



tel.: +48 22 543 16 00  
fax: +48 22 543 16 01  
e-mail: office@bdo.pl

www.bdo.pl

BDO spółka z ograniczoną  
odpowiedzialnością  
spółka komandytowa  
ul. Postępu 12  
02-676 Warszawa  
Polska

*This document is a translation.  
The Polish original should be referred to in matters of interpretation.*

## **Independent Auditor's Report to the General Meeting and Supervisory Board of PKP CARGO SA**

### **Report on the Audit of the Year-end Financial Statements**

#### **Opinion**

We have audited the separate financial statements of PKP CARGO SA ("the Company"), which comprise the statement of profit or loss and other comprehensive income for the period from 1 January to 31 December 2020, the statement of financial position as at 31 December 2020, the statement of changes in equity and the statement of cash flows for the year then ended, as well as notes to the financial statements including a description of significant accounting methods and other explanations ("the financial statements").

In our opinion, the accompanying financial statements:

- give a true and fair view of the Company's financial position as at 31 December 2020, as well as of its financial result and cash flows for the year then ended, in accordance with the applicable International Financial Reporting Standards as adopted by the European Union, as well as the adopted accounting methods (policies);
- are consistent, in content and in form, with the applicable laws and regulations and with the Company's Statute;
- have been prepared on the basis of properly kept books of account in accordance with Chapter 2 of the Accounting Act of 29 September 1994 ("the Accounting Act" - 2021 Journal of Laws, item 217).

The present opinion is consistent with the additional report to the Audit Committee, which we issued on the date of this report.

#### **Basis for Opinion**

We conducted our audit in accordance with the International Standards on Auditing adopted by the National Council of Certified Auditors as National Standards on Auditing ("NSA") and in compliance with the Act on Certified Auditors, Audit Firms and on Public Supervision ("the Certified Auditors Act" - 2020 Journal of Laws, item 1415 with subsequent amendments) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public interest entities ("Regulation EU" - OJ L 158). Our responsibilities under those standards are further described in the "Responsibilities of the Auditor for the Audit of the Financial Statements" section of this report.

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("the IFAC Code") and adopted by resolutions of the National Chamber of Certified Auditors, and with other ethical requirements relevant to the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. During the audit, the engagement partner and the audit firm remained independent of the Company in accordance with the independence requirements laid down in the Certified Auditors Act and Regulation EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa, Sąd Rejonowy dla m. st. Warszawy, XIII Wydział Gospodarczy, KRS: 0000729684, REGON: 141222257, NIP: 108-000-42-12. Wartość wkładu kapitałowego wynosi 10.037.500 zł. Biura BDO w Polsce: Katowice 40-007, ul. Uniwersytecka 13, tel.: +48 32 661 06 00, [katowice@bdo.pl](mailto:katowice@bdo.pl); Kraków 31-548, al. Pokoju 1, tel.: +48 12 378 69 00, [krakow@bdo.pl](mailto:krakow@bdo.pl); Poznań 60-650, ul. Piątkowska 165, tel.: +48 61 622 57 00, [poznan@bdo.pl](mailto:poznan@bdo.pl); Wrocław 53-332, ul. Powstańców Śląskich 7a, tel.: +48 71 734 28 00, [wroclaw@bdo.pl](mailto:wroclaw@bdo.pl)

BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa jest członkiem BDO International Limited, brytyjskiej spółki i częścią międzynarodowej sieci BDO, złożonej z niezależnych spółek członkowskich.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in the audit of the financial statements for the current reporting period. They include the most significant assessed types of risks of material misstatements, including assessed types of risks of material misstatements resulting from fraud. We addressed these matters in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and have summarized our response to these types of risks, and where relevant, presented our key observations relating to those risks. We do not express a separate opinion on these matters.

### 1. Valuation of fixed assets, rolling stock, determination of depreciation rates and residual value

#### Key audit matter

---

In its financial statements the Company lists PLN 3.809,2 million in rolling stock, constituting 57,1% of its assets as at 31 December 2020.

The matter has been classified as a risk of material misstatement due to the high percentage of rolling stock in the Company's assets and the significant effect of management's judgment on the values of assets disclosed in the financial statements.

Because the market value of the Company's assets is lower than their carrying amount, the Company conducted an impairment test of its assets, which did not show any impairment of assets.

---

#### Disclosures in the financial statements

---

The details of the Group's accounting policies on the valuation of property, plant and equipment, including the methods used to perform impairment write downs and calculate depreciation charges, are disclosed in Note 5.1 to the financial statements.

In the note 5.1 to the financial statements the Company has made disclosures relating to identified key audit matter and key assumptions of impairment test.

---

#### Audit procedures performed in response to the risk

---

During the audit we performed the following procedures related to the identified risk:

1. We read the accounting policy regarding the determination of depreciation rates, write-downs on fixed assets, and for rolling stock - determining the residual value of these assets,
  2. We verified whether there were changes in the approach to estimates of write-downs on fixed assets, determination of depreciation rates and calculation of the residual value of rolling stock compared to the previous year; we obtained relevant documentation that was analysed,
  3. We conducted analytical credibility procedures for completeness and accuracy and the presence of depreciation,
  4. We have analysed individual items of the rolling stock in terms of the need to make an additional write-off of the rolling stock value
  5. We verified the impairment test of the assets of the Company, critically assessing the process of impairment testing, correctness of identification of the cash generating centre, key test assumptions, mathematical test accuracy, the applied discount rates, analysis of test sensitivity to key input factors of the model,
  6. We assessed the correctness and completeness of required disclosures in the financial statements,
  7. We assessed the impact of events after the balance sheet date on the estimates made as at the balance sheet day.
-

## 2. Provisions for employee benefits

### Key audit matter

In its financial statements as at 31 December 2020 the Company presents provisions for employee benefits in the amount of PLN 699,8 million, which constitutes 10,5% of its total liabilities and equity.

The provisions have been classified as a key audit area due to their significant effect on the financial statements.

### Disclosures in the financial statements

The accounting policies relating to provisions for employee benefits are presented in note 5.10 of the financial statements.

The Company has made disclosures relating to provisions for employee benefits in Note 5.10 to the financial statements.

### Audit procedures performed in response to the risk

In connection with the identified risk, we applied, among others, the following audit procedures:

1. We analysed the process of calculating estimates of provisions for employee benefits,
2. We verified whether there have been unjustified changes in the approach to provision estimates compared to the previous year,
3. We conducted analyses of reports on the actuarial valuation of provisions for employee benefits,
4. We conducted an assessment of the competence of the company preparing the actuarial valuation report,
5. We analysed the basic assumptions adopted for the valuation of provisions, including the discount rate,
6. We conducted an analysis of the impact of deviations of basic assumptions (discount rate, wage increases, employment growth) on the value of provisions.
7. We analysed the use of short-term provisions in 2020, compared to their estimates as at 31 December 2019.

## 3. Contingent liabilities

### Key audit matter

In its financial statements the Company presents contingent liabilities relating to court proceedings associated with claims against the Company, where the probability of an outflow of funds is assessed as low, as well as claims where it is not possible to make a reliable estimate of the amount to be paid by the Company in the future, with a total value of PLN 111,3 million as at 31 December 2020.

The above contingent liabilities have been classified as a key audit area due to the difficulties in assessing their future outcome and their significant effect on the financial statements.

### Disclosures in the financial statements

The accounting policies relating to contingent liabilities, are presented in note 7.3 of the financial statements.

The Company has made disclosures relating to contingent liabilities in Note 7.3 to the financial statements.

---

## Audit procedures performed in response to the risk

---

Our audit procedures included:

1. Identification of the Company's internal control regarding the qualification of contingent liabilities,
  2. Familiarizing ourselves with the current state of litigation and court cases,
  3. Assessment of the correctness of qualification of disputes and court claims to contingent liabilities, by obtaining direct answers and positions of the Company's legal advisors with regard to assessing the risk of the disputes having an outcome unfavourable for the Company,
  4. Review of audit documentation in other areas in terms of identifying events, contracts, commitments that may be contingent items,
  5. Assessment of whether disclosures in the financial statements comply with the provisions of IAS 37 "Provisions, contingent liabilities and contingent assets".
- 

## Responsibilities of the Company's Management and Supervisory Board for the Financial Statements

The Company's Management is responsible for the preparation of the financial statements that give a true and fair view of the Company's financial position and financial result in accordance with International Financial Reporting Standards as adopted by the European Union, the adopted accounting methods (policies), the applicable binding regulations and the Statute. The Company's Management is also responsible for such internal controls as it considers necessary to ensure that the financial statements are free from material misstatements resulting from fraud or error.

In preparing the financial statements the Company's Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, any matters related to going concern and using the going concern basis of accounting, except in situations where the Management intends to either liquidate the Company or discontinue its operations, or has no realistic alternative but to do so.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act. Members of the Company's Supervisory Board are responsible for overseeing the financial reporting process.

## Responsibilities of the Auditor for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with NSA will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in the aggregate, could influence the economic decisions of users made on the basis of these financial statements.

The concept of materiality is applied by the auditor at the planning stage and when performing the audit and evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, as well as when formulating the auditor's opinion. In view of the above, all of the opinions and statements contained in the auditor's report are expressed subject to the qualitative and quantitative level of materiality set in accordance with the applicable standards on auditing and the auditor's professional judgement.

The scope of the audit does not include an assurance regarding the Company's future profitability, or regarding the effectiveness of the Company's Management in the handling of the Company's affairs now or in the future.

Throughout an audit in accordance with NSA, we exercise professional judgement and maintain professional scepticism, as well as:

- identify and assess the risks of a material misstatement of the financial statements resulting from fraud or error, design and perform audit procedures in response to such risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or override of internal controls;
- obtain an understanding of the internal controls relevant to the audit in order to plan our audit procedures, but not to express an opinion on the effectiveness of the Company's internal controls;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the estimates and related disclosures made by the Company's Management;
- conclude on the appropriateness of the Company Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We provide the Company's Supervisory Board with information about, among others, the planned scope and timing of the audit and significant audit findings, including any significant weaknesses of internal controls that we identify during our audit.

We provide the Company's Supervisory Board with a statement that we have complied with the relevant ethical requirements relating to independence, and that we will communicate to them all relationships and other matters that may reasonably be considered to constitute a threat to our independence, and where applicable, inform them of the related safety measures.

From the matters communicated to the Company's Supervisory Board we determined those matters that were of the most significance to the audit of the financial statements for the current reporting period and were therefore chosen as key audit matters. We describe these matters in our auditor's report, unless law or regulations prohibit their public disclosure or when, in exceptional cases, we find that a given matter should not be presented in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such information.

#### **Other Information, Including Report on Activities**

Other information comprises the joint report on the activities of the Company and the PKP CARGO Group ("the Group"), of which PKP Cargo S.A. is the parent company, for the financial year ended 31 December 2020 ("the Report on Activities") along with the Statement of Compliance with Rules of Corporate Governance and Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act, which constitute separate sections of the Report on Activities.

Based on the provisions of Article 52.2a of the Accounting Act and par. 71.8 of the Minister's of Finance decree of 29 March 2018 on the current and periodic information reported by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2018 Journal of Laws, item 757), the Company's Management prepared in the form of a single document a consolidated report on the activities of the PKP Cargo Group, on which we reported in our auditor's report on the consolidated financial statements of the PKP Cargo Group.

## **Report on Other Legal and Regulatory Requirements**

### **Declaration on the Provision of Non-audit Services**

To the best of our knowledge and belief we declare that any non-audit services we have provided to the Company and its subsidiaries are consistent with the law and the regulations binding in Poland, and that we have not provided any non-audit services prohibited by virtue of Article 5 par. 1 of Regulation EU and Article 136 of the of the Certified Auditors Act.

The non-audit services we have provided to the Company and its subsidiaries in the audited period are listed in note 8.10.1 of the Reports on Activities.

### **Appointment of the Auditor**

We were first appointed as auditors of the Company's financial statements in a resolution passed by the Company's Ordinary General Meeting on 30 June 2016 and again in a resolution passed on 26 June 2019. We have audited the Company's financial statements continually since the financial year ended 31 December 2016, i.e. for 5 consecutive years.

The engagement partner on the audit resulting in this independent auditor's report is Marcin Krupa.

**BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw**  
entered on the list of audit firms in number **3355**

represented by the engagement partner

**Marcin Krupa**  
Certified Auditor No. 11142

**Dr. André Helin**  
Managing Partner of the General Partner  
Certified Auditor No. 90004

Warsaw, 31 March 2021