2)	**36.8**
Total working capital	**209.9**	**9.0**	**(8.6)**	**(66.8)**	**(16.4)**	**127.1**

2018	Movement in statement of financial position	Effect of the implementation of IFRS 9	Movement in tax settlements	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	2.2	-	-	4.6	-	**6.8**
Trade receivables	(18.4)	(1.7)	-	(1.4)	(0.3)	**(21.8)**
Other assets	(25.1)	(1.1)	(0.5)	7.7	(8.2)	**(27.2)**
Provisions	18.0	-	-	-	-	**18.0**
Trade liabilities	16.5	-	-	-	0.1	**16.6**
Investment liabilities	207.4	-	-	(171.3)	(0.4)	**35.7**
Other liabilities	5.6	-	(0.7)	(2.6)	0.2	**2.5**
Total working capital	**206.2**	**(2.8)**	**(1.2)**	**(163.0)**	**(8.6)**	**30.6**

Other adjustments

	2019	2018
Actuarial profits / (losses) on employee benefits recognized in other comprehensive income	(46.2)	(9.4)
Measurement of hedging instruments	3.7	(7.5)
Measurement of equity instruments at fair value	0.7	-
(Profit) / loss on the sale and liquidation of non-financial non-current assets	(5.0)	(1.3)
(Profit) / loss on investing activities	-	(3.5)
Foreign exchange (gains)/losses	0.7	0.9
Other adjustments in the cash flow statement	**(46.1)**	**(20.8)**

Non-cash transactions

In the financial years ended 31 December 2019 and 31 December 2018, major non-financial transactions concerning investing and financial activity which were not reflected in the cash flow statement were as follows:

- Offsetting 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 2019 amounted to PLN 0.8 million, whereas in 2018 it was PLN 1.4 million.

- Contributions-in-kind made to the subsidiaries

In 2018, the Company transferred to its subsidiary PKP CARGO SERVICE sp. z o.o. a contribution-in-kind in the form of property, plant and equipment worth PLN 2.7 million. The contribution-in-kind was contributed to raise the subsidiary's share capital by PLN 11.7 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 2019, the residual value of non-current assets reclassified to inventories amounted to PLN 7.0 million, whereas in 2018 it was PLN 4.6 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 grants 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 periodic inspections of rolling stock

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

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

If no repair/inspection at levels P3, P4 and P5 is carried out, the rolling stock asset loses its operational capacity and cannot be used in rail transport. The 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 are recognized in the carrying amount of the rolling stock asset and are depreciated in the period between repairs.

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 subject to depreciation 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 subject to depreciation for a given asset 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 transport	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".

When 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 2019 and 31 December 2018 did not reveal the need to correct the previously applied depreciation rates.

Residual value of the rolling stock

As at 31 December 2019, the Company verified the residual value of its rolling stock. As a result of this verification, 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 2019, 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 impairment 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 useful value using the net discounted cash flows method, in line with detailed financial projections developed for 2020-2029. 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 1.1% in real terms,
- in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 14.6% in real terms,
- the after-tax weighted average capital cost (WACC) level will be at 5.33% 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 2019, the Company recognized no impairment loss for the assets.

The Company's Management Board did not identify any of the above assumptions that, when changed by reasonably expected values, would lead to impairment.

according to EU IFRS (in millions of PLN)

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

Change in the balance of property, plant and equipment

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

according to EU IFRS (in millions of PLN)

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

2018	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/ 2018	**5,095.2**	**582.2**	**210.3**	**35.1**	**22.2**	**13.0**	**862.8**
Increases / (decreases):							
Periodic repairs of rolling stock						594.8	**594.8**
Purchase of new assets / modernization	-	-	-	-	-	226.8	**226.8**
Settlement of fixed assets under construction	793.3	11.3	11.3	0.3	1.1	(817.3)	**(793.3)**
Grant for non-current assets	-	-	-	-	-	(0.5)	**(0.5)**
Sales	(31.5)	-	(0.3)	(0.5)	-	-	**(0.8)**
Contribution in kind	(8.3)	-	-	-	-	-	**-**
Liquidation	(327.5)	(0.6)	(1.0)	(0.1)	-	(0.1)	**(1.8)**
31/12/2018	**5,521.2**	**592.9**	**220.3**	**34.8**	**23.3**	**16.7**	**888.0**
Accumulated depreciation							
1/01/ 2018	**(1,927.7)**	**(103.5)**	**(151.1)**	**(30.7)**	**(18.1)**	**-**	**(303.4)**
Increases / (decreases):							
Depreciation	(397.8)	(20.4)	(15.7)	(1.8)	(1.7)	-	**(39.6)**
Sales	9.5	-	0.3	0.5	-	-	**0.8**
Contribution in kind	5.0	-	-	-	-	-	**-**
Liquidation	322.4	0.5	0.9	0.1	-	-	**1.5**
31/12/2018	**(1,988.6)**	**(123.4)**	**(165.6)**	**(31.9)**	**(19.8)**	**-**	**(340.7)**
Accumulated impairment							
1/01/2018	**(111.5)**	**(1.6)**	**-**	**-**	**-**	**(2.6)**	**(4.2)**
Increases / (decreases):							
Utilization	4.6	-	-	-	-	-	**-**
31/12/2018	**(106.9)**	**(1.6)**	**-**	**-**	**-**	**(2.6)**	**(4.2)**
Net value							
1/01/2018	**3,056.0**	**477.1**	**59.2**	**4.4**	**4.1**	**10.4**	**555.2**
including finance lease	*100.5*	-	*4.2*	*2.9*	-	-	***7.1***
31/12/2018	**3,425.7**	**467.9**	**54.7**	**2.9**	**3.5**	**14.1**	**543.1**
including finance lease	*20.9*	-	*0.3*	*1.1*	-	-	***1.4***

according to EU IFRS (in millions of PLN)

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 lasts 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 2019 and 31 December 2018, the carrying amount of rolling stock without valid technical railworthiness certificates, for which the Company recognized an impairment loss, was PLN 297.0 million and PLN 363.0 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 right-of-use assets item is also used by the Company to present the perpetual usufruct right to land, used by the Company in return for 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 right-of-use assets 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 reviews of right-of-use assets, the Company applies IAS 16, i.e. presents assets related to repairs and their periodic reviews in the same item of the statement of financial position, i.e. in the right-of-use assets item.

Useful life of rights-of-use assets

The Company uses straight-line depreciation. The value of a right-of-use asset is distributed systematically over its useful life. The useful lives of 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 for which these rights have been granted unless the circumstances require the adoption of a longer or shorter period.

according to EU IFRS (in millions of PLN)

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 right-of-use assets and on this basis determines the depreciation rates for these items. If the lease transfers ownership of the underlying asset to the Company before the end of the lease term or if the Company expects to exercise its purchase option, the Company will depreciate the right-of-use asset from the commencement date to the end of the useful life of the asset. Otherwise, the Company depreciates the right-of-use asset until the earlier of: the end of the useful life of the asset or the end of the lease term.

Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation rates and the carrying amount of specific items of rights-of-use assets in future periods. The verification of the useful lives of rights-of-use assets conducted as at 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
Gross value						
Effect of the implementation of IFRS 16	91.5	526.9	0.7	2.4	0.6	**622.1**
1/01/2019 (restated)	**91.5**	**526.9**	**0.7**	**2.4**	**0.6**	**622.1**
Increases / (decreases):						
New leases	125.3	1.7	6.9	7.4	0.1	**141.4**
Modifications of existing agreements	(1.3)	44.1	1.2	-	-	**44.0**
Return of leased items	(5.9)	(2.4)	-	-	-	**(8.3)**
Purchases of leased items	(25.3)	-	-	(2.4)	-	**(27.7)**
Other	-	0.2	-	-	-	**0.2**
31/12/2019	**184.3**	**570.5**	**8.8**	**7.4**	**0.7**	**771.7**
Accumulated depreciation						
Effect of the implementation of IFRS 16	(4.4)	-	(0.4)	(1.3)	-	**(6.1)**
1/01/2019 (restated)	**(4.4)**	**-**	**(0.4)**	**(1.3)**	**-**	**(6.1)**
Increases / (decreases):						
Depreciation	(26.3)	(40.5)	(0.3)	(1.9)	(0.1)	**(69.1)**
Return of leased items	2.2	0.1	-	-	-	**2.3**
Purchases of leased items	4.6	-	-	1.5	-	**6.1**
Other	(0.9)	-	-	-	-	**(0.9)**
31/12/2019	**(24.8)**	**(40.4)**	**(0.7)**	**(1.7)**	**(0.1)**	**(67.7)**
Net value						
1/01/2019 (restated)	**87.1**	**526.9**	**0.3**	**1.1**	**0.6**	**616.0**
31/12/2019	**159.5**	**530.1**	**8.1**	**5.7**	**0.6**	**704.0**

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 2019, the subsidiary PKP CARGO INTERNATIONAL a.s. perform an impairment test of the PKP CARGO INTERNATIONAL Group because of the changes observed on the Czech rail market.

The recoverable amount of the analyzed assets was determined on the basis of their estimated useful value using the net discounted cash flows method, in line with detailed financial projections developed for 2020-2029. In the opinion of the Management Board of PKP CARGO INTERNATIONAL a.s., adopting financial projections for more than five years is reasonable, because the property, plant and equipment used by the PKP CARGO INTERNATIONAL Group have considerably longer useful lives and such projections enable a better depiction of the impact of expected changes in the Czech coal and rail market on the Group's performance.

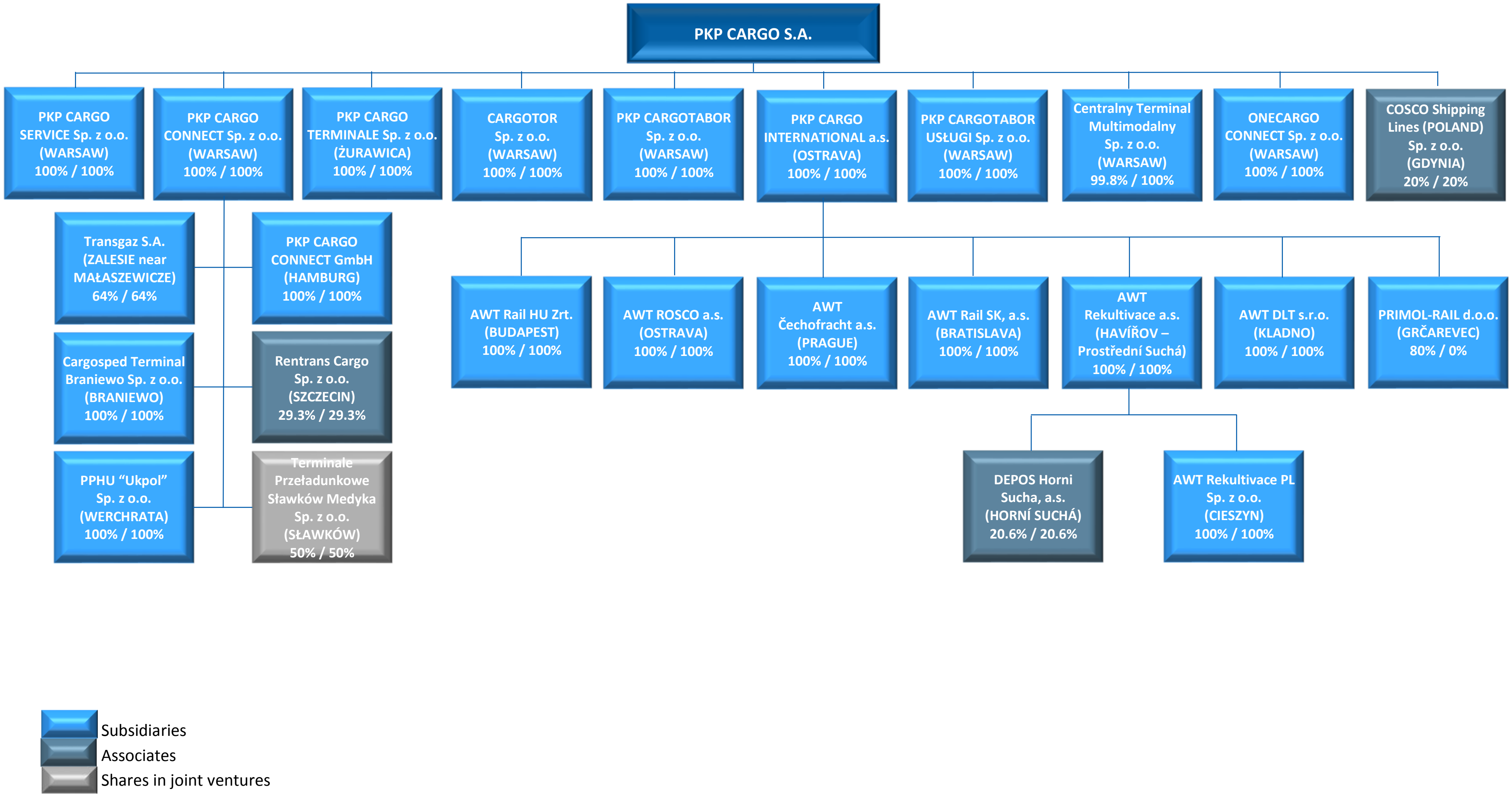
The key assumptions affecting the estimation of the value in use of the tested cash-generating unit were as follows:

a) the cash-generating unit was considered to be all owned by the PKP CARGO INTERNATIONAL Group, used mainly to service customers on the Czech rail market,
b) the first three years of the forecast are based on the approved financial plans; for the 2023-2029 period it has been assumed that operating revenue will grow at a 2.5% compound annual growth rate (CAGR) in real terms,
c) the after-tax weighted average capital cost (WACC) in the detailed projection period will be at a level of 5.62% in real terms,
d) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Test results did not reveal the need to recognize an impairment loss for the shares in PKP CARGO INTERNATIONAL a.s.

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

5.3 Investments in related parties (cont.)



according to EU IFRS (in millions of PLN)

5.3 Investments in related parties (cont.)

On 29 May 2019, the National Court Register (KRS) registered the change of the name of PKP CARGO Terminale Sp. z o.o. (former name: PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.).
On 1 July 2019, AWT CE s.r.o. and Advanced World Transport a.s. were merged, as a result of which AWT CE s.r.o. was removed from the Czech commercial register.
On 31 July 2019, Trade Trans Finance Sp. z o.o. (hereinafter: TTF) was taken over by PKP CARGO CONNECT Sp. z o.o. The merger was registered in the National Court Register (KRS).
On 27 August 2019, based on the concluded agreement AWT Čechofracht a.s. sold its shares in RND s.r.o. As a result of the above, RND s.r.o. ceased to be related party of the PKP CARGO Group.
As at 2 October 2019, a change was made to the name of PKP CARGO International a.s. (previous name: Advanced World Transport a.s.).
On 31 October 2019, the company PKP CARGO Terminale Sp. z o.o. was merged with PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. by way of a transfer of all the assets of the company being acquired, i.e. PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. to PKP CARGO Terminale Sp. z o.o. as the acquiring company.
On 12 November 2019, the Company signed an agreement to sell 50% shares in ONECARGO Sp. z o.o. to PKP S.A.
On 5 December 2019, the National Court Register registered the change of the name of ONECARGO Sp. z o.o. to Centralny Terminal Multimodalny Sp. z o.o.
On 10 December 2019, the share capital of Centralny Terminal Multimodalny Sp. z o.o. was increased through creation of new shares, which were subscribed by PKP CARGO S.A. The change was registered in the National Court Register on 13 January 2020.
Effective as of 1 January 2020, a cross-border merger of AWT Rekultivace a.s. and AWT Rekultivace PL Sp. z o.o. was effected, as a result of which AWT Rekultivace PL Sp. z o.o. was removed from the National Court Register (KRS).
On 10 February 2020, the name of the company AWT Rail HU Zrt. was changed to PKP CARGO INTERNATIONAL HU Zrt.

List of investments in related parties

	31/12/2019	31/12/2018
CARGOTOR Sp. z o.o.	20.2	20.2
Centralny Terminal Multimodalny Sp. z o.o.	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 Centrum Logistyczne Małaszewicze Sp. z o.o.	-	40.4
PKP CARGO TERMINALE Sp. z o.o.	51.1	10.7
PKP CARGOTABOR Sp. z o.o.	84.7	84.7
PKP CARGOTABOR USŁUGI Sp. z o.o.	10.1	10.1
Total	**807.0**	**805.5**

Movement in investments in related parties

Investments in:	subsidiaries	associates and joint ventures	Total
1/01/2019	**804.4**	**1.1**	**805.5**
Increases / (decreases):			
Acquisition	1.5	-	**1.5**
31/12/2019	**805.9**	**1.1**	**807.0**
including impairment loss	*(8.9)*	*(1.0)*	***(9.9)***
1/01/2018	**801.7**	**3.0**	**804.7**
Increases / (decreases):			
Acquisition	2.7	-	**2.7**
Sales	-	(1.9)	**(1.9)**
31/12/2018	**804.4**	**1.1**	**805.5**
including impairment loss	*(8.9)*	*(1.0)*	***(9.9)***

according to EU IFRS (in millions of PLN)

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

	31/12/2019	31/12/2018
Strategic inventories	27.4	25.3
Rolling stock during liquidation	13.5	20.7
Other inventories	41.3	41.1
Impairment losses	(3.0)	(2.9)
Net inventories	**79.2**	**84.2**

List of changes in impairment losses for inventories

	2019	2018
As at the beginning of the reporting period	**(2.9)**	**(3.2)**
Recognition	(0.2)	(0.2)
Utilization	0.1	0.5
As at the end of the reporting period	**(3.0)**	**(2.9)**

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 2015-2019 obtained from financial and accounting systems. The calculation of impairment losses on receivables is presented in the following tables.

according to EU IFRS (in millions of PLN)

5.5 Trade receivables (cont.)

Structure of trade receivables

	31/12/2019	31/12/2018
Trade receivables	429.7	526.8
Impairment loss on receivables	(38.3)	(47.4)
Total	**391.4**	**479.4**
Current assets	391.4	479.4
Total	**391.4**	**479.4**

Reconciliation of impairment losses on trade receivables

	Lifetime expected credit losses					
	2019			2018		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	**(1.4)**	**(46.0)**	**(47.4)**	**-**	**(48.2)**	**(48.2)**
Effect of the implementation of IFRS 9	-	-	-	(1.7)	-	**(1.7)**
As at the beginning of the reporting period	**(1.4)**	**(46.0)**	**(47.4)**	**(1.7)**	**(48.2)**	**(49.9)**
Recognition	-	(7.9)	**(7.9)**	-	(3.9)	**(3.9)**
Reversal	0.6	3.6	**4.2**	0.3	6.5	**6.8**
Utilization	-	12.3	**12.3**	-	0.2	**0.2**
FX valuation	-	0.5	**0.5**	-	(0.6)	**(0.6)**
As at the end of the reporting period	**(0.8)**	**(37.5)**	**(38.3)**	**(1.4)**	**(46.0)**	**(47.4)**

Movement in the carrying amount of gross trade receivables

	2019			2018		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	**478.4**	**48.4**	**526.8**	**459.0**	**50.2**	**509.2**
Recognized	4,273.4	-	**4,273.4**	4,617.3	-	**4,617.3**
Interest accrued	1.4	0.1	**1.5**	2.1	0.1	**2.2**
Written off	-	(12.3)	**(12.3)**	-	(0.2)	**(0.2)**
Repaid	(4,353.2)	(5.9)	**(4,359.1)**	(4,597.3)	(5.4)	**(4,602.7)**
Transferred	(7.8)	7.8	**-**	(2.8)	2.8	**-**
FX valuation	-	(0.6)	**(0.6)**	0.1	0.9	**1.0**
As at the end of the reporting period	**392.2**	**37.5**	**429.7**	**478.4**	**48.4**	**526.8**

Age analysis of trade receivables

	31/12/2019			31/12/2018		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	366.4	(0.7)	365.7	455.1	(1.6)	453.5
Overdue receivables						
from 0 to 30 days	18.9	(0.3)	18.6	14.1	(0.4)	13.7
from 31 to 90 days	3.0	(0.1)	2.9	4.9	(0.4)	4.5
from 91 to 180 days	2.9	(2.6)	0.3	4.4	(0.9)	3.5
from 181 to 365 days	5.1	(3.3)	1.8	3.2	(1.7)	1.5
over 365 days	33.4	(31.3)	2.1	45.1	(42.4)	2.7
Total	**429.7**	**(38.3)**	**391.4**	**526.8**	**(47.4)**	**479.4**

according to EU IFRS (in millions of PLN)

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

	2019
Effect of the implementation of IFRS 16	23.2
1/01/2019 (restated)	**23.2**
Accrual of interest	1.0
Repayment of receivables, including:	
Principal received	(1.0)
Interest received	(0.9)
Other changes	(1.4)
31/12/2019	**20.9**

Lease receivables

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
Total	**28.1**	**(7.2)**	**20.9**
Non-current receivables	26.0	(6.3)	19.7
Current receivables	2.1	(0.9)	1.2
Total	**28.1**	**(7.2)**	**20.9**

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

	31/12/2019	31/12/2018
FX forwards	6.6	3.1
Shares in unlisted companies	5.6	4.9
Bank deposits over 3 months	-	201.1
Total	**12.2**	**209.1**
Non-current assets	7.4	5.7
Current assets	4.8	203.4
Total	**12.2**	**209.1**

according to EU IFRS (in millions of PLN)

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

	31/12/2019	31/12/2018
Non-financial assets		
Costs settled in time		
Prepayments for purchase of electricity	26.4	30.9
Insurance	5.8	6.7
IT services	8.2	3.8
Other costs settled over time	2.8	1.1
Other	8.6	0.1
Other receivables		
VAT settlements	39.0	45.6
Other	5.2	3.8
Intangible assets		
Licenses	22.6	26.0
Intangible assets under development	3.7	4.8
Total	**122.3**	**122.8**
Non-current assets	39.9	35.3
Current assets	82.4	87.5
Total	**122.3**	**122.8**

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

	31/12/2019	31/12/2018
Investment liabilities related to rolling stock	383.0	307.1
Investment liabilities related to real properties	3.9	11.1
Other	16.2	17.0
Total	**403.1**	**335.2**
Long-term liabilities	153.6	109.7
Short-term liabilities	249.5	225.5
Total	**403.1**	**335.2**

according to EU IFRS (in millions of PLN)

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 post-employment benefits (retirement and disability severance pays, transportation benefits and benefits from the Company Social Benefits Fund for old-age and disability pensioners, post-mortem benefits). Jubilee awards are paid out to the employees after working for specified number of years. Retirement and disability severance pays are paid out as lump sum when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The 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 forecast 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 service 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. Past service costs 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 profits and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2019 and 31 December 2018, the actuarial valuation of provisions for employee benefits was based on the following main assumptions:

	Valuation as at [%]	
	31/12/2019	31/12/2018
Discount rate	2.1	3.0
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 1.5
Assumed growth of the price of transportation benefits	up to 2.5	up to 2.5
Assumed average annual growth of the base for calculations of provisions for Company Benefits Fund	4.0	3.5 - 5
Weighted average employee mobility ratio	2.0	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

	31/12/2019	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
Total	**667.7**	**(14.8)**	**15.6**	**12.7**	**(12.4)**	**(8.2)**	**8.3**

according to EU IFRS (in millions of PLN)

5.10 Provisions for employee benefits (cont.)

	31/12/2018	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	265.3	(3.7)	3.8	3.2	(3.1)	(3.3)	3.4
Retirement and disability severance benefits	177.1	(2.9)	3.0	2.6	(2.5)	(2.6)	2.7
Post-mortem benefits	6.1	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	121.6	(4.6)	4.9	4.0	(3.8)	(0.7)	0.7
Transportation benefits	31.0	(1.2)	1.3	1.0	(1.0)	(0.2)	0.2
Total	**601.1**	**(12.5)**	**13.1**	**10.9**	**(10.5)**	**(6.9)**	**7.1**

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

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2018	**158.6**	**136.1**	**33.0**	**6.3**	**251.7**	**20.2**	**605.9**
Current service cost	4.5	1.6	0.5	0.1	8.8	-	**15.5**
Interest expense	4.3	4.4	1.1	0.2	7.6	-	**17.6**
Actuarial (profits)/losses recognized in other comprehensive income	24.9	(13.1)	(2.5)	0.1	-	-	**9.4**
Actuarial (profits)/losses recognized in the statement of profit or loss	-	-	-	-	33.6	-	**33.6**
Recognition of provisions	-	-	-	-	-	1.8	**1.8**
Reversal of provisions	-	-	-	-	-	(1.7)	**(1.7)**
Benefits paid out	(15.2)	(7.4)	(1.1)	(0.6)	(36.4)	-	**(60.7)**
31/12/2018	**177.1**	**121.6**	**31.0**	**6.1**	**265.3**	**20.3**	**621.4**
Long-term provisions	151.8	116.8	29.9	5.1	225.2	-	**528.8**
Short-term provisions	25.3	4.8	1.1	1.0	40.1	20.3	**92.6**
Total	**177.1**	**121.6**	**31.0**	**6.1**	**265.3**	**20.3**	**621.4**

according to EU IFRS (in millions of PLN)

5.10 Provisions for employee benefits (cont.)

Items recognized in the result in reference to employee benefits programs

	31/12/2019	31/12/2018
Employee benefits	(62.8)	(49.2)
Financial expenses	(15.9)	(17.6)
Total recognized in the profit before tax	**(78.7)**	**(66.8)**

Actuarial (profits) / losses

2019	Change of financial assumptions	Other amendments	Total
Actuarial losses / (profits) – post-employment benefits			
Retirement and disability severance benefits	19.0	15.0	**34.0**
Company Social Benefits Fund	14.9	(6.7)	**8.2**
Transportation benefits	3.9	(0.7)	**3.2**
Post-mortem benefits	0.5	0.3	**0.8**
Actuarial losses / (profits) – other long-term benefits			
Jubilee awards	23.2	23.2	**46.4**
Total	**61.5**	**31.1**	**92.6**

2018	Change of demographic assumptions	Change of financial assumptions	Other amendments	Total
Actuarial losses / (profits) – post-employment benefits				
Retirement and disability severance benefits	3.7	2.4	18.8	**24.9**
Company Social Benefits Fund	1.0	3.9	(18.0)	**(13.1)**
Transportation benefits	0.3	1.0	(3.8)	**(2.5)**
Post-mortem benefits	-	0.1	-	**0.1**
Actuarial losses / (profits) – other long-term benefits				
Jubilee awards	4.6	3.1	25.9	**33.6**
Total	**9.6**	**10.5**	**22.9**	**43.0**

Analysis of maturities of paid out employee benefits

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**
Total	**210.5**	**128.8**	**34.7**	**6.6**	**287.1**	**17.8**	**685.5**

31/12/2018	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	25.3	4.8	1.1	1.0	40.1	20.3	**92.6**
1 to 5 years	58.6	21.0	5.1	2.6	117.3	-	**204.6**
over 5 years	93.2	95.8	24.8	2.5	107.9	-	**324.2**
Total	**177.1**	**121.6**	**31.0**	**6.1**	**265.3**	**20.3**	**621.4**

The average maturity of employee benefits was 11.8 years as at 31 December 2019.

according to EU IFRS (in millions of PLN)

5.11 Other provisions

Accounting policy applied

Provisions are established if the Company is subject to an existing legal or usually expected obligation attributable to past 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 effect of cash in time is significant). If it is likely that a portion or all the economic benefits, required for settlement of provisions, may be recovered from a third party, such receivables shall be recognized as an asset component if the likelihood of recovering that amount is adequately high and may be credibly estimated.
If it is impossible to unequivocally determine whether the present liability exists, for example in the event of a court case, the 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 that 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.

Structure of other provisions

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

2018	Provisions for penalties imposed by UOKiK	Provision for onerous contracts	Other provisions	Total
1/01/2018	**14.2**	**4.5**	**12.4**	**31.1**
Recognition	-	-	8.8	**8.8**
Utilization	-	(4.5)	(1.8)	**(6.3)**
31/12/2018	**14.2**	**-**	**19.4**	**33.6**
Long-term provisions	14.2	-	-	**14.2**
Short-term provisions	-	-	19.4	**19.4**
Total	**14.2**	**-**	**19.4**	**33.6**

Provisions for penalties imposed by UOKiK

As at 31 December 2019 and 31 December 2018, the provision represented an estimate by the Company's Management Board in connection with the likelihood of payment of a fine imposed by the Office for Protection of Competition and Consumers (UOKiK) in the amount of PLN 14.2 million.
In connection with a change of the expected date of closing the UOKiK case, as at 31 December 2019 the Company reclassified its provision of PLN 14.2 million from long-term to short-term.

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 2019, and as at 31 December 2018, 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.

according to EU IFRS (in millions of PLN)

5.12 Other liabilities

Accounting policy applied

Liabilities are the Company's present obligation resulting from past 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

	31/12/2019	31/12/2018
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	22.4	22.9
Public law liabilities [1]	90.1	54.6
Settlements with employees	71.0	69.4
Other settlements	12.2	5.1
Total	**195.7**	**152.0**
Short-term liabilities	195.7	152.0
Total	**195.7**	**152.0**

[1] This increase was driven largely by the higher liabilities toward the Social Insurance Institution (ZUS). In 2018, a portion of the liabilities maturing in 2019 were repaid by the Company prior to their maturity date.

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 which, in the case of a financial asset or financial liability not at fair value through profit or loss, is increased or decreased by transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
After initial recognition, financial assets of a debt nature are classified as measured:
a) at amortized cost,
b) at fair value through other comprehensive income,
c) at fair value through profit or loss.

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

Financial assets 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 2019 and 31 December 2018, 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.

according to EU IFRS (in millions of PLN)

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 / (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 financial result unless it has no material value. Profits/losses related to evaluation of hedging instruments and recognized in other comprehensive income are recognized in the financial result when the hedged item affects the financial result.
The Company derecognizes a financial asset 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	31/12/2019	31/12/2018
Hedging financial instruments			
Derivatives	*Note 5.7*	6.6	3.1
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.7*	5.6	4.9
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	391.4	479.4
Bank deposits over 3 months	*Note 5.7*	-	201.1
Cash and cash equivalents	*Note 4.4*	380.0	222.4
Other		0.5	0.8
Financial assets excluded from the scope of IFRS 9		20.9	-
Total		**805.0**	**911.7**

Financial liabilities by categories and classes	Note	31/12/2019	31/12/2018
Hedging financial instruments			
Derivatives		-	0.2
Bank loans and borrowings	*Note 4.1*	469.7	468.1
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	1,074.0	757.8
Trade liabilities		233.5	292.6
Investment liabilities	*Note 5.9*	403.1	335.2
Cash pool		2.2	1.5
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	712.8	5.3
Total		**2,895.3**	**1,860.7**

Impairment losses on trade receivables are presented in **Note 5.5** to these Standalone Financial Statements.

according to EU IFRS (in millions of PLN)

6.1 Financial instruments (cont.)

Hedge accounting

In the period from 1 January 2019 to 31 December 2019, 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 2019, the following hedging instruments were established:

- investment loans denominated in EUR. The hedged cash flows will be realized until July 2034. As at 31 December 2019, the nominal amount of the hedging instrument was EUR 110.3 million, which is an equivalent of PLN 469.7 million,
- in forward foreign exchange contracts. The hedged cash flows will be realized until September 2021. As at 31 December 2019, the value of the assets on account of measurement of a hedging instrument was PLN 6.6 million.

Fair value hierarchy

As at 31 December 2019 and 31 December 2018, financial instruments measured at fair value were forward FX contracts and investments in equity instruments.

	31/12/2019		31/12/2018	
	Level 2	Level 3	Level 2	Level 3
Assets				
Derivatives – forward FX contracts	6.6	-	3.1	-
Investments in equity instruments - shares in unlisted companies	-	5.6	-	4.9
Liabilities				
Derivatives – forward FX contracts	-	-	0.2	-

Measurement methods for financial instruments measured at fair value

a) Forward foreign exchange contracts
The fair value of forward FX 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 5.6 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 2019 and 31 December 2018 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

	2019	2018
As at the beginning of the reporting period (audited)	**4.9**	**-**
Effect of the implementation of IFRS 9	-	4.9
As at the beginning of the reporting period (restated)	**4.9**	**4.9**
Profit for the period recognized in other comprehensive income	0.7	-
As at the end of the reporting period	**5.6**	**4.9**

In the financial year ended 31 December 2019 and 31 December 2018, there were no transfers between levels 2 and 3 of the fair value hierarchy.

according to EU IFRS (in millions of PLN)

6.1 Financial instruments (cont.)

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

2019	Hedging financial instruments	Financial assets carried at fair value through other comprehensive income	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Total financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(2.7)	-	4.1	0.9	(20.2)	(23.3)	**(41.2)**
FX differences	(0.1)	-	(0.6)	-	(1.8)	0.7	**(1.8)**
Impairment losses / revaluation	(0.1)	-	(3.7)	-	-	-	**(3.8)**
Transaction costs related to loans	-	-	-	-	(2.2)	-	**(2.2)**
Effect of settlement of cash flow hedge accounting	3.7	-	-	-	-	-	**3.7**
Gross profit / (loss)	**0.8**	-	**(0.2)**	**0.9**	**(24.2)**	**(22.6)**	**(45.3)**
Revaluation	9.4	0.7	-	-	-	-	**10.1**
Other comprehensive income	**9.4**	**0.7**	**-**	**-**	**-**	-	**10.1**

In the financial year ended 31 December 2019, the effect of settling cash flow hedging accounting adjusted the value of revenues from the sales of services for the amount of PLN 3.7 million. The change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN 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.

2018	Hedging financial instruments	Financial assets carried at amortized cost	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(3.0)	11.0	(22.4)	(0.4)	**(14.8)**
FX differences	-	2.3	(0.6)	(0.7)	**1.0**
Impairment losses / revaluation	-	2.9	-	-	**2.9**
Transaction costs related to loans	-	-	(1.5)	-	**(1.5)**
Effect of settlement of cash flow hedge accounting	6.5	-	-	-	**6.5**
Gross profit / (loss)	**3.5**	**16.2**	**(24.5)**	**(1.1)**	**(5.9)**
Revaluation	(22.5)	-	-	-	**(22.5)**
Other comprehensive income	**(22.5)**	**-**	**-**	**-**	**(22.5)**

In the financial year ended 31 December 2018, the effect of settling cash flow hedging accounting adjusted the value of revenues from the sales of services for the amount of PLN 6.5 million. The change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (7.6) million and bank loans in the amount of PLN (14.9) million, recognized as part of the hedge accounting applied by the Company.

according to EU IFRS (in millions of PLN)

6.1 Financial instruments (cont.)

Offsetting financial assets

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

31/12/2018	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	479.4	479.4	(3.0)	476.4
Total	**479.4**	**479.4**	**(3.0)**	**476.4**

Offsetting financial liabilities

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 provided	Net value
Trade liabilities	233.5	-	233.5	(0.1)	233.4
Cash pool	25.8	(23.6)	2.2	-	2.2
Total	**259.3**	**(23.6)**	**235.7**	**(0.1)**	**235.6**

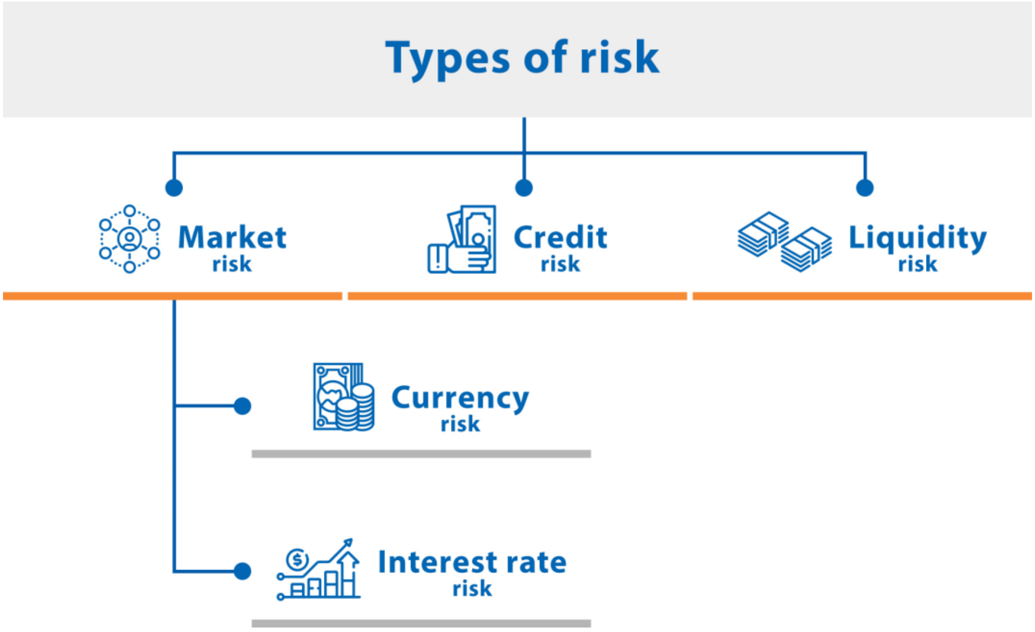
31/12/2018	Gross value of recognized financial liabilities	Gross value of recognized assets offset in the statement of financial position	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade liabilities	292.6	-	292.6	(0.1)	292.5
Cash pool	10.4	(8.9)	1.5	-	1.5
Total	**303.0**	**(8.9)**	**294.1**	**(0.1)**	**294.0**

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 2019, the Company used FX risk management transactions for the EUR/PLN currency pair.

Foreign exchange risk management

As at 31 December 2019, 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 2018-2019 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.

according to EU IFRS (in millions of PLN)

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

Items in foreign currencies

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

31/12/2018	Total value of items in PLN	EUR/PLN	
		in a foreign currency	in PLN
ASSETS			
Non-current assets			
Financial assets – forward FX contracts [(1)]	0.8	16.9	**0.8**
Current assets			
Trade receivables	58.8	13.7	**58.8**
Financial assets – forward FX contracts [(1)]	2.3	30.3	**2.3**
Cash and cash equivalents	25.5	5.9	**25.5**
Total	**87.4**	**66.8**	**87.4**
EQUITY AND LIABILITIES			
Long-term liabilities			
Debt liabilities	426.6	99.2	**426.6**
Short-term liabilities			
Debt liabilities	46.2	10.7	**46.2**
Trade liabilities	19.6	4.6	**19.6**
Other financial liabilities – forward FX contracts [(1)]	0.2	8.8	**0.2**
Total	**492.6**	**123.3**	**492.6**
Net currency item	**(405.2)**	**(56.5)**	**(405.2)**

[(1)] For financial 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.

according to EU IFRS (in millions of 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 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 2018 and 2019.

31/12/2019	value of the item in PLN	EUR/PLN			
		impact on the result		impact on other comprehensive income	
		+3%	-3%	+3%	-3%
ASSETS					
Non-current assets					
Financial assets – forward FX contracts [1]	1.8	-	-	(2.4)	2.4
Current assets					
Trade receivables	44.3	1.3	(1.3)	-	-
Financial assets – forward FX contracts [1]	4.8	-	-	(4.5)	4.5
Cash and cash equivalents	11.7	0.3	(0.3)	-	-
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	467.8	(1.5)	1.5	(12.5)	12.5
Short-term liabilities					
Debt liabilities	75.9	(0.7)	0.7	(1.6)	1.6
Trade liabilities	15.6	(0.5)	0.5	-	-
Total gross effect		**(1.1)**	**1.1**	**(21.0)**	**21.0**

31/12/2018	value of the item in PLN	EUR/PLN			
		impact on the result		impact on other comprehensive income	
		+6%	-6%	+6%	-6%
ASSETS					
Non-current assets					
Financial assets – forward FX contracts [1]	0.8	-	-	(4.4)	4.4
Current assets					
Trade receivables	58.8	3.5	(3.5)	-	-
Financial assets – forward FX contracts [1]	2.3	-	-	(7.8)	7.8
Cash and cash equivalents	25.5	1.5	(1.5)	-	-
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	426.6	-	-	(25.6)	25.6
Short-term liabilities					
Debt liabilities	46.2	(0.3)	0.3	(2.5)	2.5
Trade liabilities	19.6	(1.2)	1.2	-	-
Other liabilities	0.2	-	-	(2.3)	2.3
Total gross effect		**3.5**	**(3.5)**	**(42.6)**	**42.6**

according to EU IFRS (in millions of PLN)

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

FX forward transactions

To manage the foreign exchange risk in 2019 and 2018, FX forward transactions were applied on the EUR/PLN currency pair (sale and purchase of currency).

List of unrealized FX forward contracts

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
Total					**51.7**	**230.6**	**6.6**

As at 31 December 2018

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of assets	Fair value of liabilities
Bank A	forward	05/2017 – 12/2018	01/2019 – 02/2020	EUR/PLN	9.2	40.3	0.2	-
Bank B	forward	01/2017 – 12/2018	01/2019 – 12/2020	EUR/PLN	14.2	63.3	0.8	0.1
Bank C	forward	06/2017 – 12/2018	01/2019 – 08/2020	EUR/PLN	10.2	45.2	0.6	-
Bank D	forward	01/2017 – 11/2018	01/2019 – 11/2020	EUR/PLN	19.2	85.3	1.3	0.1
Bank E	forward	02/2017 – 07/2018	01/2019 – 06/2020	EUR/PLN	3.2	14.2	0.2	-
Total					**56.0**	**248.3**	**3.1**	**0.2**

Interest rate risk management

As at 31 December 2019, 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 2019, the reference rate for lease contracts denominated in EUR was EURIBOR 6M and for agreements signed in PLN the reference rate 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, quarterly and semi-annual periods, depending on the agreement.

The cash held by the Company as at 31 December 2019 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 2018-2019, the Company did not use derivative instruments to hedge the interest rate risk.

Financial instruments by interest rate type

As at 31 December 2019 and 31 December 2018, financial assets were interest-bearing at a fixed interest rate.

	31/12/2019	31/12/2018
Lease receivables	20.9	-
Receivables from sale of non-financial non-current assets	0.5	0.8
Bank deposits over 3 months	-	201.1
Cash and cash equivalents	380.0	222.4
Total	**401.4**	**424.3**

according to EU IFRS (in millions of PLN)

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

Financial liabilities	31/12/2019			31/12/2018		
	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	608.7	1,647.8	**2,256.5**	0.1	1,231.1	**1,231.2**
Investment liabilities	198.9	-	**198.9**	195.8	-	**195.8**
Cash pool	2.2	-	**2.2**	1.5	-	**1.5**
Total	**809.8**	**1,647.8**	**2,457.6**	**197.4**	**1,231.1**	**1,428.5**

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).

31/12/2019	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
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,382.9	(4.8)	4.8	(2.1)	2.1
Short-term liabilities					
Debt liabilities	263.9	(1.1)	1.1	(0.3)	0.3
Total gross effect		**(5.9)**	**5.9**	**(2.4)**	**2.4**

31/12/2018	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
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	999.9	(2.9)	2.9	(2.1)	2.1
Short-term liabilities					
Debt liabilities	230.5	(0.9)	0.9	(0.2)	0.2
Total gross effect		**(3.8)**	**3.8**	**(2.3)**	**2.3**

Credit risk management

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

	31/12/2019	31/12/2018
Trade receivables	391.4	479.4
Lease receivables	20.9	-
FX forwards	6.6	3.1
Cash and cash equivalents	380.0	222.4
Bank deposits over 3 months	-	201.1
Receivables from sale of non-financial non-current assets	0.5	0.8
Total	**799.4**	**906.8**

according to EU IFRS (in millions of PLN)

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 date. 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

	31/12/2019	31/12/2018
Group of entities related to the biggest external counterparty	13.2%	9.7%
PKP Group related parties	17.9%	20.0%
State Treasury related parties	30.1%	26.9%
Others	38.8%	43.4%
Total	**100.0%**	**100.0%**

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 2019, 7.7% 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	31/12/2019
Bank A	Moody's	Baa1	40.5%
Bank B	Fitch	A-	26.3%
Bank C	Moody's	A2	18.0%
Bank D	Moody's	A3	13.2%
Bank E	Moody's	A3	2.0%
Total			**100.0%**

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the financial year ended 31 December 2019 and the financial year ended 31 December 2018, 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 2019 and the financial year ended 31 December 2018, no transactions were identified between the Company and other parties related to the State Treasury which would be material due to a non-standard scope or amount. In the periods covered by these Standalone Financial Statements, the Company's most important clients among other parties related to the State Treasury were members of the following groups: ENEA, JSW, PGE, Azoty, PKN Orlen and Węglokoks. In the financial year ended 31 December 2019, the Company's most important suppliers related to the State Treasury were PKN Orlen Group entities.

according to EU IFRS (in millions of PLN)

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:

	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-subsidiaries	486.7	681.6	86.2	133.5
Associates	0.1	-	-	-
Other PKP Group related parties	15.5	552.1	2.5	50.9

	2018		31/12/2018	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	58.1	1.3	8.7
Subsidiaries / co-subsidiaries	629.2	628.8	93.1	125.1
Associates	1.0	-	-	-
Other PKP Group related parties	12.1	690.0	1.8	59.7

Purchase transactions with the parent company (PKP S.A.) pertain in particular to lease agreements, the supply of utilities and occupational medicine services. As at 31 December 2019, the increase in liabilities toward PKP S.A. was caused by the entry into force of IFRS 16 and the recognition, as of 1 January 2019, of lease liabilities arising from lease and rental agreements concluded with PKP S.A.

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 real estate. Purchase transactions comprised, among others, access to rail infrastructure, lease of real estate, supply of utilities, maintenance of rail traffic facilities, purchase of network maintenance services, operation of IT systems.

In addition to commercial transactions, the Company has cash pooling settlements presented in other financial liabilities. 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 2019 and 31 December 2018, the Company did not grant or take any loans from its related parties.

Remunerations of key management personnel

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

Remunerations of Management Board members	2019	2018
Short-term benefits	2.6	2.4
Post-employment benefits	-	0.5
Termination benefits	-	0.1
Total	**2.6**	**3.0**

Remunerations of Supervisory Board Members	2019	2018
Short-term benefits	1.2	1.0
Total	**1.2**	**1.0**

according to EU IFRS (in millions of PLN)

7.1 Related party transactions (cont.)

Remunerations of other members of key management personnel	2019	2018
Short-term benefits	6.8	6.4
Post-employment benefits	0.1	0.7
Termination benefits	0.1	0.1
Total	**7.0**	**7.2**

In the financial year ended 31 December 2019 and 31 December 2018, 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

	31/12/2019	31/12/2018
Contractual liabilities on account of the acquisition of non-financial non-current assets	1,701.9	1,277.0
Total	**1,701.9**	**1,277.0**

As at 31 December 2019, the increase in the future investment liabilities resulted from newly concluded agreements. The most important agreements included:

- the agreement with the consortium of NEWAG S.A. and NEWAG LEASE Sp. z o.o. s.k. signed in September 2019 for the delivery of 31 new locomotives with additional elements, to be delivered by June 2022. As at 31 December 2019 the outstanding value of the agreement was PLN 407.7 million. On 3 December 2019, the Company signed an annex to the agreement, which included financing of the purchase of 6 locomotives by Millennium Leasing Sp. z o.o.
- the agreement with Tatravagónka a.s. signed in March 2019 for the delivery of 936 container platforms, to be delivered by December 2022. As at 31 December 2019 the outstanding value of the agreement was PLN 345.9 million. The Company received co-financing for the performance of the agreement from the European Union aid funds in the amount of 50% of the agreement.
- the agreement signed in January 2019 with PKP CARGOTABOR Sp. z o.o. for 424 periodic repairs of locomotives to be performed by December 2021. As at 31 December 2019 the outstanding value of the contract was PLN 159.6 million.
- the agreement signed in December 2019 with the consortium of companies: Wagony Świdnica sp. z o.o. with its registered office in Świdnica and ASTRA RAIL INDUSTRIES S.A. with its registered office in Romania for the delivery of 220 new flat wagons to be used for intermodal transport, worth PLN 102.5 million, to be performed by August 2022. The Company received co-financing for the performance of the agreement from the European Union aid funds in the amount of 50% of the agreement.

The remaining changes pertain mainly to repayment of investment liabilities resulting from the agreements signed in previous periods.

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.

according to EU IFRS (in millions of PLN)

7.3 Contingent liabilities (cont.)

Structure of contingent liabilities

	31/12/2019	31/12/2018
Sureties for subsidiaries	1.5	1.5
Guarantees issued at PKP CARGO S.A.'s request	37.8	38.1
Other contingent liabilities	109.0	110.2
Total	**148.3**	**149.8**

Sureties granted for subsidiaries

As at 31 December 2019 and 31 December 2018, 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 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). As at 31 December 2018, the guarantees comprised tender bonds (for PLN 13.9 million), performance bonds (for PLN 17.9 million) and payment guarantees (for PLN 6.3 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. In these Standalone Financial Statements, the Company changed the presentation method for its administrative expenses. In the previous periods, they were presented fully in other activities. Starting from these Standalone Financial Statements, they are allocated to service infrastructure activities and other activities. In connection with the above change, the Company has restated the comparative data. This change ensures a more accurate reflection of results of the individual activities.

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

Rules 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), right-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 right-of-use assets the Company performed a detailed identification of individual components used in the service infrastructure activities. As at 31 December 2019, 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 right-of-use assets used in the service infrastructure activity as compared to the overall value of the right-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
ASSETS	
Rolling stock	detailed identification method
Other property, plant and equipment	detailed identification method
Rights-of-use assets	detailed identification method
Investments in related parties	excluded from the allocation
Trade receivables	detailed identification method
Financial assets	excluded from the allocation
Non-financial assets	detailed identification method
Receivables from sale of non-financial non-current assets	detailed identification method
Public law receivables	excluded from the allocation
Other receivables	excluded from the allocation
Intangible assets	detailed identification method
Inventories	detailed identification method
Cash and cash equivalents	excluded from the allocation
Deferred tax assets	excluded from the allocation
EQUITY AND LIABILITIES	
Equity	excluded from the allocation
Bank loans and borrowings	excluded from the allocation
Lease liabilities	detailed identification method
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, PIT and ZUS 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

according to EU IFRS (in millions of PLN)

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 2018-2019 by type of activity:

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Service infrastructure activities	Elimination of capitalized expenses	Other activities	Excluded items	2018
Revenues from contracts with customers	6.1	-	3,904.7	-	**3,910.8**
Consumption of traction electricity and traction fuel	-	-	(549.7)	-	**(549.7)**
Services of access to infrastructure	-	-	(733.6)	-	**(733.6)**
Other services	(50.8)	8.1	(387.3)	-	**(430.0)**
Employee benefits	(187.1)	26.4	(1,104.5)	-	**(1,265.2)**
Other expenses	(134.0)	45.9	(82.1)	-	**(170.2)**
Other operating revenue and (expenses)	-	-	9.1	-	**9.1**
Operating profit / (loss) without depreciation (EBITDA)	**(365.8)**	**80.4**	**1,056.6**	**-**	**771.2**
Depreciation, amortization and impairment losses	(12.2)	-	(440.8)	-	**(453.0)**
Profit / loss on operating activities (EBIT)	**(378.0)**	**80.4**	**615.8**	**-**	**318.2**
Financial revenue and (expenses)	(2.3)	-	(15.3)	20.1	**2.5**
Profit / (loss) before tax	**(380.3)**	**80.4**	**600.5**	**20.1**	**320.7**
Income tax	-	-	-	(66.7)	**(66.7)**
NET PROFIT / (LOSS)	**(380.3)**	**80.4**	**600.5**	**(46.6)**	**254.0**

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 423.4 million in 2019 and approx. PLN 380.8 million in 2018.

according to EU IFRS (in millions of PLN)

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

according to EU IFRS (in millions of PLN)

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	31/12/2018
ASSETS				
Rolling stock	-	3,425.7	-	**3,425.7**
Other property, plant and equipment	137.6	405.5	-	**543.1**
Investments in related parties	-	-	805.5	**805.5**
Financial assets	-	-	5.7	**5.7**
Other assets	-	35.3	-	**35.3**
Deferred tax assets	-	-	87.2	**87.2**
Total non-current assets	**137.6**	**3,866.5**	**898.4**	**4,902.5**
Inventories	49.8	34.4	-	**84.2**
Trade receivables	1.1	478.3	-	**479.4**
Income tax receivables	-	-	2.9	**2.9**
Financial assets	-	-	203.4	**203.4**
Other assets	-	42.0	45.5	**87.5**
Cash and cash equivalents	-	-	222.4	**222.4**
Total current assets	**50.9**	**554.7**	**474.2**	**1,079.8**
TOTAL ASSETS	**188.5**	**4,421.2**	**1,372.6**	**5,982.3**
EQUITY AND LIABILITIES				
Share capital	-	-	2,239.3	**2,239.3**
Supplementary capital	-	-	596.7	**596.7**
Other items of equity	-	-	(32.7)	**(32.7)**
Retained earnings	-	-	511.3	**511.3**
Total equity	**-**	**-**	**3,314.6**	**3,314.6**
Debt liabilities	-	0.2	999.7	**999.9**
Investment liabilities	-	109.7	-	**109.7**
Provisions for employee benefits	68.8	460.0	-	**528.8**
Other provisions	-	14.2	-	**14.2**
Total long-term liabilities	**68.8**	**584.1**	**999.7**	**1,652.6**
Debt liabilities	-	5.1	226.2	**231.3**
Trade liabilities	14.7	277.9	-	**292.6**
Investment liabilities	-	225.5	-	**225.5**
Provisions for employee benefits	10.8	81.8	-	**92.6**
Other provisions	-	19.4	-	**19.4**
Other financial liabilities	-	-	1.7	**1.7**
Other liabilities	15.2	54.2	82.6	**152.0**
Total short-term liabilities	**40.7**	**663.9**	**310.5**	**1,015.1**
Total liabilities	**109.5**	**1,248.0**	**1,310.2**	**2,667.7**
TOTAL EQUITY AND LIABILITIES	**109.5**	**1,248.0**	**4,624.8**	**5,982.3**

7.5 Subsequent events

A significant event that has occurred after the balance sheet date and may affect the Company's business is the dissemination of the COVID-19 coronavirus epidemic. The Company's Management Board monitors the global economic situation on an ongoing basis and keeps taking steps aimed at minimizing the adverse impact of the pandemic on the Company's operations. Due to the rapidly changing environment, as at the date of these Standalone Financial Statements, the Company's Management Board is unable to precisely quantify the impact of the COVID-19 coronavirus epidemic on the Company's operations, financial results or business prospects. In case of occurrence any specific events exert a significant impact on the Company's financial results or operations, the Company's Management Board will disclose information on its assessment of such impact in a current or periodic report.

On 21 February 2020, the Company signed an agreement with PKP Energetyka S.A. for the purchase of electricity and traction energy distribution services in the period from 1 January 2021 to 31 December 2022. The expected net value of the agreement during its term is net PLN 902.5 million.

On 11 March 2020, Mr. Grzegorz Fingas passed his resignation from the function of the Company's Management Board Member in charge of Commerce, effective as of 23 March 2020.

Other subsequent events are described in **Note 5.3** to these Standalone Financial Statements.

7.6 Approval of the financial statements

These Standalone Financial Statements were approved for publication by the Company's Management Board on 23 March 2020.

Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 23 March 2020