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(in millions of PLN) (translation of a document originally issued in Polish)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2018	2017	
Revenues from contracts with customers	5,183.0	4,689.1	*Note 2.1*
Consumption of traction electricity and traction fuel	(615.1)	(544.8)	*Note 2.2*
Services of access to infrastructure	(732.0)	(717.6)	
Transport services	(463.1)	(450.6)	
Other services	(529.6)	(450.6)	*Note 2.2*
Employee benefits	(1,651.4)	(1,510.3)	*Note 2.2*
Other expenses	(298.9)	(297.3)	*Note 2.2*
Other operating revenue and (expenses)	14.1	(17.6)	*Note 2.3*
Operating profit without depreciation (EBITDA)	**907.0**	**700.3**	
Depreciation, amortization and impairment losses	(629,4)	(546.9)	*Note 2.2*
Profit on operating activities (EBIT)	**277,6**	**153.4**	
Financial revenue and (expenses)	(42.0)	(37.7)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	3.7	0.8	*Note 5.2*
Result on the sale of shares in entities accounted for under the equity method	4.5	-	
Profit before tax	**243.8**	**116.5**	
Income tax	(59.9)	(34.8)	*Note 3.1*
NET PROFIT	**183.9**	**81.7**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	(23.4)	27.9	*Nota 6.1*
Income tax	4.4	(5.3)	
FX differences resulting from translation of financial statements	16.5	(0.6)	
Total other comprehensive income subject to reclassification in the financial result	**(2.5)**	**22.0**	
Actuarial profits / (losses) on post-employment benefits	(13.2)	(36.9)	*Note 5.7*
Income tax	2.5	7.0	
Total other comprehensive income not subject to reclassification in the financial result	**(10.7)**	**(29.9)**	
Total other comprehensive income	**(13.2)**	**(7.9)**	
TOTAL COMPREHENSIVE INCOME	**170.7**	**73.8**	
Net profit attributable to the shareholders of the parent company	183.9	81.7	
Total other comprehensive income attributable to shareholders of the parent company	170.7	73.8	
Earnings per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings per share	**4.11**	**1.82**	

The data for the 12 months ended 31 December 2017 have been restated as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

In the periods covered by these Consolidated Financial Statements, there were no non-controlling interest.

(in millions of PLN) (translation of a document originally issued in Polish)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2018	31/12/2017	01/01/2017	
ASSETS				
Rolling stock	3,997.0	3,750.4	3,734.6	*Note 5.1*
Other property, plant and equipment	949.9	937.6	966.0	*Note 5.1*
Investments in entities accounted for under the equity method	47.3	53.6	58.2	*Note 5.2*
Trade receivables	0.7	1.8	2.2	
Other assets	56.7	70.4	91.7	*Note 5.5*
Deferred tax assets	135.6	137.7	111.5	*Note 3.1*
Total non-current assets	**5,187.2**	**4,951.5**	**4,964.2**	
Inventories	161.7	148.5	121.2	*Note 5.3*
Trade receivables	684.6	687.0	613.8	*Note 5.4*
Bank deposits over 3 months	201.1	253.8	-	
Other assets	124.4	88.1	57.0	*Note 5.5*
Cash and cash equivalents	447.3	516.8	755.9	*Note 4.4*
Total current assets	**1,619.1**	**1,694.2**	**1,547.9**	
TOTAL ASSETS	**6,806.3**	**6,645.7**	**6,512.1**	
EQUITY AND LIABILITIES				
Share capital	2,239.3	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	628.2	619.3	618.7	*Note 4.2*
Other items of equity	(44.2)	(1.6)	5.7	
FX differences resulting from translation of financial statements	75.8	59.9	60.5	
Retained earnings	584.4	400.3	319.2	
Total equity	**3,483.5**	**3,317.2**	**3,243.4**	
Debt liabilities	1,156.5	1,403.7	1,414.5	*Note 4.1*
Trade payables	0.5	1.3	1.3	
Investment liabilities	109.8	-	0.6	*Note 5.6*
Provisions for employee benefits	591.5	575.7	542.1	*Note 5.7*
Other provisions	20.5	22.5	26.4	*Note 5.8*
Deferred tax liability	88.5	107.4	106.7	*Note 3.1*
Other liabilities	1.8	0.3	1.0	*Note 5.9*
Total long-term liabilities	**1,969.1**	**2,110.9**	**2,092.6**	
Debt liabilities	270.5	297.7	376.0	*Note 4.1*
Trade payables	499.4	445.9	376.0	
Investment liabilities	177.6	79.1	45.8	*Note 5.6*
Provisions for employee benefits	115.5	108.5	103.5	*Note 5.7*
Other provisions	56.9	59.7	25.0	*Note 5.8*
Other liabilities	233.8	226.7	249.8	*Note 5.9*
Total short-term liabilities	**1,353.7**	**1,217.6**	**1,176.1**	
Total liabilities	**3,322.8**	**3,328.5**	**3,268.7**	
TOTAL EQUITY AND LIABILITIES	**6,806.3**	**6,645.7**	**6,512.1**	

The data as at 31 December 2017 and 1 January 2017 have been restated as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

(in millions of PLN) (translation of a document originally issued in Polish)

CONSOLIDATED 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	FX differences resulting from translation of financial statements	Retained earnings	Total equity	
1/01/2018 (audited)	**2,239.3**	**619.3**	**-**	**(15.7)**	**20.5**	**59.9**	**411.4**	**3,334.7**	
Corrections of prior period errors	-	-	-	(6.4)	-	-	(11.1)	**(17.5)**	*Note 1.4*
Changes resulting from the implementation of IFRS 9	-	-	(12.9)	-	-	-	9.1	**(3.8)**	*Note 1.3*
1/01/2018 (restated)	**2,239.3**	**619.3**	**(12.9)**	**(22.1)**	**20.5**	**59.9**	**409.4**	**3,313.4**	
Net result for the financial year	-	-	-	-	-	-	183.9	**183.9**	
Other comprehensive income for the financial year (net)	-	-	-	(10.7)	(19.0)	16.5	-	**(13.2)**	
Total comprehensive income	-	-	-	(10.7)	(19.0)	16.5	183.9	**170.7**	
Other changes for the financial year	-	8.9	-	-	-	(0.6)	(8.9)	**(0.6)**	
31/12/2018	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**	
1/01/2017 (audited)	**2,239.3**	**618.7**	**-**	**13.5**	**(2.1)**	**60.5**	**330.3**	**3,260.2**	
Corrections of prior period errors	-	-	-	(5.7)	-	-	(11.1)	**(16.8)**	*Note 1.4*
1/01/2017 (restated)	**2,239.3**	**618.7**	**-**	**7.8**	**(2.1)**	**60.5**	**319.2**	**3,243.4**	
Net result for the financial year	-	-	-	-	-	-	81.7	**81.7**	
Other comprehensive income for the financial year (net)	-	-	-	(29.9)	22.6	(0.6)	-	**(7.9)**	
Total comprehensive income	-	-	-	(29.9)	22.6	(0.6)	81.7	**73.8**	
Other changes for the financial year	-	0.6	-	-	-	-	(0.6)	**-**	
31/12/2017	**2,239.3**	**619.3**	**-**	**(22.1)**	**20.5**	**59.9**	**400.3**	**3,317.2**	

The data for the 12 months ended 31 December 2017 have been restated as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

(in millions of PLN) (translation of a document originally issued in Polish)

CONSOLIDATED CASH FLOW STATEMENT

	2018	2017	
Cash flow from operating activities			
Profit before tax	**243.8**	**116.5**	
Adjustments			
Depreciation, amortization and impairment losses	629.4	546.8	*Note 2.2*
(Profits) / losses on interest, dividends	18.3	24.8	
Received / (paid) interest	4.3	3.1	
Received / (paid) income tax	(75.8)	(55.3)	
Movement in working capital	78.4	1.6	*Note 4.5*
Other adjustments	(35.4)	(36.9)	*Note 4.5*
Net cash from operating activities	**863.0**	**600.7**	
Cash flow from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(719.7)	(511.1)	
Proceeds from the sale of non-financial non-current assets	25.1	9.1	
Proceeds from the sale of entities measured by the equity method	12.2	-	
Proceeds from dividends received	2.4	5.2	
Inflows / (outflows) on bank deposits over 3 months	53.0	(253.0)	
Other inflows / (outflows) from investing activities	15.0	9.8	
Net cash from investing activities	**(612.0)**	**(740.0)**	
Cash flow from financing activities			
Payments on financial lease liabilities	(46.7)	(59.6)	*Note 4.1*
Proceeds from bank loans and borrowings	0.3	366.3	*Note 4.1*
Repayment of bank loans and borrowings	(248.6)	(255.2)	*Note 4.1*
Interest paid on financial lease liabilities and bank loans and borrowings	(31.4)	(34.2)	*Note 4.1*
Transactions with non-controlling interests	-	(114,7)	
Other inflows / (outflows) financing activities	3.5	2.0	
Net cash from financing activities	**(322.9)**	**(99.4)**	
Net increase / (decrease) in cash and cash equivalents	(71.9)	(238.7)	
Cash and cash equivalents as at the beginning of the reporting period	516.8	755.9	*Note 4.4*
Impact exerted by FX rate movements on the cash balance in foreign currencies	2.4	(0.4)	
Cash and cash equivalents as at the end of the reporting period, including:	**447.3**	**516.8**	*Note 4.4*
restricted cash	*39.6*	*35.4*	*Note 4.4*

The data for the 12 months ended 31 December 2017 have been restated as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

PKP CARGO S.A. ("Company", "Parent Company") was established pursuant to a Notary Deed of 29 June 2001 (Rep. A No. 1287/2001). The Parent Company's registered office is Warsaw at Grójecka Street no 17. The Parent 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 Parent 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 Parent Company was assigned the REGON statistical number 277586360 and the NIP tax identification number 954-23-81-960.

The financial year of the Parent Company and the companies from the PKP CARGO Group is a calendar year.

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 December 2018 were presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2018 in **Chapters 9.11** and **9.4**, respectively.

Information about the Group

The Group's core business is rail freight transport. In addition to rail freight transport services, the Group also provides additional services:

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 26 subsidiaries. In addition, the Group held stakes in 3 associated entities and 1 joint venture.

The duration of individual Group companies is unlimited.

(in millions of PLN) (translation of a document originally issued in Polish)

1.1 Key information about the Group's business (cont.)

The detailed information about the subsidiaries consolidated using the full method as at 31 December 2018 and 31 December 2017 is as follows:

Item	Name of the subsidiary	Place of registration and business	Percent of shares held by the Group	
			31/12/2018	31/12/2017
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Małaszewicze	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o.	Żurawica	100.0%	100.0%
3	PKP CARGO SERVICE Sp. z o.o.	Warsaw	100.0%	100.0%
4	PKP CARGO CONNECT Sp. z o.o.	Warsaw	100.0%	100.0%
5	PKP CARGOTABOR Sp. z o.o.	Warsaw	100.0%	100.0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Warsaw	100.0%	100.0%
7	CARGOTOR Sp. z o.o.	Warsaw	100.0%	100.0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Braniewo	100.0%	100.0%
9	AWT CE s.r.o.	Prague	100.0%	100.0%
10	Advanced World Transport a.s.	Ostrava	100.0%	100.0%
11	AWT ROSCO a.s.	Ostrava	100.0%	100.0%
12	AWT Čechofracht a.s.	Prague	100.0%	100.0%
13	AWT Rekultivace a.s.	Havířov-Prostřední Suchá	100.0%	100.0%
14	AWT Rail HU Zrt.	Budapest	100.0%	100.0%

On 9 September 2018, Czech court registered the transformation of the Dutch company Advanced World Transport B.V. with its registered office in Amsterdam into the Czech company AWT CE s.r.o. with its registered office in Prague. This means that Advanced World Transport B.V. has terminated its legal existence in the Netherlands. The AWT Group's parent company is currently AWT CE s.r.o.

The detailed information about the remaining subsidiaries from the Group as at 31 December 2018 and 31 December 2017 is as follows:

Item	Name of the subsidiary	Place of registration and business	Percent of shares held by the Group	
			31/12/2018	31/12/2017
15	ONECARGO Sp. z o.o.	Warsaw	100.0%	100.0%
16	ONECARGO CONNECT Sp. z o.o.	Warsaw	100.0%	100.0%
17	Transgaz S.A.	Zalesie near Małaszewicze	64.0%	64.0%
18	Trade Trans Finance Sp. z o.o.	Warsaw	100.0%	100.0%
19	PKP CARGO CONNECT GmbH	Hamburg	100.0%	100.0%
20	PPHU "Ukpol" Sp. z o.o.	Werchrata	100.0%	100.0%
21	AWT Rail SK a. s.	Bratislava	100.0%	100.0%
22	AWT DLT s.r.o.	Kladno	100.0%	100.0%
23	AWT Trading s.r.o.	Petřvald	100.0%	100.0%
24	AWT Rekultivace PL Sp. z o.o.	Český Těšín	100.0%	100.0%
25	RND s.r.o.	Olomouc	51.0%	51.0%
26	PRIMOL-RAIL d.o.o.	Grčarevec	80.0%	-

On 6 December 2018, Advanced World Transport a.s. acquired an 80% stake in the Slovenian company PRIMOL-RAIL d.o.o.

Unconsolidated subsidiaries, shares in associates and interests in joint ventures accounted for under the equity method are presented in **Note 5.2**.

1.2 Basis for drawing up the Consolidated Financial Statements

These Consolidated 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 Consolidated 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 Consolidated Financial Statements for the year ended 31 December 2018 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 the Financial Statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

These Consolidated Financial Statements have been drawn up in Polish zloty (PLN). The data in the financial statements are presented in millions of PLN.

These Consolidated Financial Statements have been audited by a statutory auditor. The comparative data presented in these Consolidated Financial Statements have been restated due to the correction of previous period errors and a retrospective application of IFRS 15. Moreover, certain items of the consolidate statement of financial position as at 1 January 2018 have been restated in connection with the implementation of IFRS 9. Data as at 31 December 2017 are presented based on IAS 39. The effects of restatement in connection with the correction of previous period errors and the implementation of IFRS 15 and IFRS 9 are described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

The Group'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 9, as described in Note 1.3. The accounting principles, material estimates and judgments for the key items of the consolidated financial statements were presented in individual notes to these Consolidated Financial Statements.

Note	Title	Amount recognized in the consolidated financial statements		Accounting policy	Material estimates and judgments
		2018	2017		
2.1	Revenues from contracts with customers	5,183.0	4,689.1	X	X
2.2	Operating expenses	(4,919.5)	(4,518.1)		
2.3	Other operating revenue and (expenses)	14.1	(17.6)		
2.4	Financial income and (expenses)	(42.0)	(37.7)		
3.1	Income tax	(59.9)	(34.8)	X	X
5.1	Rolling stock	3,997.0	3,750.4	X	X
5.1	Other property, plant and equipment	949.9	937.6	X	X
5.2	Investments in entities accounted for under the equity method	47.3	53.6		
5.5	Other assets	181.1	158.5	X	
5.3	Inventories	161.7	148.5	X	
5.4	Trade receivables	685.3	688.8	X	X
4.4	Cash and cash equivalents	447.3	516.8	X	
4.2	Equity	3,483.5	3,317.2	X	
4.1	Debt liabilities	1,427.0	1,701.4	X	
5.6	Investment liabilities	287.4	79.1	X	
5.7	Provisions for employee benefits	707.0	684.2	X	X
5.8	Other provisions	77.4	82.2	X	
5.9	Other liabilities	235.6	227.0	X	
7.4	Contingent liabilities	244.8	259.3	X	X

(in millions of PLN) (translation of a document originally issued in Polish)

1.2 Basis for drawing up the Consolidated Financial Statements (cont.)

Consolidation rules

The Consolidated Financial Statements comprise the standalone financial statements of the Parent Company and its controlled entities (subsidiaries) for the financial year ended on 31 December 2018 and 31 December 2017. The financial statements of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with EU IFRS, are prepared for the same reporting period as the statements of the Parent Company, based on uniform accounting principles applied for transactions and similar economic events.

Revenues and costs of subsidiaries acquired or sold during the year are taken into account in the consolidated statement of profit or loss and other comprehensive income as of the actual date of acquisition of the given entity to the date of its effective disposal. All transactions effected within the Group, negative balances and revenues and costs of operations effected between the Group companies have been fully excluded from the consolidation.

Transactions in foreign currencies are converted into the functional currency at the exchange rate at the date of the transaction or valuation upon their initial revaluation. As at the balance sheet date, cash assets and liabilities denominated in foreign currencies are restated according to the average NBP exchange rate binding on that date. Foreign exchange profits and losses obtained as a result of settlements of those transactions and balance sheet valuation of assets and liabilities denominated in foreign currencies are recorded in the result, provided they are not deferred in other comprehensive income when they are eligible for recognition as security for cash flows. Non-cash items carried at historical cost expressed in a foreign currency are converted using the exchange rate on the transaction date.

The financial data of foreign entities for the purpose of consolidation have been converted into the Polish currency in the following manner:

a) assets and liabilities items at the exchange rate at the end of the reporting period,
b) items of the statement of profit or loss and other comprehensive income and of the statement of cash flows at the average exchange rate in the reporting period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period.

FX differences resulting from the above conversions are presented in equity as exchange differences resulting from translation of the financial statements of foreign entities.

As at 31 December 2018 and 31 December 2017, for the needs of valuation of financial statements of foreign entities subject to consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of comprehensive income and the cash flow statement	
	31/12/2018	31/12/2017	2018	2017
EUR	4.3000	4.1709	4.2669	4.2447
CZK	0.1673	0.1632	0.1663	0.1614
HUF	0.0134	0.0134	0.0133	0.0137
CHF	3.8166	3.5672	3.7081	3.8087

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 20 March 2019.

1.3 Applied International Financial Reporting Standards platform

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

In the opinion of the Parent Company's Management Board, the following standards have exerted a significant impact on these Consolidated Financial Statements:

- **IFRS 9 "Financial Instruments"** – applicable to annual periods beginning on or after 1 January 2018. The key amendments introduced by the new standard pertain to:
  1) Changes of the rules of classification and valuation of financial assets which are based on the entity's business model for managing the assets and the cash flow characteristics. The existing categories of financial assets have been replaced with new ones, i.e. carried out at:
     - amortized cost,
     – fair value through other comprehensive income,
     – fair value through profit or loss.

  The amended standard imposes an obligation to carry shares in unlisted companies in fair value and significantly reduces the existing possibility of carrying assets at cost.
  2) Introduction of a new model for assessment of impairment of financial assets which replaces the concept of incurred losses with the concept of expected credit losses.
  3) Hedge accounting model.

(in millions of PLN) (translation of a document originally issued in Polish)

1.3 Applied International Financial Reporting Standards platform (cont.)

Impact on consolidated financial statements:

The entry of IFRS 9 into force has affected these Consolidated Financial Statements of the Group as described below.

Change in the principles of classification and measurement of financial assets

The Group has taken advantage of the IFRS 9 transition provisions allowing for refraining from the restatement of comparative data as regards the changes regarding classification and valuation and impairment of financial assets. Accordingly, it has restated its data as at the date of the first application of IFRS 9, that is 1 January 2018, which means that data for 2017 and 2018 are incomparable with each other, because they were prepared under different accounting policies. The change in the principles of classification has cause changes in the classification of financial assets in the Group's financial statements. Instruments previously classified into the loans and receivables category in accordance with the applicable business model are held for the purpose of collecting contractual cash flows. They satisfy the conditions of classification into assets carried at amortized cost, hence the entry of IFRS 9 into force has not caused a change in the principles of their valuation. Shares held by the Group in companies not listed on active markets were carried at purchase price less impairment losses, if any. In accordance with IFRS 9, investments in equity instruments are measured at fair value. As provided for by the adopted amendments to the accounting policy, the effect of measurement is recognized in other comprehensive income. Presented below are the changes in the classification and measurement of financial assets in connection with entry of IFRS 9 into force.

IAS 39			IFRS 9			
Financial assets by category and class	**Valuation method**	**31/12/2017**	**Financial assets by category and class**	**Valuation method**	**1/01/2018**	**Impact of the change**
Hedging financial instruments			**Hedging financial instruments**			
Derivatives	at fair value through other comprehensive income	12.1	Derivatives	at fair value through other comprehensive income	12.1	-
Available-for-sale financial assets			**Financial assets measured at fair value through other comprehensive income**			
Shares in unlisted companies	at cost less impairment losses	7.3	Investments in equity instruments	at fair value through other comprehensive income	6.2	(1.1)
Loans and receivables			**Financial assets measured at amortized cost**			
Trade receivables	at amortized cost	688.8	Trade receivables	at amortized cost	685.5	(3.3)
Receivables from sale of non-current assets	at amortized cost	0.1	Receivables from sale of non-current assets	at amortized cost	0.1	-
Loans granted	at amortized cost	1.1	Loans granted	at amortized cost	1.1	-
Bank deposits over 3 months	at amortized cost	253.8	Bank deposits over 3 months	at amortized cost	253.8	-
Cash and cash equivalents	at amortized cost	516.8	Cash and cash equivalents	at amortized cost	516.8	-

As at 31 December 2017 the Group, as part of shares in unlisted companies, presented mainly the value of the shares in Euroterminal Sławków Sp. z o.o. in the amount of PLN 6 million.
As a result of the first application of IFRS 9, the Group measured the fair value of shares in Euroterminal Sławków Sp. z o.o. The fair value of this shares was calculated as PLN 4.9 million.
In the statement of financial position, the effects of the measurement of investments in equity instruments are presented as other items of equity.
As at the date of the first application of IFRS 9, the Group restated the data resulting from the Consolidated Financial Statements for the financial year ended 31 December 2017 as follows:

- the effects of measurement of shares in Euroterminal Sławków Sp. z o.o. at fair value as at 1 January 2018 in the amount of PLN 1.1 million decreased other assets and other items of equity,
- the impairment loss on investment in equity instruments recognized in previous periods in the amount of PLN 11.8 million increased retained earnings and decreased other items of equity.

1.3 Applied International Financial Reporting Standards platform (cont.)

Model for the assessment of impairment of financial assets

The new financial asset impairment model implemented by the Group is based on an analysis of the expected credit losses on trade receivables. The determined amount of the additional impairment loss on trade receivables resulting from implementation of IFRS 9 amounts to PLN 3.3 million.

The implementation of IFRS 9 has not affected the impairment of other financial instruments of a debt nature.

Changes resulting from the application of IFRS 9 in respect of the model for the assessment of impairment of financial assets are reflected as at 1 January 2018 as follows:

– trade receivables decreased by PLN 3.3 million,
– deferred tax assets increased by PLN 0.6 million,
– retained earnings decreased by PLN 2.7 million.

Impairment losses on trade receivables were determined in accordance with IFRS 9, as described in **Note 5.4**.

Other financial assets of a debt nature are characterized by low credit risk. Moreover, because the calculation of impairment revealed an insignificant amount of the impairment loss, the Group chose not to recognize it.

Hedge accounting

The changes in hedge accounting in the case of the Group pertained mainly to documentation issues and hence the entry of IFRS 9 into force in this area has not impacted the Group's asset or financial standing.

The effect of implementation of IFRS 9 as at the day of its first application, i.e. as at 1 January 2018, is presented in **Note 1.5**.

- **IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018. This standard has replaced IAS 18 "Revenues" and IAS 11 "Construction Contracts" and the related interpretations. The fundamental principle of the new standard provides for recognition of the revenues in the financial statements in such a way as to show the transfer of goods or services to customers in the amount that reflects the amount of the remuneration (i.e. payment) which the Group expects to receive in return for such goods or services. In accordance with the new regulations a revenue occurs at the time when control over the goods or services passes on to the customer. The standard has introduced a 5-step approach to revenue recognition:

1) Identify the contracts with customers, which are understood as parties which concluded a contract with the entity to purchase goods or services, resulting from ordinary activity of the entity, in exchange for consideration.
2) Identify the performance obligations in the contract.
3) Determine the transaction price. Determining the transaction price, in addition to the base consideration , one should consider such other components as: variable consideration , non-pecuniary consideration which should be carried at fair value, factors associated with financing the price (by the seller or buyer) e.g. discount resulting from a time difference between the performance of the obligation and the payment for its performance or amounts paid in connection with performance of the obligations of the contract.
4) Allocate the transaction price to the performance obligations in the contract. The best basis to determine the individual price is the price for which the entity may separately sell the given good or service.
5) Recognize revenue when (or as) the entity satisfies a performance obligation. The performance obligation is recognized as satisfied upon transfer of the control over the goods or services subject to the agreement to the customer.

Impact on consolidated financial statements:

- **IFRS 15 "Revenue from Contracts with Customers" –** since the Group generates revenues primarily from the provision of rail transport services, the entry of IFRS 15 into force has chiefly affected transportation agreements. As a result of completed works, it has been concluded that the commercial agreements contain a variable consideration component resulting from:

– 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 during the term of the agreement,
– the possibility of imposing a penalty on the Group by the client in the event of failure to transport the ordered freight volume.

Previously, these penalties have been presented as other operating revenues or other operating expenses depending on the nature of the penalty. According to the new standard, these penalties are treated as a component of contracts with customers. Based on IFRS 15 Annex C item 3a the Management Board of the Parent Company has decided that the standard will be implemented retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the possibility of taking into account the instructions contained in clause C5. The application of this approach did not result in an adjustment of the Group's equity as at the date of its first application of IFRS 15. In accordance with the previously applied accounting principles, the following items were recognized in the period from 1 January 2017 to 31 December 2017:

– in other operating revenues, debit notes and provisions for penalties imposed on clients in the amount of PLN 2.1 million,
– in other operating expenses, provisions for penalties charged by the customer in the amount of PLN 5.6 million.

In line with the aforementioned changes, the Group has restated its comparative data. Presented in **Note 1.5** is the restatement of comparative data. Information disclosed in the additional explanatory notes to the Consolidated Financial Statements was restated as appropriate.

(in millions of PLN) (translation of a document originally issued in Polish)

1.3 Applied International Financial Reporting Standards platform (cont.)

- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018. The improvement has provided additional clarifications concerning certain requirements and has introduced an additional exemption for entities introducing IFRS 15 "Revenue from Contracts with Customers".

In the opinion of the Parent Company's Management Board, the standards and interpretations mentioned below did not result in any major amendments to the Accounting Policy applied by the Group:

Standard / Interpretation	Effective date
Amendments to IFRS 2 "Share-based payments"	1 January 2018
Amendments to IFRS 4 "Insurance contracts"	1 January 2018
Amendments to IFRS (cycle 2014-2016) – IFRS 1 and IAS 28	1 January 2018
IFRIC 22 Interpretation – Foreign currency transactions and advance consideration	1 January 2018
Amendments to IAS 40 "Investment property"	1 January 2018

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

In the opinion of the Parent Company's Management Board, IFRS 16 "Leases", applicable to annual periods beginning on or after 1 January 2019, will have a significant impact on the Consolidated Financial Statements of the PKP CARGO Group. In accordance with the new standard, the lessee recognizes the right to use an asset and lease liability. The right to use an asset is treated like other non-financial assets and amortized accordingly. Lease liabilities are initially carried at current value of the lease payments payable during the lease term, discounted by the lease rate, if it is not difficult to determine it. If such rate cannot be easily determined the lessee applies the marginal interest rate.

Impact on consolidated financial statements:

- **IFRS 16 "Leases"** – The Group has conducted a preliminary analysis of the impact of IFRS 16 on the accounting principles used. The analysis has shown that the Group's financial statements will have to recognize material assets and liabilities resulting from operating leases, lease or rent and perpetual usufruct rights to land.
  The most significant lease contracts pertain to real properties serving as rolling stock repair points and cargo loading points, considered by the Group as strategic for its operations. Other lease contracts for the most part pertain to those rolling stock components and other buildings and real properties that are not considered strategic by the Group. Moreover, presented as lease contracts under IFRS 16 will also be those contracts that pertain to the right of perpetual usufruct of land in the case of which the Group pays fees in return for their use.
  The Parent Company's Management Board plans to implement the standard retrospectively in accordance with IFRS 16 Annex C item 5b, by presenting as at 1 January 2019 the combined effect of the application of this standard by adjusting the opening balance of retained earnings, without restating the comparative data. The Group chose not to apply the standard earlier. Applying IFRS 16 for the first time, the Group plans to apply the following 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,
  – adjustment of the value of the right to use assets by the amount of the provision for onerous contracts recognized in accordance with IAS 37 directly before the date of first application of IFRS 16,
  – the use of post-factual knowledge and experience in determining the term of the lease if the contract contains options for renewal or termination,
  – not recognizing the right to use assets and liabilities for short-term lease contracts. Agreements for which the remaining term of the lease as at 1 January 2019 is shorter than 12 months,
  – exclusion of initial direct costs from the measurement of assets on account of rights to use assets as at 1 January 2019.

  The following are additional simplifications that will be applied by the Group to contracts to which it is the lessee party:
  – not recognizing the right to use lease assets and liabilities for contracts pertaining to assets of low initial unit value (IT equipment, furniture, office equipment, etc.),
  – not separating leasing and non-leasing components for lease contracts for selected classes of the underlying asset.

  The Group intends to present its rights to the use of assets in a separate statement of financial position. This line item will also include assets used under current finance lease agreements in accordance with IAS 17 and the perpetual usufruct right to land. Moreover, the Group will recognize lease receivables arising from sublease contracts providing for the use of assets that are recognized as finance lease contracts.

(in millions of PLN) (translation of a document originally issued in Polish)

1.3 Applied International Financial Reporting Standards platform (cont.)

Summary of the expected impact

The effect of the implementation of IFRS 16 as at 1 January 2019 is presented below:

	31/12/2018	Impact of the changes	1/01/2019
ASSETS			
Rolling stock	3,997.0	(165.4)	3,831.6
Other property, plant and equipment	949.9	(50.0)	899.9
Right to use assets	-	1,009.7	1,009.7
Lease receivables	-	7.4	7.4
Other assets	56.7	(9.4)	47.3
Deferred tax assets	135.6	(0.2)	135.4
Total non-current assets	**5,187.2**	**792.1**	**5.979,3**
Lease receivables	-	0.4	0.4
Total current assets	**1,619.1**	**0.4**	**1,619.5**
TOTAL ASSETS	**6,806.3**	**792.5**	**7,598.8**
EQUITY AND LIABILITIES			
Retained earnings	584.4	0.8	585.2
Total equity	**3,483,5**	**0.8**	**3,484.3**
Debt liabilities	1,156.5	707.6	1,864.1
Other provisions	20.5	(1.3)	19.2
Total long-term liabilities	**1,969.1**	**706.3**	**2,675.4**
Debt liabilities	270.5	101.5	372.0
Trade payables	499.4	(13.7)	485.7
Other provisions	56.9	(2.4)	54.5
Total short-term liabilities	**1,353.7**	**85.4**	**1,439.1**
Total liabilities	**3,322.8**	**791.7**	**4,114.5**
TOTAL EQUITY AND LIABILITIES	**6,806.3**	**792.5**	**7,598.8**

The application of IFRS 16 will also affect the structure of the statement of profit or loss and other comprehensive income in 2019 and in subsequent years. Based on its analysis, the Group estimates that in 2019 its operating result will increase by PLN 17 million, EBITDA by PLN 118 million and the profit before tax will decrease by PLN 12 million. This analysis has been prepared on the basis of contracts effective as at 31 December 2018 and is based on certain assumptions that are material on that date, in particular with respect to:

- the actual period of validity of the agreements concluded for an indefinite term and the resulting useful life of the right to use assets;
- discount rate used for the measurement of the lease liabilities;

The lease periods applied for the purposes of estimation of the value of lease liabilities, broken down into underlying asset classes, were as follows:

Strategic real properties	14 – 17 years
Other real properties	4 – 15 years
Means of transport	2 – 5 years
Other	2 – 5 years

The lease period in contracts for the perpetual usufruct right to land is defined as the period remaining until the date to which these rights have been granted unless the circumstances require the adoption of a longer or shorter period. The lessee's marginal rates applied for the purposes of estimation of the value of lease liabilities ranged from 1.16% 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 accepted for the measurement of liabilities was 3.83%.

(in millions of PLN) (translation of a document originally issued in Polish)

1.3 Applied International Financial Reporting Standards platform (cont.)

Presented below is an explanation of the key differences between the amounts of future payments, as described in **Note 7.2** to these Consolidated Financial Statements, and the value of lease liabilities to be additionally recognized due to the application of IFRS 16:

Amount of future minimum lease payments under non-cancellable operating leases	**190.7**
Operating lease liabilities recognized as at 31 December 2018 as trade payables	**10.4**
Finance lease liabilities recognized as at 31 December 2018	**95.2**
Adjustments	**866.6**
Extension and termination options which the Group is highly likely to exercise	816.6
Exemptions for short-term leases and leases of assets with a low initial value	(24.3)
Perpetual usufruct right to land	74.2
Other	0.1
Lease liabilities recognized as at 31 December 2018, adjusted	**1,162.9**
Discount	(258.6)
Lease liabilities as at 1 January 2019	**904.3**
including the effect of recognition under IFRS 16	809.1

The main differences are due to the fact that the period of adopted lease payment projections in accordance with IAS 17 applies only to non-cancellable lease periods, which the Group considers 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 any scenario leading to such an outcome is sufficiently certain in the Group's opinion. In the case of contracts with an extension option and contracts entered into for an indefinite term for which the Group has estimated the lease period, the lease liability is correspondingly higher.
In order to calculate the amount of lease liabilities to be 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.

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

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"	1 January 2019
Amendment to IAS 19 "Employee benefits"	1 January 2019

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 2018 have not yet been approved by the EU and have not entered into effect: In the opinion of the Parent Company's Management Board, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Group:

Standard / Interpretation	Effective date
Amendments to IFRS (cycle 2015-2017) – IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
Amendments to references to the IFRS Framework	1 January 2020
Amendments to IFRS 3 "Business combinations" – Definition of a business	1 January 2020
Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors"	1 January 2020
IFRS 17 "Insurance contracts"	1 January 2021

(in millions of PLN) (translation of a document originally issued in Polish)

1.4 Corrections of prior period errors

The amount of provisions for employee benefits is calculated by an independent actuarial company using the forecasted individual benefits method. As at 31 December 2018, the Parent Company discovered that during previous periods the calculation of provisions for jubilee bonuses and retirement and disability pension severance pays was based on incorrect periods of the duration of employment with railroad companies, which duration is an input for the calculation and payment of such benefits. Accordingly, the Parent Company remeasured its provisions for jubilee bonuses and retirement and disability pension severance pays, taking into account the correct assumptions regarding the duration of employment and correcting the numbers recognized in previous years correspondingly.

The effect of restatement of the statement of financial position and the statement of profit or loss and other comprehensive income is described in **Note 1.5**. Information disclosed in the additional explanatory notes to the Consolidated Financial Statements was restated as appropriate.

1.5 Restatement of comparative data

Presented below is the effect of the correction of errors from previous periods and the effect of implementation of IFRS 9 and IFRS 15 on the corresponding financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2017 (audited)	Penalties resulting from sales agreements (IFRS 15)	Corrections of prior period errors	2017 (restated)
Revenues from contracts with customers	4,692.7	(3.6)	-	4,689.1
Employee benefits	(1,508.7)	-	(1.6)	(1,510.3)
Other operating revenue and (expenses)	(21.2)	3.6	-	(17.6)
Operating profit without depreciation (EBITDA)	**701.9**	**-**	**(1.6)**	**700.3**
Profit on operating activities (EBIT)	**155.0**	**-**	**(1.6)**	**153.4**
Financial income and (expenses)	(39.3)	-	1.6	(37.7)
Profit before tax	**116.5**	**-**	**-**	**116.5**
NET PROFIT	**81.7**	**-**	**-**	**81.7**
OTHER COMPREHENSIVE INCOME				
Actuarial profits / (losses) on post-employment benefits	(36.1)	-	(0,8)	(36,9)
Income tax	6.9	-	0.1	7.0
Total other comprehensive income not subject to reclassification in the financial result	**(29.2)**	-	**(0.7)**	**(29.9)**
Total other comprehensive income	**(7.2)**	**-**	**(0.7)**	**(7.9)**
TOTAL COMPREHENSIVE INCOME	**74.5**	**-**	**(0.7)**	**73.8**

(in millions of PLN) (translation of a document originally issued in Polish)

1.5 Restatement of comparative data (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2017 (audited)	Corrections of prior period errors	31/12/2017 (restated)	Effect of the implementation of IFRS 9		1/01/2018
				Measurement of investments in equity instruments	Model for impairment of financial assets	
ASSETS						
Other assets	70.4	-	70.4	(1.1)	-	69.3
Deferred tax assets	133.6	4.1	137.7	-	0.6	138.3
Total non-current assets	**4,947.4**	**4.1**	**4,951.5**	**(1.1)**	**0.6**	**4,951.0**
Trade receivables	687.0	-	687.0	-	(3.3)	683.7
Total current assets	**1,694.2**	**-**	**1,694.2**	**-**	**(3.3)**	**1,690.9**
TOTAL ASSETS	**6,641.6**	**4.1**	**6,645.7**	**(1.1)**	**(2.7)**	**6,641.9**
EQUITY AND LIABILITIES						
Other items of equity	4.8	(6.4)	(1.6)	(12.9)	-	(14.5)
Retained earnings	411.4	(11.1)	400.3	11.8	(2.7)	409.4
Total equity	**3,334.7**	**(17.5)**	**3,317.2**	**(1.1)**	**(2.7)**	**3,313.4**
Provisions for employee benefits	558.6	17.1	575.7	-	-	575.7
Total long-term liabilities	**2,093.8**	**17.1**	**2,110.9**	**-**	**-**	**2,110.9**
Provisions for employee benefits	104.0	4.5	108.5	-	-	108.5
Total short-term liabilities	**1,213.1**	**4.5**	**1,217.6**	**-**	**-**	**1,217.6**
Total liabilities	**3,306.9**	**21.6**	**3,328.5**	**-**	**-**	**3,328.5**
						-
TOTAL EQUITY AND LIABILITIES	**6,641.6**	**4.1**	**6,645.7**	**(1.1)**	**(2.7)**	**6,641.9**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	1/01/2017 (audited)	Corrections of prior period errors	1/01/2017 (restated)
ASSETS			
Deferred tax assets	107.6	3.9	111.5
Total non-current assets	**4,960.3**	**3.9**	**4,964.2**
TOTAL ASSETS	**6,508.2**	**3.9**	**6,512.1**
EQUITY AND LIABILITIES			
Other items of equity	11.4	(5.7)	5.7
Retained earnings	330.3	(11.1)	319.2
Total equity	**3,260.2**	**(16.8)**	**3,243.4**
Provisions for employee benefits	525.6	16.5	542.1
Total long-term liabilities	**2,076.1**	**16.5**	**2,092.6**
Provisions for employee benefits	99.3	4.2	103.5
Total short-term liabilities	**1,171.9**	**4.2**	**1,176.1**
Total liabilities	**3,248.0**	**20.7**	**3,268.7**
TOTAL EQUITY AND LIABILITIES	**6,508.2**	**3.9**	**6,512.1**

(in millions of PLN) (translation of a document originally issued in Polish)

1.5 Restatement of comparative data (cont.)

CONSOLIDATED STATEMENT OF CASH FLOWS

	2017 (audited)	Corrections of prior period errors	2017 (restated)
Cash flow from operating activities			
Profit before tax	**116.5**	**-**	**116.5**
Adjustments			
Movement in working capital	0.8	0.8	1.6
Other adjustments	(36.1)	(0.8)	(36.9)
Net cash on operating activities	**600.7**	**-**	**600.7**
Net increase / (decrease) in cash and cash equivalents	(238.7)	-	(238.7)
Cash and cash equivalents as at the beginning of the reporting period	755.9	-	755.9
Impact exerted by FX rate movements on the cash balance in foreign currencies	(0.4)	-	(0.4)
Cash and cash equivalents as at the end of the reporting period	**516.8**	**-**	**516.8**

2. Notes to the statement of profit or loss and other comprehensive income

2.1 Revenues from contracts with customers

Accounting policy applied

The Group 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 consideration expected to be payable to the Group in return. Revenue from contracts with customers is disclosed at fair value of the payment received or due less VAT, refunds, rebates and discounts.

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

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

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

The Group 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 consideration 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 Group by the client in the event of failure to transport the ordered freight volume.

The Group estimates the value of variable consideration 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.

Contract assets

The Group recognizes in its statement of financial position a contract asset constituting the Group's right to consideration in return for goods or services that the Group 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 that have not yet been invoiced but reflect services that have been completed or are in the process of being provided.

(in millions of PLN) (translation of a document originally issued in Polish)

2.1 Revenues from contracts with customers (cont.)

Accounting policy applied

Contract liabilities

The Group recognizes in its statement of financial position a contract liability constituting the Group's obligation to transfer goods or services to the customer in return for which the Group has obtained consideration (or the amount of consideration is due) from the customer. The Group recognizes a contract liability mainly in connection with consideration received in advance for services that have not yet been provided by the Group.

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 Group 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 undertakings,
- from reclamation and construction works that are currently in the process of acceptance by the client or, in accordance with the contract, the stage of works that would enable invoicing has not yet been achieved. The Group measures revenue based on the scope of work performed as at the balance sheet date and the rates resulting from contracts / orders.

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

Structure of revenues from contracts with customers

The Group 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 Parent Company's Management Board does not evaluate the Group'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 Group's operating segments. The Management Board of the Parent Company analyses financial data in the layout in which they have been presented in these Consolidated Financial Statements.

The data for the 12 months ended 31 December 2017 in this note have been restated in connection with the retrospective application of IFRS 15, as described in **Note 1.3** to these Consolidated Financial Statements.

2018	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation and freight forwarding services	444.4	6.0	993.0	2,897.4	4,340.8
Revenue from other transportation activity	-	-	2.1	184.5	186.6
Revenue from siding and traction services	0.4	7.7	104.9	135.7	248.7
Revenue from transhipment services	0.3	-	1.3	130.3	131.9
Revenue from reclamation services	-	1.8	-	87.1	88.9
Revenue from sales of goods and raw materials	-	-	1.8	62.8	64.6
Revenue from lease of assets and other revenue	1.8	8.7	6.1	104.9	121.5
Total	**446.9**	**24.2**	**1,109.2**	**3,602.7**	**5,183.0**
Revenue recognition date					
At a point of time	-	-	1.8	83.1	84.9
Over a period	446.9	24.2	1,107.4	3,519.6	5,098.1
Total	**446.9**	**24.2**	**1,109.2**	**3,602.7**	**5,183.0**

(in millions of PLN) (translation of a document originally issued in Polish)

2.1 Revenues from contracts with customers (cont.)

2017	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation and freight forwarding services	508.5	8.3	857.0	2,568.4	3,942.2
Revenue from other transportation activity	-	0.5	2.0	165.4	167.9
Revenue from siding and traction services	-	17.1	89.9	132.9	239.9
Revenue from transhipment services	-	-	1.0	81.3	82.3
Revenue from reclamation services	-	0.6	-	76.4	77.0
Revenue from sales of goods and raw materials	-	2.5	-	49.3	51.8
Revenue from lease of assets and other revenue	2.2	9.8	15.1	100.9	128.0
Total	**510.7**	**38.8**	**965.0**	**3,174.6**	**4,689.1**
Revenue recognition date					
At a point of time	-	2.5	-	73.7	76.2
Over a period	510.7	36.3	965.0	3,100.9	4,612.9
Total	**510.7**	**38.8**	**965.0**	**3,174.6**	**4,689.1**

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

The following tables present revenues related to unfulfilled (or partially unfulfilled) performance commitments as at the end of the financial year that the Group expects to recognize in the future:

	31/12/2018			31/12/2017		
	Rail sidings	Reclamation services	Total	Rail sidings	Reclamation services	Total
up to 1 year	48.6	41.6	90.2	34.0	3.0	37.0
1 to 3 years	54.8	15.9	70.7	30.4	1.6	32.0
over 3 years	-	0.5	0.5	3.2	-	3.2
Total	**103.4**	**58.0**	**161.4**	**67.6**	**4.6**	**72.2**

In accordance with IFRS 15.121, in the case of other executed commercial agreements, the Group 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 Group has the right to recognize revenue in the invoiced amount.

Geography

The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity.

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

	2018	2017
Poland	3,658.4	3,326.7
Czech Republic	626.4	589.2
Germany	293.9	242.3
Slovakia	159.1	115.5
Italy	70.5	83.2
France	50.6	50.7
Other countries	324.1	281.5
Total	**5,183.0**	**4,689.1**

Non-current assets net of financial instruments and deferred tax assets broken down by location

	2018	2017
Poland	4,310.7	3,984.0
Czech Republic	727.7	804.8
Other countries	4.9	12.6
Total	**5,043.3**	**4,801.4**

(in millions of PLN) (translation of a document originally issued in Polish)

2.1 Revenues from contracts with customers (cont.)

Information on key customers

In the financial year ended 31 December 2018, the Group's revenue from any single Group client did not exceed 10% of the total revenues from agreements with clients. In the financial year ended 31 December 2017, sales to one group exceeded 10% and accounted for 10.9% of the total revenue from contracts with customers.

Assets from contracts with customers

	2018	2017
As at the beginning of the reporting period	**43.6**	**27.8**
Recognition of revenue before the payment due date	37.2	43.6
Reclassification to receivables	(43.7)	(27.8)
As at the end of the reporting period	**37.1**	**43.6**

Liabilities from contracts with customers

	2018	2017
As at the beginning of the reporting period	**5.2**	**10.2**
Recognition of revenues:		
From the opening balance of liabilities from contracts with customers	(5.2)	(10.2)
From liabilities from contracts with customers recognized during the period	-	(6.9)
Payment received or due in advance	1.6	12.1
As at the end of the reporting period	**1.6**	**5.2**

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	2018	2017
Consumption of traction fuel	(210.6)	(170.1)
Consumption of traction electricity	(404.5)	(374.7)
Total	**(615.1)**	**(544.8)**

Other services

	2018	2017
Repair services	(64.9)	(53.3)
Rent and fees for the use of real properties and rolling stock	(216.6)	(168.9)
Telecommunications services	(6.4)	(7.5)
Legal, consulting and similar services	(16.1)	(22.7)
IT services	(44.2)	(45.2)
Maintenance and operation services for facilities and fixed assets	(32.1)	(30.0)
Transhipment services	(20.0)	(21.7)
Reclamation services	(75.0)	(51.2)
Other services	(54.3)	(50.1)
Total	**(529.6)**	**(450.6)**

Employee benefits

	2018	2017
Payroll	(1,246.2)	(1,137.5)
Social security expenses	(266.0)	(244.6)
Expenses for contributions to the Company Social Benefits Fund	(22.3)	(24.4)
Other employee benefits during employment	(40.9)	(41.0)
Post-employment benefits	(6.6)	(6.0)
Movement in provisions for employee benefits	(69.4)	(56.8)
Total	**(1,651.4)**	**(1,510.3)**

(in millions of PLN) (translation of a document originally issued in Polish)

2.2 Operating expenses (cont.)

Other expenses

	2018	2017
Consumption of non-traction fuel	(22.5)	(21.6)
Consumption of electricity, gas and water	(36.7)	(38.0)
Consumption of materials	(106.2)	(100.4)
Taxes and charges	(27.6)	(39.0)
Cost of goods and raw materials sold	(45.1)	(39.1)
Business trips	(33.5)	(32.1)
Other	(27.3)	(27.1)
Total	**(298.9)**	**(297.3)**

Depreciation, amortization and impairment losses

	2018	2017
Depreciation of rolling stock	(461.7)	(479.5)
Depreciation of other property, plant and equipment	(80.3)	(77.2)
Amortization of intangible assets	(16.8)	(17.5)
Recognized / (reversed) impairment losses:		
Rolling stock	(69.0)	27.5
Other property, plant and equipment	(1.6)	(0.2)
Total	**(629.4)**	**(546.9)**

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	2018	2017
Profit on disposal		
Profit on sales of non-financial non-current assets	5.8	6.9
Reversed impairment losses		
Trade receivables	14.8	5.2
Other		
Penalties and compensations	18.2	17.0
Reversal of other provisions	3.3	6.2
Interest on trade and other receivables	5.6	4.2
Net result on FX differences on trade receivables and payables	2.1	-
Other	4.7	4.4
Total other operating revenue	**54.5**	**43.9**
Impairment losses recognized		
Trade receivables	(11.8)	(11.4)
Other		
Penalties and compensations	(8.4)	(12.5)
Costs of liquidation of non-current and current assets	(4.5)	(3.6)
Other provisions	(8.2)	(20.5)
Net result on FX differences on trade receivables and payables	-	(7.4)
Other	(7.5)	(6.1)
Total other operating expenses	**(40.4)**	**(61.5)**
Other operating revenue and (expenses)	**14.1**	**(17.6)**

The data for the year ended 31 December 2017 have been restated in connection with the retrospective application of IFRS 15, as described in **Note 1.3** and **1.5** to these Consolidated Financial Statements.

(in millions of PLN) (translation of a document originally issued in Polish)

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2018	2017
Interest income	10.6	10.0
Dividend income on shares and stocks	0.3	0.3
Other		
Profit on sales of shares and stocks	5.0	-
Net result on FX differences	-	5.1
Other	0.1	4.8
Total financial revenue	**16.0**	**20.2**
Interest expenses	(33.3)	(36.3)
Other		
Settlement of the discount on provisions for employee benefits	(19.4)	(19.1)
Net result on FX differences	(1.6)	-
Other	(3.7)	(2.5)
Total financial expenses	**(58.0)**	**(57.9)**
Financial revenue and (expenses)	**(42.0)**	**(37.7)**

The data for the 12 months ended 31 December 2017 have been restated in connection with the correction of errors from previous periods, as described in **Notes 1.4** and **1.5** to these Consolidated Financial Statements.

3. 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 burden 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, expenses which temporarily do not represent tax deductible revenue and those expenses and revenue that will not be subject to taxation. Tax burden is calculated based on the tax rates applicable in the given financial year.

Deferred income tax is recognized with respect to temporary differences between the tax base of an asset or liability and the corresponding carrying amount. Deferred tax liabilities are recognized with respect to 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 income tax assets and liabilities are subject to set-off in the case of existence of an enforceable legal title to set off deferred tax assets against deferred tax liabilities, and provided that such deferred 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

On 29 September 2016, the companies of the PKP CARGO Group signed an agreement on the establishment of a tax group (hereinafter referred to as the "Tax Group") for the period of three fiscal years starting from 1 January 2017. The Tax Group consists of:

- PKP CARGO S.A. as the company representing the Tax Group,
- PKP CARGO SERVICE Sp. z o.o.,
- PKP CARGOTABOR Sp. z o.o.,
- PKP CARGOTABOR USŁUGI Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.,
- PKP CARGO CONNECT Sp. z o.o.

according to EU IFRS (in millions of PLN)

3.1 Income tax (cont.)

PKP CARGO S.A. is the parent of the Tax Group and represents the Tax Group with respect to the obligations provided for in the CIT Act and the Tax Ordinance Act.

In accordance with the CIT Act, the tax groups are treated as separate CIT payers. Thus, the companies of the Tax Group lose their separate identity for the purposes of CIT for the benefit of the Tax Group as a whole. The taxable income of the Tax Group shall consist of the Tax Group total income calculated as surplus of the total amount of income of all companies of the Tax Group over the sum of their losses. The individual identity of the Tax Group pertains solely to corporate income tax, and should not be understood as tantamount to a separate legal identity. Also, it does not affect the payment of any other taxes.

The companies of the Tax Group must meet a number of requirements such as, inter alia, appropriate value of equity, share of the Tax Group representative in equities of the Tax Group companies, lack of tax arrears, achieving specific level of profitability and execution of transactions with companies out of the Tax Group on an arm's length basis only. Any breach of the above requirements shall entail dissolution of the tax group and loss of its tax payer status. As at 31 December 2018, the Tax Group satisfied the above requirements.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The Group recognizes deferred tax assets assuming that the future taxable income will enable utilization of such deferred tax assets. According to the long-term financial forecasts developed by the Group, 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.

Income tax recognized in profit / loss

	2018	2017
Current income tax		
Current tax liability	(70.0)	(58.2)
Adjustments posted in the current year relating to tax from previous years	(1.6)	(0.1)
Deferred tax		
Deferred income tax of the reporting period	11.7	23.5
Income tax recognized in profit / loss	**(59.9)**	**(34.8)**

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 Group's tax settlements may be increased by additional tax liabilities.

Deferred income tax recognized in other comprehensive income

	2018	2017
Deferred tax on the measurement of hedging instruments	4.4	(5.3)
Deferred tax on actuarial earnings / (losses) pertaining to employee benefits	2.5	7.0
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income	(2.4)	0.3
Deferred income tax recognized in other comprehensive income	**4.5**	**2.0**

(in millions of PLN) (translation of a document originally issued in Polish)

3.1 Income tax (cont.)

Reconciliation of the effective tax rate

	2018	2017
Profit before tax	**243.8**	**116.5**
Income tax expense at 19%	(46.3)	(22.1)
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Reversal of non-tax provisions and impairment losses	0.4	0.4
Valuation under the equity method	0.7	0.2
Valuation of the liabilities arising out put option	-	0.9
Recovered VAT	1.7	0.8
Other	0.6	0.5
Tax effect of non-deductible expenses arising from tax regulations, including:		
PFRON disability fund	(4.8)	(4.4)
Establishment of non-tax provisions and impairment losses	(0.2)	(1.4)
Permanent differences in expenses related with property, plant and equipment	(5.4)	(3.3)
Representation expenses	(0.9)	(0.8)
Penalties and compensations	(1.2)	(1.0)
Value added tax and other public law liabilities	(1.1)	(1.8)
IT expenses above the limit	(2.3)	-
Other	(3.3)	(1.3)
Effect of tax losses used in a period in which deferred tax was not recognized	**3.6**	**-**
Effect of the establishment/(reversal) of a deferred tax asset charge on tax losses	**(0.9)**	**(1.1)**
Effect of application of various tax rates	**(0.1)**	**(0.3)**
Adjustments disclosed in the current year with reference to past years' tax	**(0.4)**	**(0.1)**
Income tax recognized in profit / loss	**(59.9)**	**(34.8)**
Effective tax rate	**24.6%**	**29.9%**

The corporate income tax rate effective in Poland in the years 2017 - 2018 amounted to 19%. In the case of the AWT Group companies, the relevant tax rates were as follows: 19% in the Czech Republic and 10% in Hungary.

Balance of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset at the level of the financial statements of each Group company. Accordingly, the following values are presented in these Consolidated Financial Statements:

	31/12/2018	31/12/2017
Deferred tax assets	135.6	137.7
Deferred tax liabilities	(88.5)	(107.4)
Total	**47.1**	**30.3**

(in millions of PLN) (translation of a document originally issued in Polish)

3.1 Income tax (cont.)

Movements in deferred tax before the set-off

2018	31/12/2017 (audited)	Corrections of prior period error and effect of the implementation of IFRS 9	1/01/2018 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2018
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non- current assets	(144.1)	-	(144.1)	13.4	-	(2.7)	**(133.4)**
Other provisions and liabilities	9.5	-	9.5	1.2	-	0.1	**10.8**
Inventories	(1.9)	-	(1.9)	(2.2)	-	-	**(4.1)**
Trade receivables	4.1	0.6	4.7	(1.1)	-	-	**3.6**
Provisions for employee benefits	125.7	4.1	129.8	1.6	2.5	0.1	**134.0**
Other	(4.3)	-	(4.3)	0.2	4.4	-	**0.3**
Unused tax losses	37.2	-	37.2	(1.4)	-	0.1	**35.9**
Total	**26.2**	**4.7**	**30.9**	**11.7**	**6.9**	**(2.4)**	**47.1**

As at 31 December 2018, deferred tax assets on account of tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 139.7 million and of the subsidiaries in the amount of PLN 48.4 million. It will be possible to deduct tax losses in the amount of PLN 167.1 million within five fiscal years following the end of operation of the Tax Group. Other tax losses may be deducted within five fiscal years following the establishment of the Tax Group. According to the Parent Company Management Board, the risk as at 31 December 2018 that it will be impossible to realize the above assets is low.

2017	1/01/2017 (audited)	Corrections of prior period error	1/01/2017 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2017
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non- current assets	(183.0)	-	(183.0)	38.6	-	0.3	**(144.1)**
Other provisions and liabilities	17.4	-	17.4	(7.9)	-	-	**9.5**
Inventories	0.9	-	0.9	(2.8)	-	-	**(1.9)**
Trade receivables	3.8	-	3.8	0.3	-	-	**4.1**
Provisions for employee benefits	118.5	3.9	122.4	0.4	7.0	-	**129.8**
Other	2.5	-	2.5	(1.5)	(5.3)	-	**(4.3)**
Unused tax losses	40.8	-	40.8	(3.6)	-	-	**37.2**
Total	**0.9**	**3.9**	**4.8**	**23.5**	**1.7**	**0.3**	**30.3**

(in millions of PLN) (translation of a document originally issued in Polish)

3.1 Income tax (cont.)

Tax loss not recognized in calculation of deferred tax assets

The amount of tax losses not included in the calculation of deferred tax asset results from tax losses generated by the following companies:

	31/12/2018	31/12/2017
AWT CE s.r.o.	20.2	59.1
AWT a.s.	-	27.4
AWT Rail HU Zrt.	22.1	17.9
AWT Cechofracht a.s.	9.2	-
PKP CARGOTABOR USŁUGI Sp. z o.o.	7.5	7.5
CARGOSPED Terminal Braniewo Sp. z o.o.	1.6	1.6
Total	**60.6**	**113.5**

In the financial year ended 31 December 2018, in connection with the registration of a change in the registered office of AWT CE s.r.o., the company lost the possibility of settling tax losses in the amount of PLN 43.2 million.

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2018

Year	2019	2020	2021	2022	2023	2024 and later on	Total
Unused tax losses	5.5	7.9	15.1	13.1	9.1	9.9	**60.6**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2017

Year	2018	2019	2020	2021	2022	2023 and later on	Total
Unused tax losses	2.2	20.9	19.9	36.7	12.5	21.3	**113.5**

4. 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 minus the incurred transaction costs. After initial recognize, loans and borrowings are carried according to amortized cost using the effective interest rate method.

The Group classifies lease agreements as finance lease if, under the concluded agreement, basically all the potential benefits and risk attributable to holding of a leased object are incurred by the lessee. Any other types of lease are treated as operating lease.

Lease payments are divided into interest part and lease liability reduction, in order to obtain fixed periodic interest rate for the remaining balance of the liability in every period. Financial expenses are referred directly to the profit and loss statement unless they may be assigned directly to relevant assets – in such case, they are capitalized.

The Group's debt liabilities consist of the following two main categories: bank loans and borrowings and finance leases. Loan agreements were entered into mainly for the purposes of financing the investment and acquisition plan. The agreements were entered into for a period in excess of 5 years. The repayment of contracted obligations resulting from the executed loan agreements is made in PLN, EUR and CZK. As at 31 December 2018, the Group was using the main rolling stock components, vehicles and IT hardware under the finance lease agreements in effect. The agreements that are currently in effect were concluded for the term from 3 to 10 years in PLN, EUR and CZK. The collateral established to secure the repayment of liabilities is described in **Note 7.5**.

Items in foreign currencies

31/12/2018	In the functional currency – PLN	In foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	774.8	506.9	50.1	**1,331.8**
Finance leases	54.5	35.8	4.9	**95.2**
Total	**829.3**	**542.7**	**55.0**	**1,427.0**
Variable-interest-rate liabilities	828.5	472.8	50.1	**1,351.4**
Fixed-interest-rate liabilities	0.8	69.9	4.9	**75.6**
Total	**829.3**	**542.7**	**55.0**	**1,427.0**

(in millions of PLN) (translation of a document originally issued in Polish)

4.1 Reconciliation of debt liabilities (cont.)

31/12/2017	In the functional currency – PLN	In foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	967.3	546.3	48.7	**1,562.3**
Finance leases	64.1	67.3	7.7	**139.1**
Total	**1,031.4**	**613.6**	**56.4**	**1,701.4**
Variable-interest-rate liabilities	1,030.5	523.4	48.7	**1,602.6**
Fixed-interest-rate liabilities	0.9	90.2	7.7	**98.8**
Total	**1,031.4**	**613.6**	**56.4**	**1,701.4**

Reconciliation of debt liabilities

2018	Bank loans and borrowings	Finance leases	Total
1/01/2018	**1,562.3**	**139.1**	**1,701.4**
Obtained debt	0.3	0.8	**1.1**
Transaction costs	1.6	-	**1.6**
Accrual of interest	25.6	5.8	**31.4**
Payments under debt, including:			
Repayments of the principal	(248.6)	(46.7)	**(295.3)**
Interest paid	(25.6)	(5.8)	**(31.4)**
Transaction costs	(1.6)	-	**(1.6)**
FX valuation	15.4	1.0	**16.4**
FX differences resulting from translation of foreign entities	2.4	1.0	**3.4**
31/12/2018	**1,331.8**	**95.2**	**1,427.0**
Long-term	1,083.2	73.3	**1,156.5**
Short-term	248.6	21.9	**270.5**
Total	**1,331.8**	**95.2**	**1,427.0**

2017	Bank loans and borrowings	Finance leases	Other	Total
1/01/2017	**1,471.4**	**200.4**	**118.7**	**1,790.5**
Obtained debt	366.3	3.9	-	**370.2**
Transaction costs	1.7	-	-	**1.7**
Accrual of interest	28.1	6.1	-	**34.2**
Payments under debt, including:				
Repayments of the principal	(255.2)	(59.6)	-	**(314.8)**
Interest paid	(28.1)	(6.1)	-	**(34.2)**
Transaction costs	(1.7)	-	-	**(1.7)**
Profits / (losses) from revaluation of liability on account of the put option for non-controlling interest	-	-	(4.7)	**(4.7)**
Settlement of the "put" option for non-controlling interest	-	-	(114.0)	**(114.0)**
FX valuation	(19.5)	(5.7)	-	**(25.2)**
FX differences resulting from translation of foreign entities	(0.7)	0.1	-	**(0.6)**
31/12/2017	**1,562.3**	**139.1**	**-**	**1,701.4**
Long-term	1,312.6	91.1	-	**1,403.7**
Short-term	249.7	48.0	-	**297.7**
Total	**1,562.3**	**139.1**	**-**	**1,701.4**

(in millions of PLN) (translation of a document originally issued in Polish)

4.1 Reconciliation of debt liabilities (cont.)

Net debt

	31/12/2018	31/12/2017
Bank loans and borrowings	1,331.8	1,562.3
Finance leases	95.2	139.1
Total debt	**1,427.0**	**1,701.4**
Cash and cash equivalents	(447.3)	(516.8)
Deposits above 3 months	(201.1)	(253.8)
Total net debt	**778.6**	**930.8**
EBITDA	907.0	700.3
Net debt / EBITDA	**0.9**	**1.3**

Net debt is construed by the Group as the sum of bank loans, borrowings and lease liabilities minus cash and cash equivalents and deposits longer than 3 months.
EBITDA is defined in the statement of profit or loss and other comprehensive income as operating profit plus depreciation and impairment losses. The Parent Company's Management Board perceives EBITDA as a key performance measure.
Net debt / EBITDA is one of the key indicators taken into consideration by the Parent Company's Management Board in analysing financial liquidity and creditworthiness.

Unused credit lines

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2018	31/12/2017
Investment loan	European Investment Bank	19/07/2020	EUR	70.7	68.5
Overdraft	Bank Polska Kasa Opieki S.A.	25/05/2018	PLN	-	100.0
Overdraft	PKO Bank Polski S.A.	15/07/2019	PLN	0.7	1.0
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2019	PLN	100.0	-
Total				**171.4**	**169.5**

On 24 May 2018, an overdraft facility agreement was entered into by the Parent Company with Bank Polska Kasa Opieki S.A. for up to PLN 100 million. The facility will be available for a period of 12 months until 24 May 2019, with an option to extend the availability period by an additional 12 months, i.e. until 24 May 2020.

Breach of the terms and conditions of the loan agreements
As at 31 December 2018, there were no breaches of any loan agreements.

4.2 Equity and capital management policy

Accounting policy applied
The share capital is presented in the in the consolidated financial statements at the value specified in the Parent Company's Articles of Association, regardless of the entry in the National Court Register (the 'substance over form' rule).

Share capital

	31/12/2018	31/12/2017
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 31 December 2018 and 31 December 2017, the share capital consisted of common shares with a par value of PLN 50 each. Fully paid up ordinary shares with a par value of PLN 50 are equivalent to one vote at the shareholder meeting and carry the right to a dividend.

(in millions of PLN) (translation of a document originally issued in Polish)

4.2 Equity and capital management policy (cont.)

PKP S.A. is the parent company of PKP CARGO S.A. Pursuant to the articles of association of the Parent Company, 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 Parent Company's Management Board. The personal rights of PKP S.A. shall be vested always when PKP S.A. holds at least 25% of the Parent Company's share capital.

In the financial years ended 31 December 2018 and 31 December 2017, there were no movements in the share capital of the Parent Company.

Supplementary capital

	31/12/2018	31/12/2017
Share premium (agio)	201.3	201.3
Distribution of profit (established pursuant to statutory regulations)	56.2	48.7
Distribution of profit (established in excess statutory value)	230.7	229.3
Capital formed from retirement of shares	140.0	140.0
Total	**628.2**	**619.3**

Pursuant to the requirements of the Commercial Company Code, entities with the status of joint-stock companies are obligated to establish supplementary capital to cover losses. Transfers to supplementary capital should be at least 8% of the earnings for a given financial year as stated in the Company's standalone financial statements, until the amount of capital reaches at least one third of the entity's share capital. The use of supplementary capital is decided upon by the Shareholder Meeting, however the portion of the supplementary capital representing one third of the share capital may only be used to cover a loss shown in the standalone financial statements and must not be set aside for other purposes. The amount to be divided among the shareholders may be increased by undistributed earnings from previous years and amounts transferred from the supplementary capital established from earnings.

Agio is the share premium of the Parent Company transferred to supplementary capital without possibility of paying the dividend.

The capital established from retirement of shares was created as a result of reduction of the Parent Company's share capital in 2013 earmarked for coverage of losses.

In the financial year ended 31 December 2018, changes in the Group's supplementary capital resulted from a resolution of 13 June 2018 adopted by the Ordinary Shareholder Meeting of PKP CARGO S.A. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 7.5 million, and a resolution of 29 June 2018 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 0.8 million and resolution of 29 May 2018 adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. in the matter of a partial allocation of the 2017 net profit of PLN 0.6 million to supplementary capital.

Retained earnings
The Group's retained earnings include:
a) profit or loss of the current year,
b) undistributed earnings and uncovered losses from previous years,
c) differences attributable to transition to EU IFRS.

On 13 June 2018, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted a resolution on the distribution of the net profit earned in 2017 of PLN 94.0 million as follows:
a) allocate PLN 7.5 million to increase the supplementary capital,
b) allocate PLN 86.5 million to cover losses carried forward.

As at 1 January 2018, the line item "retained earnings" has been restated in connection with the implementation of IFRS 9 and correction of previous period errors, as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

As at the moment of approval of these Consolidated Financial Statements, the Parent Company's Management Board has not adopted any resolution on the distribution of net profit generated in 2018.

(in millions of PLN) (translation of a document originally issued in Polish)

4.2 Equity and capital management policy (cont.)

Equity management

In accordance with the adopted policy and assumptions following from the bank loans concluded by the Group companies, the Group 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 Group as at the end of each quarter. The main objective of equity management in the Group is to ensure the ability to continue operations, create value for shareholders and benefits for other stakeholders. The assumed capital structure can be ensured through: issue of new shares, sale of assets, return of capital to the shareholders or adjustment of the dividend amount.

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

	31/12/2018	31/12/2017
Total liabilities	3,322.8	3,328.5
Total balance sheet	6,806.3	6,645.7
Total debt ratio	49%	50%

4.3 Liquidity risk management

The Group may be exposed to liquidity risk following from the ratio of current assets to short-term liabilities. To ensure an additional source of funds required to secure its short-term liquidity the Group had current account overdraft facilities. Additionally, to secure its long-term liquidity, the Group used investment loans and leases (financing of capital expenditures). As at 31 December 2018, the Group had in aggregate unused credit facilities in the amount of PLN 171.4 million.

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

31/12/2018	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	77.9	216.4	852.1	365.9	**1,512.3**	**1,427.0**
Trade payables	495.7	3.7	0.5	-	**499.9**	**499.9**
Investment liabilities	156.1	23.2	110.1	3.1	**292.5**	**287.4**
Derivative instruments – FX forwards	-	0.1	0.1	-	**0.2**	**0.2**
Total	**729.7**	**243.4**	**962.8**	**369.0**	**2,304.9**	**2,214.5**

31/12/2017	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	92.0	234.9	936.2	549.6	**1,812.7**	**1,701.4**
Trade payables	445.8	-	1.3	-	**447.1**	**447.2**
Investment liabilities	79.0	0.1	-	-	**79.1**	**79.1**
Derivatives	0.2	0.1	-	-	**0.3**	**0.3**
Total	**617.0**	**235.1**	**937.5**	**549.6**	**2,339.2**	**2,228.0**

(in millions of PLN) (translation of a document originally issued in Polish)

4.4 Cash and cash equivalents

Accounting policy applied

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

Structure of cash and cash equivalents

	31/12/2018	31/12/2017
Cash on hand and on bank accounts	204.6	172.1
Bank deposits up to 3 months	242.7	344.7
Total	**447.3**	**516.8**
including restricted cash	*39.6*	*35.4*

The decrease in the value of bank deposits with a maturity of up to 3 months was attributable mainly to the repayment of liabilities on account of the purchase of non-financial non-current assets. Detailed information in this respect is presented in the consolidated statement of cash flows. The Group estimated the provisions for cash and deposits, based on the probability of default, determined using external ratings of banks keeping the cash / deposits and publicly available information from credit rating agencies on the probability of default. The Group chose not to recognize an impairment loss due to its immateriality. Restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.

4.5 Notes to the statement of cash flows

Movement in working capital

2018	Movement in statement of financial position	Effect of the implementation of IFRS 9	Movement in tax settlements	Net cash flow from investing activities	Net cash flow from financing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(13.2)	-	-	5.4	-	-	(7.8)
Trade receivables	3.5	(3.3)	-	(1.4)	-	(0.3)	(1.5)
Other assets	(22.6)	(1.1)	2.9	7.5	-	(18.4)	(31.7)
Provisions	18.0	-	-		-	-	18.0
Trade payables	52.7	-	-	-	-	0.1	52.8
Investment liabilities	208.3	-	-	(173.3)	-	-	35.0
Other liabilities	8.6	-	1.3	8.8	(5.1)	-	13.6
Total	**255.3**	**(4.4)**	**4.2**	**(153.0)**	**(5.1)**	**(18.6)**	**78.4**

2017	Movement in statement of financial position	Movement in tax settlements	Net cash flow from investing activities	Net cash flow from financing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(27.3)	-	30.4	-	-	3.1
Trade receivables	(72.8)	-	(4.7)	-	(0.8)	(78.3)
Other assets	(9.8)	(2.7)	6.7	-	(29.8)	(35.6)
Provisions	69.4	-	-	-	-	69.4
Trade payables	69.9	-	-	-	0.1	70.0
Investment liabilities	32.7	-	(32.9)	-	-	(0.2)
Other liabilities	(23.8)	(0.3)	2.0	(4.7)	-	(26.8)
Total	**38.3**	**(3.0)**	**1.5**	**(4.7)**	**(30.5)**	**1.6**

(in millions of PLN) (translation of a document originally issued in Polish)

4.5 Notes to the statement of cash flows (cont.)

Other adjustments

	2018	2017
Actuarial profits / (losses) on employee benefits recognized in other comprehensive income	(13.2)	(36.9)
Measurement of hedging instruments	(8.4)	12.7
(Profit) / loss on the sale and liquidation of non-financial non-current assets	(3.2)	(4.6)
Result on the sale of entities measured by the equity method	(4.5)	-
(Profit) / loss on investing activities	(4.1)	0.2
FX differences resulting from translation of financial statements	0.3	0.4
Other	(2.3)	(8.7)
Other adjustments in the cash flow statement	**(35.4)**	**(36.9)**

Non-cash transactions

In the 12-month period ended 31 December 2018 and 31 December 2017, major non-financial transactions concerning investing and financial activity which were not reflected in the cash flow statement were as follows:

- Offsetting mutual settlements

In 2018, the Group offset trade receivables with liabilities arising from the purchase of non-financial non-current assets. The total amount of offsets in 2018 amounted to PLN 1.4 million, whereas in 2017 it was PLN 4.7 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 2018, the residual value of fixed assets reclassified to inventories was PLN 5.4 million, compared to PLN 30.4 million in 2017.

- Purchase of asset components in the form of finance lease

In the 12-month period ended 31 December 2018, the Group, under executed finance lease agreements, purchased fixed assets worth PLN 0.8 million. In the 12-month period ended 31 December 2017, the value of fixed assets acquired under finance lease agreements was PLN 3.4 million.

5. Notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Accounting policy applied

Under property, plant and equipment, the Group recognizes rolling stock, real properties (land, buildings and structures) and other items of property, plant and equipment. Property, plant and equipment are measured at purchase price or production cost reduced by depreciation and impairment losses. The initial value of property, plant and equipment consists of their acquisition cost or cost of production, along with any import duties, non-refundable purchase taxes, less any rebates and discounts, plus any costs directly attributable to preparing the asset for its intended use and, if applicable, the costs of external financing, less any subsidies. Government subsidies 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.

Assets used based on a finance lease agreement (where all the risks and benefits are in principle transferred onto the Group) are treated as the Group's assets and measured at fair value at the moment of purchase but not higher than the current value of minimum lease fees.

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 Group 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 Group 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.

(in millions of PLN) (translation of a document originally issued in Polish)

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

Accounting policy applied

Repairs and inspections

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 Group 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.

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

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 Group changes the residual value if it has a material impact on the Group's financial statements.

Depreciation of property, plant and equipment

The Group applies 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.

Assets used under finance lease agreements are depreciated over their expected useful lives on the same basis as owned assets. If it is not certain that the ownership will be transferred after the lease term, the assets are depreciated over the lease term or useful life of the asset, whichever is shorter.

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 Group applies the following economic useful lives for particular groups of non-current assets:

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

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

Accounting policy applied

Impairment of property, plant and equipment

At each balance sheet date, the Group performs an analysis of carrying amounts of owned non-current assets to determine if there are any indications of their 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 and impairment losses”.

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

MATERIAL VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

The Group 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 2018 did not reveal the need to correct the previously applied depreciation rates.

Residual value of the rolling stock

As at 31 December 2018, the Group verified the residual value of its rolling stock. As a result of this verification, the Group decided to update the residual value of its rolling stock without valid technical railworthiness certificates, yet this change did not have a material impact on the value of the impairment loss on rolling stock. In respect of the other rolling stock items, the Group did not update their residual value, because the change did not have a material impact on the Group’s financial statements in the current period or in the subsequent periods.

Impairment of non-current assets

In the second quarter of 2018, certain redundant rolling stock assets were identified as part of the optimization processes executed in the AWT Group. After the analysis and taking into account the effects of the optimization processes an impairment loss on the redundant rolling stock assets was recognized in the amount of PLN 18 million.

As at 31 December 2018, the Group performed impairment tests with respect to two cash-generating units defined at the level of assets of the Parent Company and the AWT Group. The main indications of potential impairment of the Group’s selected assets were:

- the market value of the Group’s net assets continued to be lower than their carrying amount,
- significant uncertainty as to the implementation of the approved restructuring plan for the main business partner of the AWT Group and the observed changes on the Czech rail market.

Impairment tests have been performed on cash-generating units by determining their recoverable amount at the level of their value in use.

PKP CARGO S.A.

The recoverable value of analysed 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 2019-2028. In the opinion of the Parent Company’s Management Board, adopting financial projections for more than five years is reasonable because the property, plant and equipment used by the Parent Company have a considerably longer economic useful lives. Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:

a) in the whole period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 2.8% in real terms,

b) in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 13.2% in real terms,

c) the after-tax weighted average capital cost (WACC) level will be at 6.03% in real terms,

d) 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 2018, the Parent Company recognized no impairment loss for the assets.

(in millions of PLN) (translation of a document originally issued in Polish)

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

The Parent Company's Management Board did not identify any key assumptions which, when changed by reasonably expected values, would lead to impairment.

AWT GROUP

The recoverable value of analysed 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 2019-2028. In the opinion of the Group, adopting financial projections for more than five years is reasonable, because the property, plant and equipment used by the AWT 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 AWT 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 years 2022-2028 a compound annual growth rate (CAGR) of 3.8% has been assumed in nominal terms (with a 2% projected inflation rate),

c) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 7.30% in nominal terms (5.20% in real terms). The WACC calculation takes into account a premium for specific risk, including that related to the main customer undergoing a restructuring process,

d) the increase in remunerations in the residual period was on the level of 0.15% in real terms; no increase was assumed for other parameters.

As at 31 December 2018, following an impairment test, the Group recognized an impairment loss in the amount of PLN 51.2 million. Presented below is the estimated amount of impairment loss as at 31 December 2018 when changing only the following key parameters and keeping the other assumptions on a fixed level:

	AWT Group	
	- 0.3 p.p.	+ 0.3 p.p.
WACC	(41,9)	38.1
Growth after the detailed projection period	23.6	(25.9)

(in millions of PLN) (translation of a document originally issued in Polish)

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

Movement in rolling stock and other property, plant and equipment

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	**6,024.6**	**914.6**	**405.9**	**100.5**	**39.5**	**41.2**	**1,501.7**
Increases / (decreases):							
Acquisition	-	-	-	-	-	885.8	**885.8**
Finance leases		-	0.8	-	-		**0.8**
Settlement of fixed assets under construction	786.7	27.5	26.9	3.0	2.2	(846.3)	**(786.7)**
Grant for non-current assets	-	-	-	-	-	(9.2)	**(9.2)**
Sales	(27.5)	(0.9)	(1.1)	(6.1)	-	-	**(8.1)**
Liquidation	(332.1)	(0.8)	(1.9)	(0.2)	(0.1)	(0.1)	**(3.1)**
FX differences	19.5	3.3	0.9	1.0	0.1	0.5	**5.8**
Other	-	-	0.6	-	(0.6)	-	**-**
31/12/2018	**6,471.2**	**943.7**	**432.1**	**98.2**	**41.1**	**71.9**	**1,587.0**
Accumulated depreciation and amortization							
1/01/2018	**2,129.5**	**195.7**	**270.7**	**60.4**	**31.6**	**-**	**558.4**
Increases / (decreases):							
Depreciation	461.7	38.8	32.1	6.4	3.0	-	**80.3**
Sales	(5.7)	(0.3)	(1.0)	(6.0)	-	-	**(7.3)**
Liquidation	(326.0)	(0.6)	(1.6)	(0.2)	(0.1)	-	**(2.5)**
FX differences	3.9	0.5	0.3	0.2	-	-	**1.0**
Other	-	-	0.6	-	(0.6)	-	**-**
31/12/2018	**2,263.4**	**234.1**	**301.1**	**60.8**	**33.9**	**-**	**629.9**
Accumulated impairment							
1/01/2018	**144.7**	**2.7**	**0.3**	**-**	**-**	**2.7**	**5.7**
Increases / (decreases):							
Recognition	69.0	0.1	1.4	-	-	0.1	**1.6**
Sales	(3.4)	-	-	-	-	-	**-**
Liquidation	(0.6)	-	-	-	-	(0.1)	**(0.1)**
FX differences	1.1	-	-	-	-	-	**-**
31/12/2018	**210.8**	**2.8**	**1.7**	**-**	**-**	**2.7**	**7.2**
Net value							
1/01/2018	**3,750.4**	**716.2**	**134.9**	**40.1**	**7.9**	**38.5**	**937.6**
including finance lease	*246.1*	-	*10.8*	*7.0*	-	-	*17.8*
31/12/2018	**3,997.0**	**706.8**	**129.3**	**37.4**	**7.2**	**69.2**	**949.9**
including finance lease	*165.4*	-	*4.4*	*3.9*	-	-	*8.3*

(in millions of PLN) (translation of a document originally issued in Polish)

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

2017	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							
1/01/2017	**5,824.8**	**905.1**	**381.6**	**100.7**	**39.9**	**44.3**	**1,471.6**
Increases / (decreases):							
Acquisition	-	-	-	-	-	552.4	**552.4**
Finance leases	0.5	-	2.4	1.0	-	-	**3.4**
Settlement of fixed assets under construction	500.7	20.6	27.0	3.1	1.9	(553.3)	**(500.7)**
Grant for non-current assets	-	-	-	-	-	(2.2)	**(2.2)**
Sales	(0.7)	(1.6)	(1.2)	(3.8)	(0.2)	-	**(6.8)**
Liquidation	(293.0)	(5.4)	(2.8)	(0.4)	(0.3)	(0.1)	**(9.0)**
FX differences	(3.5)	(1.0)	(0.2)	-	-	-	**(1.2)**
Other	(4.2)	(3.1)	(0.9)	(0.1)	(1.8)	0.1	**(5.8)**
31/12/2017	**6,024.6**	**914.6**	**405.9**	**100.5**	**39.5**	**41.2**	**1,501.7**
Accumulated depreciation and amortization							
1/01/2017	**1,895.8**	**168.0**	**241.4**	**57.8**	**31.2**	**-**	**498.4**
Increases / (decreases):							
Depreciation	479.5	34.8	32.8	6.9	2.7	-	**77.2**
Sales	(0.2)	(0.2)	(0.9)	(3.7)	(0.2)	-	**(5.0)**
Liquidation	(241.4)	(3.5)	(2.6)	(0.4)	(0.4)	-	**(6.9)**
FX differences	(0.2)	(0.1)	-	(0.1)	-	-	**(0.2)**
Other	(4.0)	(3.3)	-	(0.1)	(1.7)	-	**(5.1)**
31/12/2017	**2,129.5**	**195.7**	**270.7**	**60.4**	**31.6**	**-**	**558.4**
Accumulated impairment							
1/01/2017	**194.4**	**4.3**	**0.3**	**-**	**-**	**2.6**	**7.2**
Increases / (decreases):							
Recognition	-	-	-	-	-	0.2	**0.2**
Derecognition	(27.5)	-	-	-	-	-	**-**
Liquidation	(20.2)	(1.6)	-	-	-	(0.1)	**(1.7)**
FX differences	(2.0)	-	-	-	-	-	**-**
31/12/2017	**144.7**	**2.7**	**0.3**	**-**	**-**	**2.7**	**5.7**
Net value							
1/01/2017	**3,734.6**	**732.8**	**139.9**	**42.9**	**8.7**	**41.7**	**966.0**
including finance lease	*310.3*	-	*8.6*	*9.4*	-	-	***18.0***
31/12/2017	**3,750.4**	**716.2**	**134.9**	**40.1**	**7.9**	**38.5**	**937.6**
including finance lease	*246.1*	-	*10.8*	*7.0*	-	-	***17.8***

(in millions of PLN) (translation of a document originally issued in Polish)

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

As at 31 December 2018 and 31 December 2017, the carrying amount of rolling stock without valid technical railworthiness certificates, for which the Group recognized an impairment loss, was PLN 367.0 million and PLN 350.0 million, respectively.

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 Parent 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.

5.2 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Nature of relationship with the Parent Company	Percent of shares held by the Group		Carrying amount	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017
COSCO Shipping Lines (POLAND) Sp. z o.o.	associate	20.0%	20.0%	0.8	0.5
Pol - Rail S.r.l	-	-	50.0%	-	8.4
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	joint venture	50.0%	50.0%	19.5	18.9
Transgaz S.A.	subsidiary	64.0%	64.0%	6.3	6.3
Trade Trans Finance Sp. z o.o.	subsidiary	100.0%	100.0%	8.1	7.9
Rentrans Cargo Sp. z o.o.	associate	29.0%	29.3%	8.1	7.9
PPHU "Ukpol" Sp. z o.o.	subsidiary	100.0%	100.0%	-	-
PKP CARGO CONNECT GmbH	subsidiary	100.0%	100.0%	1.0	0.5
AWT Rail SK a. s.	subsidiary	100.0%	100.0%	3.5	3.2
Total				**47.3**	**53.6**

Investments in entities accounted for under the equity method

	2018	2017
As at the beginning of the reporting period	**53.6**	**58.2**
Sale of shares	(8.5)	-
Share in the profit / (loss) of entities measured by the equity method	3.7	0.8
Movement in equity on account of dividends	(2.1)	(4.9)
Recognition of entities accounted for under the equity method	-	0.1
FX differences resulting from translation of financial statements	0.6	(0.6)
As at the end of the reporting period	**47.3**	**53.6**

On 14 December 2018, members of the PKP CARGO Group sold all their stakes in POL-RAIL S.r.l., as a result of which the company ceased to be a related party of the Group.

(in millions of PLN) (translation of a document originally issued in Polish)

5.2 Investments in entities accounted for under the equity method (cont.)

Summary of financial data of entities accounted for under the equity method

	31/12/2018	31/12/2017
Non-current assets	33.4	40.3
Current assets	113.1	130.4
Total assets	**146.5**	**170.7**
Long-term liabilities	0.3	3.1
Short-term liabilities	53.1	62.2
Total liabilities	**53.4**	**65.3**
Net assets	**93.1**	**105.4**
Group's shares in the net assets of the entities accounted for under the equity method	47.3	53.6
Total revenues	326.7	287.0
Net result for the financial year	10.5	4.8
Group's shares in the result of the entities accounted for under the equity method	3.7	0.8
Group's shares in the comprehensive income of the entities accounted for under the equity method	3.7	0.8

Net assets are calculated as the sum of all net assets of all entities accounted for under the equity method.

5.3 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 Group creates impairment losses for inventory value if redundant or damaged inventories exist or when the net sale price of the inventory is lower than its 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, impairment losses for inventories are made with respect to inventories useless from the Group's point of view.

Structure of inventories

	31/12/2018	31/12/2017
Strategic inventories	31.4	28.5
Rolling stock during liquidation	20.7	29.7
Other inventories	114.1	95.3
Impairment losses	(4.5)	(5.0)
Net inventories	**161.7**	**148.5**

List of changes in impairment losses for inventories

	2018	2017
As at the beginning of the reporting period	**5.0**	**7.3**
Recognition	0.4	0.8
Reversal	-	(0.8)
Utilization	(0.9)	(2.3)
As at the end of the reporting period	**4.5**	**5.0**

(in millions of PLN) (translation of a document originally issued in Polish)

5.4 Trade receivables

Accounting policy applied

Accounting policy applied since 1 January 2018

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

Accounting policy applied until 31 December 2017

Under the previous accounting policy, the following items were recognized:
a) specific impairment losses:
- receivables from debtors in liquidation or bankruptcy - up to 100% of their value,
- receivables from debtors whose application for bankruptcy was rejected - up to 100% of their value,
- receivables from debtors involved in settlement or composition proceedings - up to 100% of their value,
- receivables disputed by the debtor - up to 100% of their value,
- receivables from debtors involved in recovery proceedings - up to 100% of their value,
- receivables claimed in court - up to 100% of their value;

b) general impairment losses:
- receivables overdue from 6 to 12 months - up to 50% of their value,
- receivables overdue for more than 12 months - up to 100% of their value.

The amount of the impairment loss for receivables is the difference between the current book value and the recoverable value, which is lower. An impairment loss on trade receivables is presented under other operating expenses.

MATERIAL 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 Group 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 Group companies' debt collection unit. The model of estimation of the counterparty default ratio applied by the Group 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 2015-2018 obtained from financial and accounting systems. The calculation of impairment losses on receivables is presented in the following tables.

Structure of trade receivables and other receivables

	31/12/2018	31/12/2017
Trade receivables	840.7	844.8
Impairment loss on receivables	(155.4)	(156.0)
Total	**685.3**	**688.8**
Non-current assets	0.7	1.8
Current assets	684.6	687.0
Total	**685.3**	**688.8**

(in millions of PLN) (translation of a document originally issued in Polish)

5.4. Trade receivables (cont.)

Reconciliation of impairment losses on trade receivables

Impairment losses on trade receivables	31/12/2018 lifetime expected credit losses without impairment	with impairment	Total	31/12/2017
Balance at the beginning of the reporting period according to IAS 39	**-**	**156.0**	**156.0**	**152.9**
Adjustment on the initial application of IFRS 9	3.3	-	3.3	-
Balance at the beginning of the reporting period according to IFRS 9	**3.3**	**156.0**	**159.3**	**152.9**
Recognition	-	11.8	11.8	11.4
Reversal	(0.3)	(14.5)	(14.8)	(5.2)
Utilization	-	(3.6)	(3.6)	(1.7)
FX valuation	-	0.6	0.6	(1.2)
FX differences resulting from translation of financial statements	-	2.1	2.1	(0.2)
As at the end of the reporting period	**3.0**	**152.4**	**155.4**	**156.0**

Movement in the carrying amount of gross trade receivables

2018	Gross trade receivables without impairment	with impairment	Total
As at the beginning of the reporting period	**685.1**	**159.7**	**844.8**
Recognized	6,410.0	0.1	**6,410.1**
Interest accrued	3.0	0.1	**3.1**
Written off	-	(3.6)	**(3.6)**
Repaid	(6,407.2)	(11.5)	**(6,418.7)**
Transferred	(8.8)	8.8	**-**
FX valuation	(0.6)	0.9	**0.3**
Fx differences resulting from translation of financial statements	2.9	1.8	**4.7**
As at the end of the reporting period	**684.4**	**156.3**	**840.7**

Age analysis of trade receivables

	31/12/2018			1/01/2018			31/12/2017		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net	Gross	Impairment allowance	Net
Non-overdue receivables	613.3	(1.9)	611.4	608.1	(3.5)	604.6	608.1	(1.8)	606.3
Overdue receivables									
from 0 to 30 days	47.3	(0.3)	47.0	59.4	(1.0)	58.4	59.4	-	59.4
from 31 to 90 days	16.7	(0.7)	16.0	15.8	(1.1)	14.7	15.8	(0.8)	15.0
from 91 to 180 days	6.2	(1.5)	4.7	4.8	(1.1)	3.7	4.8	(0.8)	4.0
from 181 to 365 days	6.5	(2.9)	3.6	6.1	(4.7)	1.4	6.1	(4.7)	1.4
over 365 days	150.7	(148.1)	2.6	150.6	(147.9)	2.7	150.6	(147.9)	2.7
Total	**840.7**	**(155.4)**	**685.3**	**844.8**	**(159.3)**	**685.5**	**844.8**	**(156.0)**	**688.8**

(in millions of PLN) (translation of a document originally issued in Polish)

5.5 Other assets

Accounting policy applied

The accounting policy pertaining to financial instruments is described in **Note 6**.

As other assets, the Group recognizes mainly prepaid expenses which are recognized in the amount of incurred expenses that relate to future periods and will generate future economic benefits for the Group. Impairment losses on prepaid expenses are recognized chiefly in accordance with the passage of time.

Other receivables include mainly public law receivables measured at the amount due.

Intangible assets are presented at the cost of production less amortization and the total amount of the impairment loss of intangible assets. The Group applies 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

	31/12/2018	31/12/2017
Financial assets		
FX forwards	3.5	12.1
Shares in unlisted companies	6.8	7.3
Other	-	1.1
Non-financial assets		
Costs settled over time		
Prepayments for purchase of electricity	31.2	23.4
Lease rents	12.3	12.8
Insurance	7.4	7.9
IT services	4.2	-
Other costs settled over time	6.2	4.1
Other	1.6	3.2
Other receivables		
VAT settlements	65.2	37.3
Income tax receivables	3.0	0.1
Other	5.0	5.3
Intangible assets		
Licenses	28.5	39.9
Other intangible assets	0.2	0.2
Intangible assets during adjustment	6.0	3.8
Total	**181.1**	**158.5**
Non-current assets	56.7	70.4
Current assets	124.4	88.1
Total	**181.1**	**158.5**

As at 31 December 2017, impairment loss on the value of shares in unlisted companies was PLN 11.8 million. As at 31 December 2018, these shares were measured at fair value. Accordingly, no impairment losses on the value of shares in unlisted companies were recognized. The movement in the impairment loss on investments in shares is the effect of the first-time application IFRS 9, as described in **Note 1.3** to these Consolidated Financial Statements.

5.6 Investment liabilities

Accounting policy applied

Investment liabilities include liabilities related to the purchase of non-financial non-current assets. Initially, they are carried at fair value adjusted for transaction costs. Subsequently, they are measured 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.

(in millions of PLN) (translation of a document originally issued in Polish)

5.6 Investment liabilities (cont.)

Structure of investment liabilities

	31/12/2018	31/12/2017
Liabilities on the purchase of rolling stock	234.3	51.5
Liabilities on the purchase and modernization of real properties	18.1	9.9
Other	35.0	17.7
Total	**287.4**	**79.1**
Long-term liabilities	109.8	-
Short-term liabilities	177.6	79.1
Total	**287.4**	**79.1**

5.7 Provisions for employee benefits

Accounting policy applied

The Group provides its employees with long-term benefits during their employment (jubilee awards) as well as benefits after expiration of the tenure of their employment (pension and disability severance benefits, transportation services and benefits from the Company Social Benefits Fund (ZFŚS) for old age and disability pensioners, post-mortem benefits). Jubilee awards are paid out to the employees after working for specified number of years. Pension and disability severance benefits 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 Group is establishing provisions for future liabilities arising out of the foregoing virtues to assign the costs to the respective periods. The employees are also vested with the right to receive benefits after their employment in the form of social benefits from the Company Social Benefits Fund and train fare discounts. In its statement of financial position, the Group 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 benefits after the employment period is calculated by an independent actuarial firm using the forecasted 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. The costs of defined benefit plans for which the employee is eligible during his/her ongoing employment is recognized in the result as costs of employee benefits, except when it is recognized as costs of creating an asset component and reflects the growth of liabilities on account of defined benefits attributable to work performed by the employees in the current period. The costs of past employment are recognized directly in the financial result. The net interest cost is calculated through application of the discount rate to the net value of liability on account of specified financial expenses and it is presented in the financial expenses. Actuarial earnings and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2018 and 31 December 2017, the actuarial valuation of provisions for employee benefits for the Polish Group companies was based on the following assumptions:

	Valuation as at	
	31/12/2018	31/12/2017
	%	%
Discount rate	3.0	3.25
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 3.0	up to 3.5
Assumed growth of the price of transportation benefits	up to 2.5	up to 2.5
Assumed average annual growth of the base for calculation of provisions for Company Benefits Fund	3.5 - 5.0	3.3 - 5.0
Weighted average employee mobility ratio	1.7 - 8.2	1.1 - 10.0

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.

(in millions of PLN) (translation of a document originally issued in Polish)

5.7 Provisions for employee benefits (cont.)

Sensitivity analysis of provisions for employee benefits

	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	304.0	(4.3)	4.4	3.7	(3.7)	(3.8)	3.8
Retirement and disability severance benefits	195.8	(3.3)	3.4	2.9	(2.8)	(3.0)	2.9
Post-mortem benefits	7.9	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	130.2	(5.0)	5.3	4.4	(4.2)	(0.8)	0.8
Transportation benefits	32.8	(1.3)	1.3	1.1	(1.1)	(0.3)	0.3
Total	**670.7**	**(14.0)**	**14.5**	**12.2**	**(11.9)**	**(8.0)**	**7.9**

	31/12/2017	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	288.0	(4.1)	4.3	3.5	(3.4)	(3.7)	3.7
Retirement and disability severance benefits	174.6	(3.1)	3.2	2.7	(2.6)	(2.7)	2.7
Post-mortem benefits	7.1	(0.1)	0.2	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	143.5	(5.6)	6.0	5.2	(5.0)	(0.8)	0.8
Transportation benefits	33.8	(1.3)	1.4	1.3	(1.1)	(0.2)	0.3
Total	**647.0**	**(14.2)**	**15.1**	**12.8**	**(12.2)**	**(7.5)**	**7.6**

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
1/01/2018 (audited)	**166.8**	**143.5**	**33.8**	**7.1**	**274.2**	**37.2**	**662.6**
Corrections of prior period errors	7.8	-	-	-	13.8	-	**21.6**
1/01/2018 (restated)	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**
Current service cost	5.7	1.9	1.6	0.2	11.2	-	**20.6**
Interest expenses	4.8	4.7	1.1	0.2	8.6	-	**19.4**
Actuarial (profits) / losses recognized in other comprehensive income	27.3	(12.5)	(2.7)	1.1	-	-	**13.2**
Actuarial (profits) / losses recognized in the statements of profit or loss	-	-	-	-	37.2	-	**37.2**
Recognition of provisions	-	-	-	-	-	30.9	**30.9**
Reversal of provisions	-	-	-	-	-	(19.3)	**(19.3)**
Benefits paid out	(16.6)	(7.4)	(1.0)	(0.7)	(41.1)	(12.6)	**(79.5)**
FX differences	-	-	-	-	0.1	0.2	**0.3**
31/12/2018	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**
Long-term provisions	169.1	125.3	31.7	6.6	258.8	-	**591.5**
Short-term provisions	26.7	4.9	1.1	1.3	45.2	36.3	**115.5**
Total	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**

(in millions of PLN) (translation of a document originally issued in Polish)

5.7 Provisions for employee benefits (cont.)

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2017 (audited)	**153.2**	**128.6**	**33.3**	**6.9**	**268.9**	**34.0**	**624.9**
Corrections of prior period errors	7.0	-	-	-	13.7	-	**20.7**
1/01/2017 (restated)	**160.2**	**128.6**	**33.3**	**6.9**	**282.6**	**34.0**	**645.6**
Current service cost	5.3	1.7	0.6	0.1	11.0	-	**18.7**
Interest expenses	4.8	4.5	1.2	0.2	8.4	-	**19.1**
Actuarial (profits) / losses recognized in other comprehensive income	21.0	15.4	(0.2)	0.7	-	-	**36.9**
Actuarial (profits) / losses recognized in the statements of profit or loss	-	-	-	-	29.8	-	**29.8**
Recognition of provisions	-	-	-	-	-	26.7	**26.7**
Reversal of provisions	-	-	-	-	-	(18.4)	**(18.4)**
Benefits paid out	(16.7)	(6.7)	(1.1)	(0.8)	(43.8)	(5.1)	**(74.2)**
31/12/2017	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**
Long-term provisions	150.9	137.8	32.5	6.3	248.2	-	**575.7**
Short-term provisions	23.7	5.7	1.3	0.8	39.8	37.2	**108.5**
Total	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**

Items recognized in the result in reference to employee benefits programs

	31/12/2018	31/12/2017
Employee benefits	(69.4)	(56.8)
Financial expenses	(19.4)	(19.1)
Total recognized in the result before tax	**(88.8)**	**(75.9)**

Actuarial (profits) / losses

2018	change of demographic assumptions	change of financial assumptions	other amendments	Total
Actuarial (profits) / losses - post-employment benefits				
Retirement and disability severance benefits	4.4	2.5	20.4	27.3
Company Social Benefits Fund	1.2	4.2	(17.9)	(12.5)
Transportation benefits	0.3	1.1	(4.1)	(2.7)
Post-mortem benefits	0.1	0.1	0.9	1.1
Actuarial (profits) / losses - other long-term benefits				
Jubilee awards	5.3	3.2	28.7	37.2
Total	**11.3**	**11.1**	**28.0**	**50.4**

(in millions of PLN) (translation of a document originally issued in Polish)

5.7 Provisions for employee benefits (cont.)

2017	change of demographic assumptions	change of financial assumptions	other amendments	Total
Actuarial (profits) / losses - post-employment benefits				
Retirement and disability severance benefits	0.1	2.7	18.2	21.0
Company Social Benefits Fund	1.4	5.3	8.7	15.4
Transportation benefits	0.4	1.2	(1.8)	(0.2)
Post-mortem benefits	(0.2)	0.1	0.8	0.7
Actuarial (profits) / losses - other long-term benefits				
Jubilee awards	(0.4)	3.3	26.9	29.8
Total	**1.3**	**12.6**	**52.8**	**66.7**

Analysis of maturities of paid out employee benefits

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	26.7	4.9	1.1	1.3	45.2	36.3	115.5
1 to 5 years	63.6	21.9	5.2	3.3	133.6	-	227.6
over 5 years	105.5	103.4	26.5	3.3	125.2	-	363.9
Total	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**

31/12/2017	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	23.7	5.7	1.3	0.8	39.8	37.2	108.5
1 to 5 years	53.2	23.8	5.0	2.7	128.0	-	212.7
over 5 years	97.7	114.0	27.5	3.6	120.2	-	363.0
Total	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**

The average maturity of employee benefits in the Parent Company was 10.3 years as at 31 December 2018. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using actuarial methods, is approx. 90%.

5.8 Other provisions

Accounting policy applied

Provisions are established if the Group is subject to an existing legal or usually expected obligation attributable to future events and when it may be reasonably expected that the fulfilment 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 Group shall establish reserves 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 Group shall disclose the information on the contingent liability unless it is unlikely that there will be the outflow of the means entailing economic benefits.

(in millions of PLN) (translation of a document originally issued in Polish)

5.8 Other provisions (cont.)

Structure of other provisions

2018	Provision for penalties imposed by anti-monopoly authorities	Provision for land reclamation	Provision for VAT liabilities	Provision for onerous contracts	Other provisions	Total
1/01/2018	**14.2**	**5.0**	**22.3**	**16.7**	**24.0**	**82.2**
Recognition	1.2	0.1	1.3	-	14.0	**16.6**
Reversal	-	-	-	(0.1)	(3.2)	**(3.3)**
Utilization	(0.6)	-	-	(12.9)	(4.9)	**(18.4)**
FX differences	-	0.2	-	-	0.1	**0.3**
31/12/2018	**14.8**	**5.3**	**23.6**	**3.7**	**30.0**	**77.4**
Long-term provisions	14.8	4.4	-	1.3	-	**20.5**
Short-term provisions	-	0.9	23.6	2.4	30.0	**56.9**
Total	**14.8**	**5.3**	**23.6**	**3.7**	**30.0**	**77.4**

2017	Provision for penalties imposed by anti-monopoly authorities	Provision for land reclamation	Provision for VAT liabilities	Provision for onerous contracts	Other provisions	Total
1/01/2017	**16.4**	**4.9**	**-**	**8.2**	**21.9**	**51.4**
Recognition	1.0	0.1	22.3	15.8	10.1	**49.3**
Reversal	-	-	-	-	(6.2)	**(6.2)**
Utilization	(3.2)	-	-	(7.3)	(1.8)	**(12.3)**
31/12/2017	**14.2**	**5.0**	**22.3**	**16.7**	**24.0**	**82.2**
Long-term provisions	14.2	4.2	-	3.8	0.3	**22.5**
Short-term provisions	-	0.8	22.3	12.9	23.7	**59.7**
Total	**14.2**	**5.0**	**22.3**	**16.7**	**24.0**	**82.2**

Provision for penalties imposed by anti-monopoly authorities

As at 31 December 2018, this item included:

- provision of PLN 14.2 million for a penalty imposed by the Office for Competition and Consumer Protection (UOKiK),
- provision of PLN 0.6 million for a penalty, established in connection with a pending procedure initiated by the Czech Antimonopoly Office.

In 2018, the movement in provisions was due to the administrative procedure initiated in October 2016 by the Czech Antimonopoly Office against AWT Čechofracht a.s. in connection with the suspicion of involvement in a cartel arrangement in 2004-2010. As a result of the progress of the procedure and analysis of its current status, the Group decided to establish a provision of PLN 1.2 million for a potential penalty, which was subsequently changed to PLN 0.6 million.

As regards the provision for the penalty imposed by UOKiK, on 15 October 2018 the Court of Competition and Consumer Protection issued a judgment in which it dismissed the Parent Company's appeal and upheld in its entirety the contested decision. Accordingly, in the financial year ended 31 December 2018, no circumstances emerged that would make it necessary to update the established provision of PLN 14.2 million.

Provision for land reclamation

The provision has been established to cover future expenses associated with the duty to reclaim the land. The estimated amount of the provision corresponds to the current value of expected future expenses.

Provision for onerous contracts

As at 31 December 2017, this provision represented the amount of the anticipated loss for two procurement agreements for which the inevitable costs of fulfilling the resulting duties were higher than the predicted benefits achievable under those agreements. As a result of the performance of these agreements in the financial year ended 31 December 2018, the amount of PLN 12.9 million of the provision was utilized.

Provision for VAT liabilities

The provision concerns settlements with the Tax Inspection Authority in connection with the pending inspection procedure in PKP CARGO CONNECT Sp. z o.o. to verify the declared taxable base and calculations and payments of the value-added tax for the period from April 2013 to July 2013. The increase in this item is due to the accrual of interest on state budget payments.

(in millions of PLN) (translation of a document originally issued in Polish)

5.8 Other provisions (cont.)

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 Parent Company's Management Board, the amount of other provisions as at 31 December 2018, and as at 31 December 2017, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation.

5.9 Other liabilities

Accounting policy applied

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

Structure of other liabilities

	31/12/2018	31/12/2017
Financial liabilities		
FX forwards	0.2	-
Other	-	0.3
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	36.9	42.1
Public law settlements	86.9	78.3
Settlements with employees	95.2	87.3
Received grants	2.6	6.0
Other settlements	7.0	3.1
VAT settlements	6.5	8.3
Short-term tax liabilities	0.3	1.6
Total	**235.6**	**227.0**
Long-term liabilities	1.8	0.3
Short-term liabilities	233.8	226.7
Total	**235.6**	**227.0**

6. Financial instruments and principles of financial risk management

Accounting policy applied

Accounting policy effective since 1 January 2018

The Group 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, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
After initial recognition, financial assets of a debt nature are classified as measured:
a) at amortized cost,
b) at fair value through other comprehensive income,
c) at fair value through profit or loss.

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

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

Accounting policy applied

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 Group classifies mainly:
a) trade receivables,
b) bank deposits over 3 months,
c) cash and cash equivalents.

The differences in the accounting policy pertaining to impairment losses on trade receivables are described in **Note 5.4**.

As at 1 January 2018 and 31 December 2018, the Group 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.

Financial liabilities

The Group 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 Group are classified as measured at amortized cost. Additionally, for other financial assets and financial liabilities, the Group presents derivative forward-like financial instruments. These instruments are used to hedge future cash flows. Upon provision of the hedge, the Group 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 performance. The Group derecognizes a financial asset when, and only when, the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and all related risks and rewards of ownership of the financial asset to another entity.

Accounting policy effective until 31 December 2017

As at 31 December 2017, the Group presented the following categories under other financial assets:

a) Loans and receivables

Loans and receivables are non-derivative financial instruments with constant or foreseeable payments, not listed in an active market. The Group included in loans and receivables: cash and cash equivalents, bank deposits with maturity longer than three months, trade receivables and receivables from the sale of non-financial non-current assets. Loans and receivables are carried at amortized cost using the effective interest rate method, taking into account impairment, except for those assets where the discount effect is immaterial.

b) Available-for-sale financial assets

In the Group, available-for-sale financial assets included capital investments not listed on an active market, which were measured at cost minus impairment losses.

In addition to changes resulting from differences in the classification of financial assets, changes in the methodology for recognizing impairment losses on trade receivables and changes in the measurement of equity instruments in other entities, there have been no other significant differences in the accounting policy effective since 1 January 2018 that would affect these Consolidated Financial Statements.

(in millions of PLN) (translation of a document originally issued in Polish)

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	31/12/2018	Financial assets by categories and classes	31/12/2017
Hedging financial instruments			**Hedging financial instruments**	
Derivatives	*Note 5.5*	3.5	Derivatives	12.1
Financial assets measured at fair value through other comprehensive income			**Available-for-sale financial assets**	
Investments in equity instruments	*Note 5.5*	6.8	Shares in unlisted companies	7.3
Financial assets measured at amortized cost			**Loans and receivables**	
Trade receivables	*Note 5.4*	685.3	Trade receivables	688.8
Receivables on account of sale of non-financial non-current assets		-	Receivables on account of sale of non-financial non-current assets	0.1
Loans granted		-	Loans granted	1.1
Bank deposits over 3 months		201.1	Bank deposits over 3 months	253.8
Cash and cash equivalents	*Note 4.4*	447.3	Cash and cash equivalents	516.8
Total		**1,344.0**		**1,480.0**

Financial liabilities by categories and classes	Note	31/12/2018	31/12/2017
Hedging financial instruments			
Derivatives	*Note 5.9*	0.2	0.3
Bank loans and borrowings	*Note 4.1*	468.1	494.3
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	863.7	1,068.0
Trade payables		499.9	447.2
Investment liabilities	*Note 5.6*	287.4	79.1
Financial liabilities excluded from the scope of IFRS 9 / IAS 39	*Note 4.1*	95.2	139.1
Total		**2,214.5**	**2,228.0**

Impairment losses on shares in unlisted companies and trade receivables are described in **Notes 5.4** and **5.5** to these Consolidated Financial Statements, respectively.

Hedge accounting

In the period from 1 January 2018 to 31 December 2018, the Group applied hedge accounting to its cash flows. 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 2018, the following hedging instruments were established by the Parent Company:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 31 December 2018, the nominal amount of the hedging instrument was EUR 108.9 million, which is an equivalent of PLN 468.1 million,
- in forward foreign exchange contracts. The hedged cash flows will be realized until December 2020. As at 31 December 2018, the value of assets and liabilities on account of the measurement of the hedging instrument was PLN 3.5 million and PLN 0.2 million, respectively.

This item also includes measurement of hedging instruments in a subsidiary in the form of forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until November 2019. As at 31 December 2018, the value of the assets on account of measurement hedging instruments was PLN 0.3 million.

(in millions of PLN) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

Fair value hierarchy

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

	31/12/2018		31/12/2017
	Level 2	Level 3	Level 2
Assets			
Derivatives – forward FX contracts	3.5	-	12.1
Investments in equity instruments – shares in unlisted companies	-	6.8	-
Liabilities			
Derivatives – forward FX contracts	0.2	-	-
Derivatives – IRS contracts	-	-	0.3

Measurement methods for financial instruments carried at fair value

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

c) IRS contracts
The fair value of interest rate swaps was determined on the basis of discounted future cash flows on account of executed transactions based on the difference between the forward price and the transaction price. The fair value was calculated and discounted by the bank according to WIBOR 1M.

d) Other financial instruments
For the category of financial instruments which are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because the fair values of these financial instruments as at 31 December 2018 and 31 December 2017 were not materially different from their values presented in the statement of financial position.

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

	2018	2017
As at the beginning of the reporting period (audited)	**-**	**118.7**
Changes resulting from the implementation of IFRS 9	6.2	-
As at the beginning of the reporting period (restated)	**6.2**	**118.7**
Purchase of shares	1.0	-
Sale of shares	(0.4)	-
(Profit) / loss on revaluation	-	(4.7)
Settlement of the “put” option for non-controlling interest	-	(114.0)
As at the end of the reporting period	**6.8**	**-**

Data as at 1 January 2018 have been restated in connection with the implementation of IFRS 9, as described in **Note 1.3** and **1.5** to these Consolidated Financial Statements.

In the financial year ended 31 December 2018 and 31 December 2017, there were no transfers between levels 2 and 3 of the fair value hierarchy.

(in millions of PLN) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

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

2018	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Dividends and profit-sharing	-	0.3	-	-	-	**0.3**
Interest income / (expense)	(3.0)	-	15.2	(25.0)	(5.8)	**(18.6)**
FX differences	-	-	4.2	(2.6)	(1.0)	**0.6**
Impairment losses / revaluation	-	-	3.0	-	-	**3.0**
Transaction costs related to loans	-	-	-	(1.6)	-	**(1.6)**
(Profit) / loss on the sale of investments	-	5.0	-	-	-	**5.0**
Effect of settlement of cash flow hedge accounting	7.0	-	-	-	-	**7.0**
Gross profit / (loss)	**4.0**	**5.3**	**22.4**	**(29.2)**	**(6.8)**	**(4.3)**
Movement in revaluation	(23.4)	-	-	-	-	**(23.4)**
Other comprehensive income	**(23.4)**	**-**	**-**	**-**	**-**	**(23.4)**

In the period of 12 months ended 31 December 2018, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 7.3 million and financial expenses in respect of interest on finance lease liabilities in the amount of PLN (0.3) million.

In the period of 12 months ended 31 December 2018, 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 (8.5) million and bank loans in the amount of PLN (14.9) million, recognized as part of the hedge accounting applied by the Group.

(in millions of PLN) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

2017	Hedging financial instruments	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Dividends and profit-sharing	-	0.3	-	-	-	-	**0.3**
Interest income / (expense)	(1.2)	-	14.1	-	(28.7)	(6.1)	**(21.9)**
FX differences	0.7	-	(16.1)	-	6.6	5.7	**(3.1)**
Impairment losses / revaluation	0.1	-	(6.3)	4.7	-	-	**(1.5)**
Transaction costs related to loans	-	-	-	-	(1.7)	-	**(1.7)**
(Profit) / loss on the sale of investments	-	(0.2)	-	-	-	-	**(0.2)**
Effect of settlement of cash flow hedge accounting	8.0	-	-	-	-	-	**8.0**
Gross profit / (loss)	**7.6**	**0.1**	**(8.3)**	**4.7**	**(23.8)**	**(0.4)**	**(20.1)**
Movement in revaluation	27.9	-	-	-	-	-	**27.9**
Other comprehensive income	**27.9**	**-**	**-**	**-**	**-**	**-**	**27.9**

In the period of 12 months ended 31 December 2017, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 8.9 million and financial expenses in respect of interest on finance lease liabilities in the amount of PLN (0.9) million.

In the period of 12 months ended 31 December 2017, 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 12.7 million and bank loans in the amount of PLN 15.2 million, recognized as part of the hedge accounting applied by the Group.

(in millions of PLN) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

Offsetting financial assets

31/12/2018	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not in the statement of financial position – received cash collateral	Net value
Trade receivables	685.3	685.3	(4.4)	680.9
Total	**685.3**	**685.3**	**(4.4)**	**680.9**

31/12/2017	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not in the statement of financial position – received cash collateral	Net value
Trade receivables	688.8	688.8	(5.4)	683.4
Total	**688.8**	**688.8**	**(5.4)**	**683.4**

Offsetting financial liabilities

31/12/2018	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – provided cash collateral	Net value
Trade payables	499.9	499.9	(0.7)	499.2
Total	**499.9**	**499.9**	**(0.7)**	**499.2**

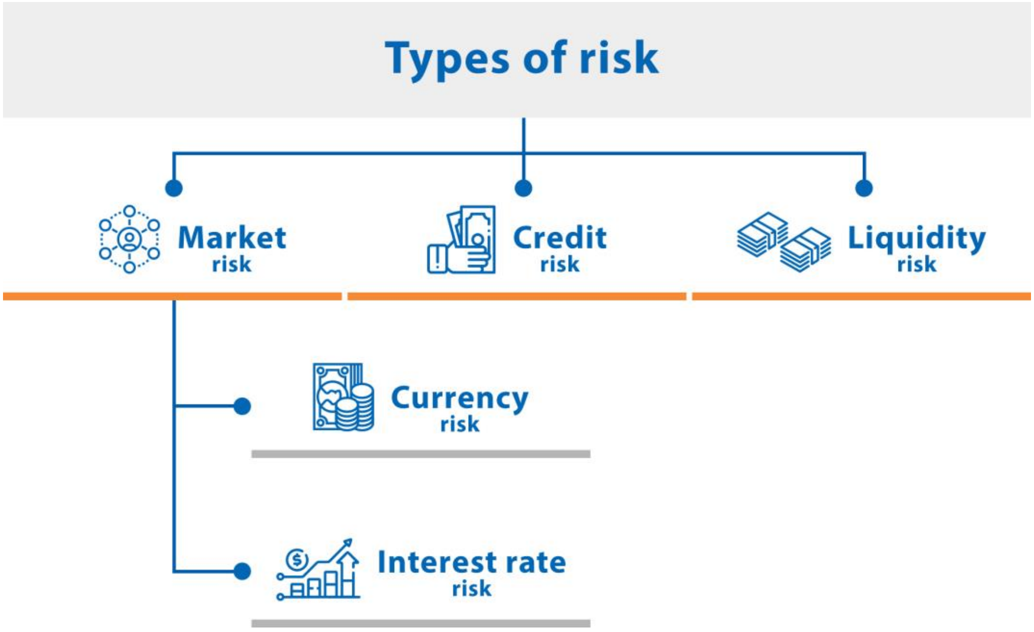
31/12/2017	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – provided cash collateral	Net value
Trade payables	447.2	447.2	(1.5)	445.7
Total	**447.2**	**447.2**	**(1.5)**	**445.7**

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 Consolidated Financial Statements, the Group was exposed to the following types of financial risk:



Market risk

The Group 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 Group manages the market risk 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 Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivatives are used only to limit the risk of a change in the carrying amount and the risk of cash flow changes. Transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures and execution of appropriate documentation.

Foreign exchange risk management

As at 31 December 2018, the Group was exposed to foreign exchange risk concerning for the most part trade receivables, loan liabilities and lease liabilities denominated in foreign currencies.

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 FX 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 Group's cash flows are subject to hedging operations.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position exposed to change of the value in PLN. As part of its hedge accounting policy, the Group used applied forward transactions for the currency pair EUR/PLN in 2017-2018 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.

(in millions of PLN) (translation of a document originally issued in Polish)

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

Items in foreign currencies

31/12/2018	Total value of items in PLN	EUR/PLN		CZK/PLN		CHF/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS							
Non-current assets							
Other assets – forward FX contracts (1)	0.8	16.9	0.8	-	-	-	-
Current assets							
Trade receivables	202.9	29.8	128.3	440.4	73.7	0.2	0.9
Other assets – forward FX contracts (1)	2.7	45.5	2.7	-	-	-	-
Cash and cash equivalents	125.7	14.0	60.1	392.2	65.6	-	-
Total	**332.1**	**106.2**	**191.9**	**832.6**	**139.3**	**0.2**	**0.9**
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	526.3	110.2	473.6	314.8	52.7	-	-
Other liabilities	0.7	0.1	0.4	1.9	0.3	-	-
Short-term liabilities							
Debt liabilities	71.4	16.1	69.1	14.0	2.3	-	-
Trade payables	165.5	14.8	63.8	588.9	98.5	0.8	3.2
Other liabilities – forward FX contracts (1)	0.2	8.8	0.2	-	-	-	-
Total	**764.1**	**150.0**	**607.1**	**919.6**	**153.8**	**0.8**	**3.2**
Net currency item	**(432.0)**	**(43.8)**	**(415.2)**	**(87.0)**	**(14.5)**	**(0.6)**	**(2.3)**

31/12/2017	Total value of items in PLN	EUR/PLN		CZK/PLN		CHF/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS							
Non-current assets							
Other assets – forward FX contracts (1)	2.6	19.2	2.6	-	-	-	-
Current assets							
Trade receivables	212.8	33.6	140.0	434.9	71.0	0.5	1.8
Other assets:							
forward FX contracts (1)	9.5	37.9	9.5	-	-	-	-
other assets	1.1	0.3	1.1	-	-	-	-
Cash and cash equivalents	163.1	21.8	90.9	442.1	72.1	-	0.1
Total	**389.1**	**112.8**	**244.1**	**877.0**	**143.1**	**0.5**	**1.9**
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	576.4	125.4	523.1	326.6	53.3	-	-
Short-term liabilities							
Debt liabilities	93.6	21.7	90.5	18.9	3.1	-	-
Trade payables	187.9	21.6	90.0	580.9	94.8	0.9	3.1
Total	**857.9**	**168.7**	**703.6**	**926.4**	**151.2**	**0.9**	**3.1**
Net currency item	**(468.8)**	**(55.9)**	**(459.5)**	**(49.4)**	**(8.1)**	**(0.4)**	**(1.2)**

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

(in millions of PLN) (translation of a document originally issued in Polish)

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

Sensitivity to FX risk

The Group is exposed mainly to the foreign exchange risk regarding the currency pairs EUR/PLN, CHF/PLN and CZK/PLN in connection with its operating and financing activities. Deviations in exchange rates were calculated on the basis of the average volatility of each currency exchange rate 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 Group's exposure to foreign exchange risk in 2017-2018.

31/12/2018	value of the item in PLN	Currency risk							
		EUR/PLN				CZK/PLN		CHF/PLN	
		impact on the result		impact on other comprehensive income		impact on other comprehensive income		impact on the result	
		+6%	-6%	+6%	-6%	+4%	-4%	+9%	-9%
ASSETS									
Non-current assets									
Other assets – forward FX contracts	0.8			(4.4)	4.4	-	-	-	-
Current assets									
Trade receivables	202.9	7.2	(7.2)		-	2.9	(2.9)	0.1	(0.1)
Other assets – forward FX contracts	2.7	-	-	(11.8)	11.8	-	-	-	-
Cash and cash equivalents	125.7	3.6	(3.6)	-	-	2.6	(2.6)	-	-
EQUITY AND LIABILITIES									
Long-term liabilities									
Debt liabilities	526.3	(2.8)	2.8	(25.6)	25.6	(2.1)	2.1	-	-
Other liabilities	0.7	-	-	-	-	-	-	-	-
Short-term liabilities									
Debt liabilities	71.4	(1.6)	1.6	(2.5)	2.5	(0.1)	0.1	-	-
Trade payables	165.5	(3.8)	3.8	-	-	(3.9)	3.9	(0.3)	0.3
Other liabilities – forward FX contracts	0.2	-	-	(2.3)	2.3	-	-	-	-
Total gross effect		**3.1**	**(3.1)**	**(46.6)**	**46.6**	**(0.6)**	**0.6**	**(0.2)**	**0.2**

(in millions of PLN) (translation of a document originally issued in Polish)

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

31/12/2017	value of the item in PLN	Currency risk							
		EUR/PLN				CZK/PLN		CHF/PLN	
		impact on the result		impact on other comprehensive income		impact on other comprehensive income		impact on the result	
		+5%	-5%	+5%	-5%	+5%	-5%	+5%	-5%
ASSETS									
Non-current assets									
Other assets – forward FX contracts	2.6	-	-	(7.3)	(7.3)	-	-	-	-
Current assets									
Trade receivables	212.8	7.0	(7.0)	-	-	3.5	(3.5)	0.1	(0.1)
Other assets:									
forward FX contracts	9.5	-	-	(12.0)	12.0				
other assets	1.1	0.1	(0.1)	-	-	-	-	-	-
Cash and cash equivalents	163.1	4.5	(4.5)	-	-	3.6	(3.6)	-	-
EQUITY AND LIABILITIES									
Long-term liabilities									
Debt liabilities	576.4	(1.7)	1.7	(22.7)	22.7	(2.7)	2.7	-	-
Short-term liabilities									
Debt liabilities	93.6	(1.7)	1.7	(2.8)	2.8	(0.2)	0.2	-	-
Trade payables	187.9	(4.5)	4.5	-	-	(4.7)	4.7	-	-
Total gross effect		**3.7**	**(3.7)**	**(44.8)**	**44.8**	**(0.5)**	**0.5**	**0.1**	**(0.1)**

(in millions of PLN) (translation of a document originally issued in Polish)

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

FX forward transactions

To manage the foreign exchange risk in 2018 and 2017, 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 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
Santander	forward	05/2017 – 12/2018	01/2019 – 02/2020	EUR/PLN	9.2	40.3	0.3	-
mBANK	forward	01/2017 – 12/2018	01/2019 – 12/2020	EUR/PLN	16.9	75.0	0.9	0.1
Pekao	forward	06/2017 – 12/2018	01/2019 – 08/2020	EUR/PLN	16.4	72.3	0.8	-
PKO BP	forward	01/2017 – 11/2018	01/2019 – 11/2020	EUR/PLN	25.5	112.7	1.3	0.1
Credit Agricole	forward	02/2017 – 07/2018	01/2019 – 06/2020	EUR/PLN	3.2	14.2	0.2	-
Total					**71.2**	**314.5**	**3.5**	**0.2**

As at 31 December 2017

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of assets
BZ WBK	forward	06/2016 - 10/2017	01/2018 - 10/2019	EUR/PLN	2.6	11.5	0.7
mBANK	forward	11/2016 - 12/2017	01/2018 - 12/2019	EUR/PLN	12.9	56.9	2.1
Pekao	forward	06/2016 - 10/2017	01/2018 - 10/2019	EUR/PLN	15.1	67.0	3.4
PKO BP	forward	05/2016 - 12/2017	01/2018 - 12/2019	EUR/PLN	20.9	93.6	4.8
RCB	forward	10/2016 - 11/2016	01/2018 - 11/2018	EUR/PLN	1.0	4.5	0.3
Credit Agricole	forward	01/2017 - 12/2017	07/2018 - 12/2019	EUR/PLN	4.6	20.5	0.8
Total					**57.1**	**254.0**	**12.1**

Interest rate risk management

As at 31 December 2018, the Group is 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. The reference rate for lease contracts denominated in EUR is EURIBOR 6M, and for agreements signed in PLN the reference rate is WIBOR 1M. Interest on loan agreements was accrued at the WIBOR 1M and 3M, EURIBOR 3M and PRIBOR 3M reference rates plus the banks' margins. Interest rate risk in loan and leasing agreements is executed through revaluation of instalments in monthly, quarterly and semi-annual periods, depending on the agreement.

Until May 2018, the Group used interest rate risk management transactions (IRS) to hedge against fluctuations of interest rates for some of the finance lease liabilities.

The cash held by the Group as at 31 December 2018 was mainly in the form of fixed rate bank deposits which were concluded with time horizons depending on the Group'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 millions of PLN) (translation of a document originally issued in Polish)

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

Financial instruments by interest rate type

Financial assets	31/12/2018	31/12/2017		
		Interest rate		Total
	at a fixed interest rate	at a fixed interest rate	at a variable interest rate	
Loans granted	-	0.8	0.3	**1.1**
Bank deposits	201.1	253.8	-	**253.8**
Cash and cash equivalents	447.3	516.8	-	**516.8**
Total	**648.4**	**771.4**	**0.3**	**771.7**

Financial liabilities	31/12/2018			31/12/2017		
	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	
Derivatives	-	-	**-**	0.3	-	**0.3**
Debt liabilities	75.6	1,351.4	**1,427.0**	98.8	1,602.6	**1,701.4**
Liabilities on the purchase of fixed assets	235.1	-	**235.1**	0.6	-	**0.6**
Total	**310.7**	**1,351.4**	**1,662.1**	**99.7**	**1,602.6**	**1,702.3**

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 Group identifies the exposure to interest rate risk mainly for WIBOR, EURIBOR and PRIBOR. 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).

31/12/2018	Value of the item in PLN	Interest rate risk					
		WIBOR		EURIBOR		PRIBOR	
		impact on the result		impact on the result		impact on the result	
		+ 50 bps	- 50 bps	+ 50 bps	- 50 bps	+ 50 bps	- 50 bps
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	1,106.2	(3.2)	3.2	(2.1)	2.1	(0.4)	0.4
Short-term liabilities							
Debt liabilities	244.5	(1.0)	1.0	(0.2)	0.2	-	-
Total gross effect		**(4.2)**	**4.2**	**(2.3)**	**2.3**	**(0.4)**	**0.4**

31/12/2017	Value of the item in PLN	Interest rate risk					
		WIBOR		EURIBOR		PRIBOR	
		impact on the result		impact on the result		impact on the result	
		+ 50 bps	- 50 bps	+ 50 bps	- 50 bps	+ 50 bps	- 50 bps
ASSETS							
Other assets	0.3	-	-	-	-	-	-
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	1,332.0	(4.2)	4.2	(2.3)	2.3	(0.3)	0.3
Short-term liabilities							
Debt liabilities	269.8	(1.0)	1.0	-	-	-	-
Total gross effect		**(5.2)**	**5.2**	**(2.3)**	**2.3**	**(0.3)**	**0.3**

(in millions of PLN) (translation of a document originally issued in Polish)

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

Credit risk management

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

	31/12/2018	31/12/2017
Trade receivables	685.3	688.8
Cash and cash equivalents	447.3	516.8
Bank deposits over 3 months	201.1	253.8
Other financial assets	-	1.1
Total	**1,333.7**	**1,460.5**

Conducting its commercial activity the Group sells services to business entities with a deferred payment date, which may lead to the risk of counterparties defaulting with meeting the deadlines for payment of the amounts due for the provided services. To minimize the credit risk, the Group manages the risk through a prevailing client creditworthiness assessment procedure. This assessment is carried out for all clients who use a deferred payment date. As part of its internal policy, the Group 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

	31/12/2018	31/12/2017
Group of entities related to the biggest external counterparty	7.4%	8.8%
PKP Group related parties	0.8%	0.7%
Other State Treasury related parties	25.6%	22.3%
Other entities	66.2%	68.2%
Total	100.0%	100.0%

In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts from its customers securities in the form of, among others: receivables insurance, bank / insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes. As at 31 December 2018, 12.0% of trade receivables were secured.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector. These include domestic banks, foreign banks and branches of foreign banks with a high creditworthiness. The concentration of risk involving cash and bank deposits with a maturity longer than 3 months is presented in the table below.

Bank	Credit rating agency	Rating	31/12/2018
Bank A	Fitch	A-	27.9%
Bank B	Moody's	A2	21.9%
Bank C	Moody's	Baa1	15.5%
Bank D	Moody's	Baa1	7.9%
Bank E	Moody's	Baa2	7.8%
Bank F	Moody's	A2	7.7%
Other			11.3%
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 2018 and the financial year ended 31 December 2017, the State Treasury was an upper level parent entity for the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

(in millions of PLN) (translation of a document originally issued in Polish)

7.1 Related party transactions (cont.)

In the financial years ended 31 December 2018 and 31 December 2017, there were no transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: ENEA, JSW, PGE, Azoty and PGG. In the periods covered by these Consolidated Financial Statements, there were no purchase transactions with other entities related to the State Treasury with any material value.

Transactions with PKP Group related parties

In the periods covered by this Consolidated Financial Statements the Group entered into the following commercial transactions with PKP Group related parties:

	2018		31/12/2018	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	0.4	71.1	1.4	9.6
Subsidiaries/co-subsidiaries – unconsolidated	9.2	14.4	2.6	1.5
Associates	1.7	0.3	-	-
Other PKP Group related parties	12.9	721.3	1.9	63.3

	2017		31/12/2017	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	0.4	68.5	1.3	8.0
Subsidiaries/co-subsidiaries – unconsolidated	9.5	15.3	1.2	1.6
Associates	2.5	0.5	0.2	-
Other PKP Group related parties	26.4	692.4	2.5	60.9

Purchase transactions with the Parent Company (PKP S.A.) pertain in particular to rental and lease of real estate, supply of utilities and occupational medicine services.
In the PKP CARGO Group sales transactions covered freight transport services, lease of equipment and sub-lease of real estate. Purchase transactions comprised, among other maintenance and repair of rolling stock, freight forwarding services, transhipment 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.

Loans granted to / received from related parties

	31/12/2018	31/12/2017
Loans granted to related parties	-	1.1
Loans received from related parties	1.4	1.3

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	Parent Company		Subsidiaries	
	2018	2017	2018	2017
Short-term benefits	2.4	2.4	6.5	8.8
Post-employment benefits	0.5	1.1	3.1	0.8
Termination benefits	0.1	0.4	0.1	0.3
Total	**3.0**	**3.9**	**9.7**	**9.9**

(in millions of PLN) (translation of a document originally issued in Polish)

7.1 Related party transactions (cont.)

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	2018	2017	2018	2017
Short-term benefits	1.0	1.1	1.2	1.5
Total	**1.0**	**1.1**	**1.2**	**1.5**

Remunerations of other members of the key management personnel	Parent Company		Subsidiaries	
	2018	2017	2018	2017
Short-term benefits	6.4	6.2	20.8	19.3
Post-employment benefits	0.7	1.1	1.2	0.5
Termination benefits	0.1	0.5	0.2	0.1
Total	**7.2**	**7.8**	**22.2**	**19.9**

In the financial year ended 31 December 2018 and 31 December 2017, the members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan and guarantee transactions with the Group.

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

7.2 Operating lease agreements

Group as a lessee

As at 31 December 2018, the Company's operating lease agreements comprised mainly agreements pertaining to lease of real properties, freight wagons and locomotives. Key real estate lease agreements are concluded for long-term periods with the possibility of early termination within specified contractual deadlines. The term of the lease agreements for freight wagon and locomotives lasts until 2019-2023, depending on the agreement.

The Group presents, as future minimum leasing fees, the fees which it is obligated to pay during the termination notice period for such agreements if the agreement provides for such an option.

Leasing fees as cost of the period

	2018	2017
Minimum leasing fees	160.2	126.4
Fees received under sub-lease (subleasing)	(4.8)	(2.4)
Total	**155.4**	**124.0**

Future minimum leasing fees under non-cancellable operating leases

	2018	2017
Up to 1 year	109.0	71.9
From 1 year to 5 years	79.6	66.4
Over 5 years	2.1	7.1
Total	**190.7**	**145.4**

(in millions of PLN) (translation of a document originally issued in Polish)

7.3 Liabilities to incur expenditures for non-financial non-current assets

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

	31/12/2018	31/12/2017
Contractual liabilities on account of the acquisition of non-financial non-current assets	538.4	23.9
Total	**538.4**	**23.9**

As at 31 December 2018, the value of the Group's future investment liabilities included mainly liabilities resulting from:

- a contract entered into with NEWAG S.A. for modernization of 60 SM48 locomotives to be performed by May 2021. The contract is currently underway and as at 31 December 2018 its outstanding contractual value was PLN 260.7 million,
- a contract entered into with Pojazdy Szynowe PESA Bydgoszcz S.A. to conduct level five maintenance repairs of 38 ST44 locomotives with a total value of PLN 176.3 million, to be performed from January 2019 to September 2020,

The remaining part of the Group's investment liabilities consisted mainly of a PLN 47.4 million contract for the purchase of wagons, contracts for repairs and periodic inspections of wagons for PLN 27.6 million and a contract for the expansion of the transhipment terminal in Pasków for PLN 19.7 million.

On 28 January 2019, the Parent Company entered into an annex with a consortium of Siemens Mobility Sp. z o.o. and Siemens Mobility GmbH for the exercise of the option specified in the contract and the Parent Company's right to increase the deliverable by 5 brand new Siemens VECTRON multi-system locomotives with the provision of auxiliary services. 3 locomotives are scheduled to be delivered by July 2019 and 2 locomotives are scheduled to be delivered by January 2020. The total estimated net value of the annex is approx. EUR 26 million, an equivalent of PLN 111.8 million.

7.4 Contingent liabilities

Accounting policy applied

In compliance with the Group'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 the amount of the obligation cannot be measured with sufficient reliability.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Contingent liability items subject to a significant degree of estimation pertain to claims brought against the Group 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 unfavourable effect on the Group's financial result.

Structure of contingent liabilities

	31/12/2018	31/12/2017
Guarantees issued on the Group's order	125.0	130.1
Other contingent liabilities	119.8	129.2
Total	**244.8**	**259.3**

Guarantees issued on the Group's order

As at 31 December 2018, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

Other contingent liabilities

This line item comprises the claims made against the group 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 Group. 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.

(in millions of PLN) (translation of a document originally issued in Polish)

7.5 Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2018 and 31 December 2017 the Group had assets which constituted collateral for repayment of liabilities. The assets secure mainly correct performance of facility agreements. The amounts of the collateral are limited to the amount of the loan liability as at the balance sheet date.

Carrying amount of assets securing repayment of liabilities

	31/12/2018	31/12/2017
Other property, plant and equipment	281.8	285.5
Inventories	0.6	0.6
Trade receivables	75.9	53.0
Cash	4.4	0.9
Total	**362.7**	**340.0**

7.6 Subsequent events

On 4 January 2019, the Parent Company entered into agreements with members of the PGE Group for the transport of coal and limestone sorbents with a total maximum weight of 16.7 million tons. The agreements were entered into for the period from 1 January 2019 to 31 December 2021. The estimated maximum net value of the agreements during their term of validity is PLN 541.2 million.

More information on subsequent events date is provided in **Note 7.3** to these Consolidated Financial Statements.

Other subsequent events are described in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2018 in **Chapter 6.1.**

7.7 Approval of the financial statements

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 20 March 2019.

Parent 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, 20 March 2019