Consolidated Financial Statements of **PKP CARGO CAPITAL GROUP** for the financial year ended 31 December 2020

prepared in accordance with IFRS EU

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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

	2020	2019	
Revenues from contracts with customers	4,075.6	4,781.6	*Note 2.1*
Consumption of traction electricity and traction fuel	(492.7)	(583.8)	*Note 2.2*
Services of access to infrastructure	(517.3)	(572.6)	
Transport services	(340.5)	(363.3)	
Other services	(365.8)	(408.6)	*Note 2.2*
Employee benefits	(1,638.1)	(1,737.3)	*Note 2.2*
Other expenses	(264.6)	(292.8)	*Note 2.2*
Other operating revenue and (expenses)	123.6	36.7	*Note 2.3*
Operating profit without depreciation (EBITDA)	**580.2**	**859.9**	
Depreciation, amortization and impairment losses	(766.6)	(716.5)	*Note 2.2*
Profit/(loss) on operating activities (EBIT)	**(186.4)**	**143.4**	
Financial revenue and (expenses)	(82.2)	(71.6)	*Note 2.4*
Share in the profit/(loss) of entities accounted for under the equity method	1.7	1.7	*Note 5.3*
Profit/ (loss) before tax	**(266.9)**	**73.5**	
Income tax	42.6	(37.5)	*Note 3.1*
NET PROFIT/ (LOSS)	**(224.3)**	**36.0**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	(50.8)	9.9	
Income tax	9.7	(1.9)	*Note 3.1*
FX differences resulting from translation of financial statements	27.3	1.7	
Total other comprehensive income subject to reclassification in the financial result	**(13.8)**	**9.7**	
Actuarial profits/ (losses) on post-employment benefits	(50.2)	(52.2)	*Note 5.8*
Income tax	9.5	10.0	*Note 3.1*
Measurement of equity instruments at fair value	(0.7)	0.7	*Note 6.1*
Total other comprehensive income not subject to reclassification in the financial result	**(41.4)**	**(41.5)**	
Total other comprehensive income	**(55.2)**	**(31.8)**	
TOTAL COMPREHENSIVE INCOME	**(279.5)**	**4.2**	
Net profit/ (loss) attributable:			
Net profit/(loss) attributable to shareholders of the Parent Company	(224.3)	36.0	
Total other comprehensive income attributable:			
Total other comprehensive income attributable to shareholders of the Parent Company	(279.5)	4.2	
Earnings/ (losses) per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings/ (losses) per share	**(5.01)**	**0.80**	

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2020	31/12/2019	
ASSETS			
Rolling stock	4,245.0	4,329.6	*Note 5.1*
Other property, plant and equipment	875.6	872.4	*Note 5.1*
Rights-of-use assets	1,008.6	1,078.8	*Note 5.2*
Investments in entities accounted for under the equity method	42.0	40.4	*Note 5.3*
Trade receivables	3.0	3.0	*Note 5.5*
Lease receivables	10.3	10.9	
Other assets	35.1	55.0	*Note 5.6*
Deferred tax assets	177.8	113.7	*Note 3.1*
Total non-current assets	**6,397.4**	**6,503.8**	
Inventories	165.8	161.0	*Note 5.4*
Trade receivables	585.8	591.3	*Note 5.5*
Lease receivables	0.7	0.7	
Income tax receivables	2.9	51.4	
Other assets	88.1	132.7	*Note 5.6*
Cash and cash equivalents	306.0	550.4	*Note 4.4*
Total current assets	**1,149.3**	**1,487.5**	
Non-current assets classified as held for sale	12.7	-	
TOTAL ASSETS	**7,559.4**	**7,991.3**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	782.4	781.4	
Other items of equity	(160.2)	(77.7)	
FX differences resulting from translation of financial statements	104.8	77.5	
Retained earnings	177.5	402.8	
Total equity	**3,143.8**	**3,423.3**	
Debt liabilities	2,101.8	2,201.4	*Note 4.1*
Trade liabilities	1.5	2.7	
Investment liabilities	145.5	157.0	*Note 5.7*
Provisions for employee benefits	684.3	657.1	*Note 5.8*
Other provisions	5.7	5.4	*Note 5.9*
Deferred tax liability	90.7	92.3	*Note 3.1*
Total long-term liabilities	**3,029.5**	**3,115.9**	
Debt liabilities	478.5	421.3	*Note 4.1*
Trade liabilities	347.5	412.2	
Investment liabilities	133.5	181.5	*Note 5.7*
Provisions for employee benefits	116.3	127.1	*Note 5.8*
Other provisions	24.1	45.6	*Note 5.9*
Other liabilities	286.2	264.4	*Note 5.10*
Total short-term liabilities	**1,386.1**	**1,452.1**	
Total liabilities	**4,415.6**	**4,568.0**	
TOTAL EQUITY AND LIABILITIES	**7,559.4**	**7,991.3**	

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity: Profits / (losses) on measurement of equity instruments at fair value	Other items of equity: Actuarial profits/ (losses) on post-employment benefits	Other items of equity: Measurement of hedging instruments	FX differences resulting from translation of financial statements	Retained earnings	Total equity	
1/01/2020	**2,239.3**	**781.4**	**(12.2)**	**(75.0)**	**9.5**	**77.5**	**402.8**	**3,423.3**	
Net result for the financial year	-	-	-	-	-	-	(224.3)	**(224.3)**	
Other comprehensive income for the financial year (net)	-	-	(0.7)	(40.7)	(41.1)	27.3	-	**(55.2)**	
Total comprehensive income	-	-	(0.7)	(40.7)	(41.1)	27.3	(224.3)	**(279.5)**	
Other changes for the financial year	-	1.0	-	-	-	-	(1.0)	-	*Note 4.2*
31/12/2020	**2,239.3**	**782.4**	**(12.9)**	**(115.7)**	**(31.6)**	**104.8**	**177.5**	**3,143.8**	
1/01/2019 (audited)	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**	
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	-	2.8	**2.8**	
1/01/2019 (restated)	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**587.2**	**3,486.3**	
Net result for the financial year	-	-	-	-	-	-	36.0	**36.0**	
Other comprehensive income for the financial year (net)	-	-	0.7	(42.2)	8.0	1.7	-	**(31.8)**	
Total comprehensive income	-	-	0.7	(42.2)	8.0	1.7	36.0	**4.2**	
Dividends	-	-	-	-	-	-	(67.2)	**(67.2)**	
Other changes for the financial year	-	153.2	-	-	-	-	(153.2)	**-**	
31/12/2019	**2,239.3**	**781.4**	**(12.2)**	**(75.0)**	**9.5**	**77.5**	**402.8**	**3,423.3**	

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

CONSOLIDATED CASH FLOW STATEMENT

	2020	2019	
Cash flows from operating activities			
Profit / (loss) before tax	**(266.9)**	**73.5**	
Adjustments			
Depreciation, amortization and impairment losses	766.6	716.5	*Note 2.2*
(Profits)/ losses on the sale and liquidation of non-financial non-current assets	(8.9)	(6.3)	
(Profits)/ losses on FX differences	13.9	(0.3)	
(Profits)/ losses on interest, dividends	54.4	53.7	
Received / (paid) interest	2.0	1.7	
Received / (paid) income tax	42.9	(53.1)	
Movement in working capital	12.4	70.8	*Note 4.5*
Other adjustments	(63.3)	(50.0)	*Note 4.5*
Net cash from operating activities	**553.1**	**806.5**	
Cash flows from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(719.0)	(1,045.8)	
Proceeds from the sale of non-financial non-current assets	60.3	18.3	
Proceeds from dividends received	0.4	2.4	
Inflows / (outflows) on bank deposits over 3 months	-	200.0	
Other inflows / (outflows) from investing activities	3.2	10.3	
Net cash from investing activities	**(655.1)**	**(814.8)**	
Cash flow from financing activities			
Payments on lease liabilities	(148.5)	(127.3)	*Note 4.1*
Proceeds from bank loans and borrowings	285.7	549.1	*Note 4.1*
Repayment of bank loans and borrowings	(301.2)	(248.3)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(53.0)	(53.2)	*Note 4.1*
Grants received	74.7	63.2	
Dividends paid out to owners	-	(67.2)	
Other outflows from financing activities	(3.6)	(4.9)	
Net cash from financing activities	**(145.9)**	**111.4**	
Net increase/ (decrease) in cash and cash equivalents	(247.9)	103.1	
Cash and cash equivalents at the beginning of the reporting period	550.4	447.3	*Note 4.4*
Impact exerted by FX rate movements on the cash balance in foreign currencies	3.5	-	
Cash and cash equivalents at the end of the reporting period, including:	**306.0**	**550.4**	*Note 4.4*
Restricted cash	*49.1*	*49.2*	*Note 4.4*

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

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). Basic information about the Parent Company is presented in the table below.

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

The 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 2020 are presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020 in **Chapters 9.11** and **9.4**, respectively.

Information about the Group

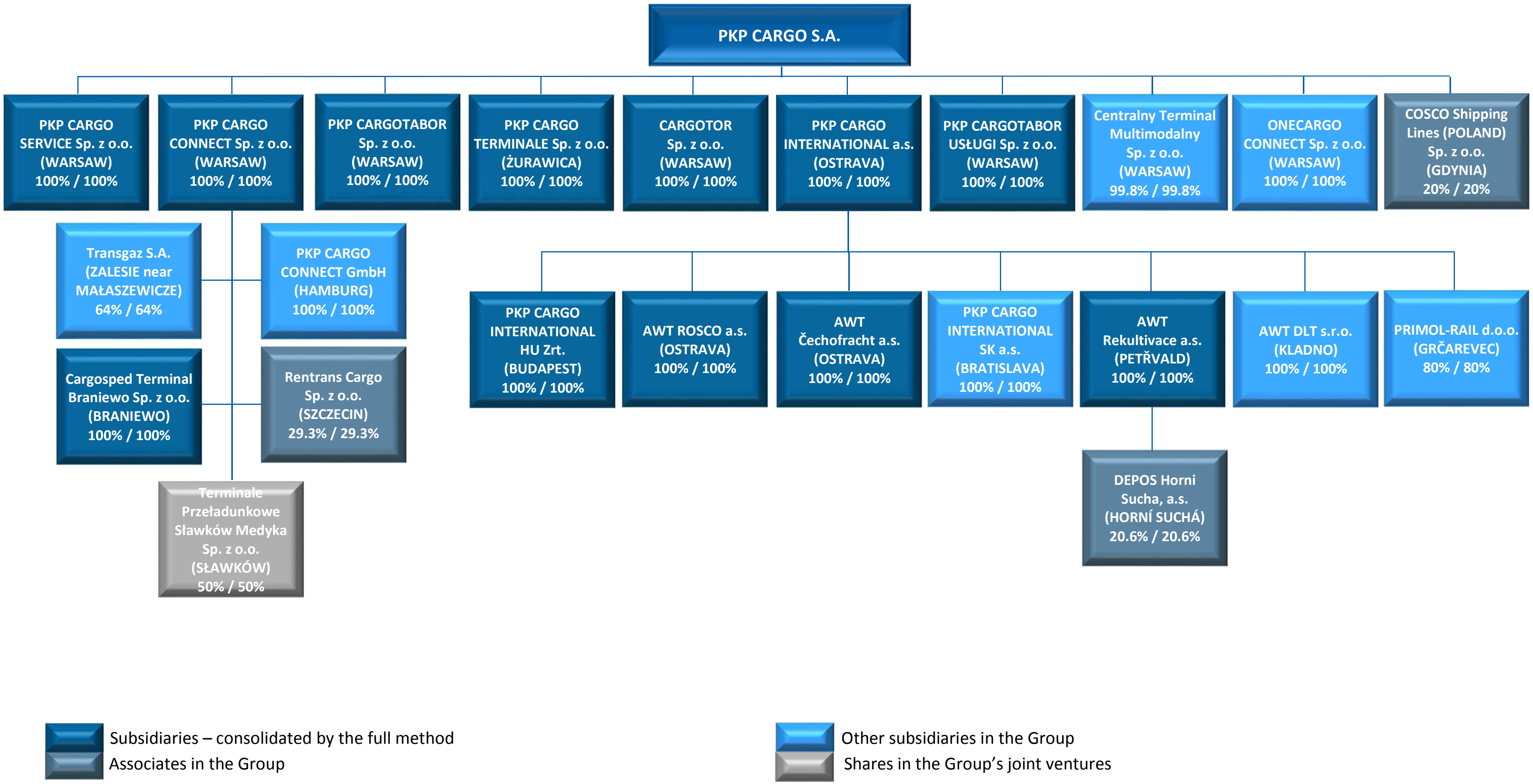
The Group's core business is rail freight transport. In addition to rail freight transport services, the Group also provides additional services:

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

The duration of individual Group companies is unlimited.

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

Detailed information about members of the Group as at 31 December 2020 is as follows:



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

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

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

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

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

On 22 March 2021, the subsidiary PKP CARGO CONNECT Sp. z o.o. signed an agreement to sale the shares it held in Rentrans Cargo Sp. z o.o. for the price of PLN 7.0 million, as a result of which Rentrans Cargo Sp. z o.o. ceased to be a related party of the PKP CARGO Group.

1.2 Basis for preparation of 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, "Regulation").

These Consolidated Financial Statements for the year ended 31 December 2020 have been prepared on the assumption that the Group 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 measured at fair value derivatives and investments in equity instruments.

These Consolidated Financial Statements have been prepared 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.

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

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

1.2 Basis for preparation of the Consolidated Financial Statements (cont.)

Note	Title	Amount recognized in the Consolidated Financial Statements		Accounting Policy	Significant estimates and judgments
		2020	2019		
2.1	Revenues from contracts with customers	4,075.6	4,781.6	X	X
2.2	Operating expenses	(4,385.6)	(4,674.9)		
2.3	Other operating revenue and (expenses)	123.6	36.7		
2.4	Financial revenue and (expenses)	(82.2)	(71.6)		
3.1	Income tax	42.6	(37.5)	X	X
5.1	Rolling stock	4,245.0	4,329.6	X	X
5.1	Other property, plant and equipment	875.6	872.4	X	X
5.2	Rights-of-use assets	1,008.6	1,078.8	X	X
5.3	Investments in entities accounted for under the equity method	42.0	40.4	X	
3.1	Deferred tax assets	177.8	113.7	X	X
5.4	Inventories	165.8	161.0	X	
5.5	Trade receivables	588.8	594.3	X	X
	Lease receivables	11.0	11.6		
	Income tax receivables	2.9	51.4		
5.6	Other assets	123.2	187.7	X	
4.4	Cash and cash equivalents	306.0	550.4	X	
	Non-current assets classified as held for sale	12.7	-		
4.2	Equity	3,143.8	3,423.3	X	
4.1	Debt liabilities	2,580.3	2,622.7	X	X
	Trade liabilities	349.0	414.9		
5.7	Investment liabilities	279.0	338.5	X	
5.8	Provisions for employee benefits	800.6	784.2	X	X
5.9	Other provisions	29.8	51.0	X	
5.10	Other liabilities	286.2	264.4	X	
3.1	Deferred tax liability	90.7	92.3	X	X
7.3	Contingent liabilities	208.8	229.1	X	X

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 2020 and 31 December 2019. 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 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 eliminated from the consolidation.

On 12 May 2020, the Rail Transport Act was amended, which implemented, among others, restrictions in ownership rights of the Parent Company in respect to its subsidiary CARGOTOR Sp. z o.o. (hereinafter referred to as CARGOTOR). Accordingly, in order to strengthen the corporate governance of the Parent Company, the relevant amendments were made to the Articles of Association of CARGOTOR, which transferred some significant competences from the supervisory board level to the level of CARGOTOR's shareholder meeting. The Management Board of the Parent Company believes that, as a result of changes introduced in the Articles of Association and considering all the relations between both companies, control over CARGOTOR within the meaning of IFRS 10 was maintained.

Transactions in foreign currencies are converted to the functional currency at the exchange rate from 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 converted according to the average NBP exchange rate binding on that date. Foreign exchange gains and losses obtained as a result of settlements of those transactions and balance sheet valuation of assets and liabilities denominated in foreign currencies are recognized in the profit or loss, provided they are not deferred in other comprehensive income when they are eligible for recognition as cash flows' hedging. Non-cash items measured at historical cost expressed in a foreign currency are converted using the exchange rate from the transaction date.

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

1.2 Basis for preparation of the Consolidated Financial Statements (cont.)

As at 31 December 2020 and 31 December 2019, for the needs of valuation of financial statements of foreign operations subject to consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of profit or loss and other comprehensive income and the cash flow statement	
	31/12/2020	31/12/2019	2020	2019
EUR	4.6148	4.2585	4.4742	4.3018
CZK	0.1753	0.1676	0.1687	0.1676

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

1.3 Applied International Financial Reporting Standards platform

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

When approving the Consolidated Financial Statements, the Group applied the following amendments to the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

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

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

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

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

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

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

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 31 December 2020 have not yet been endorsed by the EU and have not entered into effect. In the 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 3 "Business combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	1 January 2022
Annual Improvements to IFRS 2018-2020 Cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term	1 January 2023
IFRS 17 "Insurance contracts"	1 January 2023
Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2: Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of estimates	1 January 2023

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

Impairment of the Group's non-current assets

In the financial year ended 31 December 2020, as a result of the COVID-19 pandemic, the Group achieved financial results that were lower than expected and accordingly as at 31 December 2020 it was conducted impairment tests for three cash-generating units defined at the level of assets of the Parent Company, PKP CARGOTABOR Sp. z o.o. and the PKP CARGO INTERNATIONAL Group. The results of tests did not show any need for revaluation of the non-current assets held by the Group. Detailed information on the tests are described in **Note 5.1** to these Consolidated Financial Statements.

Assessment of expected credit losses

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

Impact on employee benefits

In connection with the COVID-19 pandemic, the Parent Company and selected subsidiaries signed agreements with trade union organizations on reducing the working hours of employees. The agreement signed by the Parent Company applied to the period from 1 June 2020 to 31 August 2020 and the agreements signed by the subsidiaries pertained to the period from 1 July 2020 to 30 September 2020. The reduced working time of the Group's employees caused a decrease in employee benefit expenses in the total amount of PLN 33.8 million.

Under the Anti-Crisis Act, the Parent Company and selected subsidiaries were awarded support from the Guaranteed Employee Benefit Fund in the total amount of PLN 115.2 million.

Impact on other expenses

Other expenses incurred by the Group for COVID-19 preventive measures amounted to PLN 4.1 million and included mainly the costs incurred for personal protection equipment. Additionally, in April 2020, the Parent Company donated PLN 1.0 million to the PKP Group Foundation for combating the COVID-19 pandemic.

Liquidity standing of the Group

As at 31 December 2020, the working capital level fell as compared to 31 December 2019. In the financial year ended 31 December 2020, in order to secure its liquidity position, the Parent Company signed an agreement with the European Investment Bank to grant an investment loan up to the maximum amount of EUR 200 million, of which EUR 60 million was used by 31 December 2020. A drawdown of the remaining amount of the liability in the amount of EUR 140 million is optional and requires prior approval from the Supervisory Board and execution of a separate agreement with the bank. As at 31 December 2020, the Group also had unused credit and lease facilities in the amount of PLN 260.2 million.

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

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

2.1 Revenues from contracts with customers

Accounting policy applied

The 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 remuneration expected to be payable to the Group in return for such goods and services. Revenues 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) fulfillment 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.

Revenues from sales of materials, goods and finished products are recognized in the statement of profit or loss and other comprehensive income when the customer obtains control over the asset in question. The moment of the transfer of control is the same as the moment when the significant risk and benefits resulting from their ownership were transferred.

Variable remuneration

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

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

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

Contract assets

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

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 remuneration (or the amount of remuneration is due) from the customer. The Group recognizes a contract liability chiefly in connection with remuneration received in advance for services that have not yet been provided by the Group. As at 31 December 2020 and 31 December 2019 the Group had no significant liabilities under contracts with customers.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

- from the degree of progress of transport services, which are measured based on the estimated level of freight volume the transportation of which has not been completed as at the balance sheet date and the average obtainable price,
- from the freight volume that has already been delivered to the destination but has not yet been collected by the customer. The measurement takes into account the actual freight volume and the average obtainable price,
- from rents for wagons owned by the 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 freight companies,
- 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 this note in the table on movement in assets arising from contracts with customers.

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

2.1 Revenues from contracts with customers (cont.)

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 analyzes financial data in the layout in which they have been presented in these Consolidated Financial Statements.

2020	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	225.0	9.6	823.6	2,200.5	**3,258.7**
Revenue from other transportation activity	0.5	-	1.2	141.4	**143.1**
Revenue from siding and traction services	-	9.0	143.2	131.0	**283.2**
Revenue from transshipment services	1.2	-	0.4	152.7	**154.3**
Revenue from reclamation services	-	0.1	1.1	68.6	**69.8**
Revenue from sales of goods and materials	-	-	1.7	47.0	**48.7**
Other revenues	1.1	16.2	12.0	88.5	**117.8**
Total	**227.8**	**34.9**	**983.2**	**2,829.7**	**4,075.6**
Revenue recognition date					
At a point of time	-	-	1.7	50.3	**52.0**
Over a period	227.8	34.9	981.5	2,779.4	**4,023.6**
Total	**227.8**	**34.9**	**983.2**	**2,829.7**	**4,075.6**

2019	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	382.5	0.8	1,061.0	2,468.8	**3,913.1**
Revenue from other transportation activity	1.2	0.5	2.0	155.4	**159.1**
Revenue from siding and traction services	0.4	11.4	124.7	143.5	**280.0**
Revenue from transshipment services	1.1	-	0.4	154.9	**156.4**
Revenue from reclamation services	-	-	-	98.0	**98.0**
Revenue from sales of goods and materials	-	-	2.2	53.3	**55.5**
Other revenues	1.4	8.0	10.9	99.2	**119.5**
Total	**386.6**	**20.7**	**1,201.2**	**3,173.1**	**4,781.6**
Revenue recognition date					
At a point of time	-	-	2.2	64.7	**66.9**
Over a period	386.6	20.7	1,199.0	3,108.4	**4,714.7**
Total	**386.6**	**20.7**	**1,201.2**	**3,173.1**	**4,781.6**

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

2.1 Revenues from contracts with customers (cont.)

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

The following table 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:

	31/12/2020			31/12/2019		
	Siding services	Reclamation services	Total	Siding services	Reclamation services	Total
Up to 1 year	53.5	40.7	**94.2**	40.2	35.1	**75.3**
1 to 3 years	27.2	37.9	**65.1**	33.0	2.8	**35.8**
Over 3 years	-	17.1	**17.1**	-	0.4	**0.4**
Total	**80.7**	**95.7**	**176.4**	**73.2**	**38.3**	**111.5**

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

	2020	2019
Poland	2,797.2	3,411.9
Czech Republic	541.3	597.3
Germany	279.5	294.6
Slovakia	86.9	111.8
Austria	65.2	53.2
Denmark	58.6	59.2
Other countries	246.9	253.6
Total	**4,075.6**	**4,781.6**

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

	2020	2019
Poland	5,415.6	5,576.0
Czech Republic	779.6	787.8
Other countries	5.5	4.3
Total	**6,200.7**	**6,368.1**

Information on key customers

In the financial year ended 31 December 2020 and 31 December 2019, revenues from any single customer of the Group did not exceed 10% of the total revenues from contracts with customers.

Assets from contracts with customers

	2020	2019
As at the beginning of the reporting period	**18.6**	**37.1**
Recognition of revenue before the payment due date	24.2	18.6
Reclassification to receivables	(18.9)	(37.1)
FX differences from valuation	0.3	-
As at the end of the reporting period	**24.2**	**18.6**

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

2.2 Operating expenses

Consumption of electricity and traction fuel

	2020	2019
Consumption of traction fuel	(115.8)	(176.8)
Consumption of traction electricity	(376.9)	(407.0)
Total	**(492.7)**	**(583.8)**

Other services

	2020	2019
Repair and maintenance services for non-current assets	(94.7)	(96.4)
Rent and fees for the use of real properties and rolling stock	(62.5)	(87.2)
Telecommunications services	(6.4)	(6.6)
Legal, consulting and similar services	(11.1)	(15.8)
IT services	(45.8)	(46.4)
Transshipment services	(11.6)	(14.3)
Reclamation services	(71.5)	(86.9)
Other services	(62.2)	(55.0)
Total	**(365.8)**	**(408.6)**

Employee benefits

	2020	2019
Payroll	(1,254.1)	(1,303.3)
Social security expenses	(263.5)	(275.7)
Expenses for contributions to the Company Social Benefits Fund	(33.4)	(25.2)
Other employee benefits during employment	(44.4)	(46.5)
Post-employment benefits	(4.6)	(4.9)
Movement in provisions for employee benefits	(38.1)	(81.7)
Total	**(1,638.1)**	**(1,737.3)**

Other expenses

	2020	2019
Consumption of non-traction fuel	(21.3)	(27.7)
Consumption of electricity, gas and water	(37.5)	(37.8)
Consumption of materials	(90.8)	(98.2)
Taxes and charges	(36.2)	(35.6)
Cost of goods and materials sold	(31.4)	(35.0)
Business trips	(27.6)	(33.2)
Other	(19.8)	(25.3)
Total	**(264.6)**	**(292.8)**

Depreciation, amortization and impairment losses

	2020	2019
Depreciation of rolling stock	(537.4)	(501.5)
Depreciation of other property, plant and equipment	(77.4)	(78.0)
Depreciation of rights-of-use assets	(138.1)	(123.9)
Amortization of intangible assets	(10.9)	(13.1)
(Recognized) / reversed impairment losses:		
Rolling stock	(1.8)	0.4
Other property, plant and equipment	(1.3)	(0.4)
Non-current assets classified as held for sale	0.3	-
Total	**(766.6)**	**(716.5)**

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

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	2020	2019
Income from the Anti-Crisis Shield [(1)]	115.2	-
Profit on sales of non-financial non-current assets	7.9	8.4
Reversed impairment losses on trade receivables	5.1	7.2
Penalties and compensations	16.0	19.4
Reversal of other provisions	3.8	27.5
Interest on trade and other receivables	3.4	2.5
Net result on FX differences on trade receivables and liabilities	3.3	-
VAT refund	-	12.6
Other	5.6	6.3
Total other operating revenue	**160.3**	**83.9**
Recognized impairment losses on trade receivables	(7.4)	(14.0)
Penalties and compensations	(8.3)	(7.5)
Costs of liquidation of non-current and current assets	(5.5)	(6.3)
Recognized other provisions	(7.6)	(10.6)
Net result on FX differences on trade receivables and liabilities	-	(1.9)
Other	(7.9)	(6.9)
Total other operating expenses	**(36.7)**	**(47.2)**
Other operating revenue and (expenses)	**123.6**	**36.7**

[(1)] This item represents the co-financing of employee salaries awarded to the Group from the Guaranteed Employee Benefits Fund.

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2020	2019
Interest income	2.4	4.9
Dividend income	-	0.3
Other		
Profit on sales of shares and stocks	-	0.8
Net result on FX differences	-	1.6
Other	-	0.2
Total financial revenue	**2.4**	**7.8**
Interest expenses	(57.9)	(58.6)
Other		
Settlement of the discount on provisions for employee benefits	(14.7)	(17.6)
Net result on FX differences	(9.3)	-
Other	(2.7)	(3.2)
Total financial expenses	**(84.6)**	**(79.4)**
Financial revenue and (expenses)	**(82.2)**	**(71.6)**

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

3. Explanatory notes on taxation

3.1 Income tax

Accounting policy applied

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

Deferred income tax is recognized with respect to temporary differences between the tax base of an asset or liability and the corresponding carrying amount. Deferred tax liabilities are recognized with respect to taxable temporary differences. Deferred tax assets are recognized with reference to deductible temporary differences up to the amount of the Group's likely future taxable income sufficient to settle such temporary differences. The value of the deferred tax assets is reviewed at each balance sheet date in terms of prospects of generation of future tax profits required to settle it.

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The Group recognizes a deferred tax asset based on the assumption that taxable income would be achieved in the future, allowing the Group to use the asset. According to the long-term financial forecasts developed by the 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

	2020	2019
Current income tax		
Current tax charge	(8.9)	(3.9)
Adjustments recognized in the current year relating to tax from previous years	1.6	(0.7)
Deferred tax		
Deferred income tax of the reporting period	49.9	(32.9)
Income tax recognized in profit / loss	**42.6**	**(37.5)**

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

	2020	2019
Deferred tax on the measurement of hedging instruments	9.7	(1.9)
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	9.5	10.0
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income	(3.4)	(0.2)
Deferred income tax recognized in other comprehensive income	**15.8**	**7.9**

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

3.1 Income tax (cont.)

Reconciliation of the effective tax rate

	2020	2019
Profit / (loss) before tax	**(266.9)**	**73.5**
Income tax expense at 19%	50.7	(14.0)
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Dividend	-	0.1
Reversal of non-tax provisions and impairment losses	0.2	0.4
Valuation under the equity method	0.4	0.3
Recovered VAT	-	5.0
Other	0.2	0.2
Tax effect of non-deductible expenses arising from tax regulations, including:		
Unused tax losses	-	(17.0)
PFRON disability fund	(5.0)	(5.1)
Establishment of non-tax provisions and impairment losses	(0.3)	(0.2)
Permanent differences in expenses related with property, plant and equipment	(0.9)	(2.7)
Representation expenses	(0.4)	(0.7)
Penalties and compensations	(0.9)	(1.2)
Value added tax and other public law liabilities	(0.1)	(0.3)
Other	(1.9)	(1.6)
Effect of tax losses used in a period in which deferred tax was not recognized	**0.1**	**0.2**
Effect of the recognition / (reversal) of a deferred tax asset on tax losses	**(0.6)**	**(0.8)**
Adjustments disclosed in the current year with reference to past years' tax	**1.1**	**(0.1)**
Income tax recognized in profit / loss	**42.6**	**(37.5)**
Effective tax rate	**16.0%**	**51.0%**

The corporate income tax rate effective in Poland in the years 2019-2020 amounted to 19%. In the case of the PKP CARGO INTERNATIONAL Group companies, the relevant tax rates were as follows: 19% in the Czech Republic and 9% 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:

	31/12/2020	31/12/2019
Deferred tax assets	177.8	113.7
Deferred tax liabilities	(90.7)	(92.3)
Total	**87.1**	**21.4**

Table of movements in deferred tax before the set-off

2020	1/01/2020	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2020
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(167.0)**	19.0	-	(3.2)	**(151.2)**
Rights-of-use assets and lease liabilities	**(6.0)**	(3.4)	-	(0.3)	**(9.7)**
Other provisions and liabilities	**14.4**	(1.1)	-	-	**13.3**
Inventories	**(4.7)**	(4.6)	-	-	**(9.3)**
Lease receivables	**(2.1)**	-	-	-	**(2.1)**
Trade receivables	**1.7**	1.2	-	-	**2.9**
Provisions for employee benefits	**148.9**	(6.5)	9.5	0.1	**152.0**
Other	**0.6**	5.4	9.7	-	**15.7**
Unused tax losses	**35.6**	39.9	-	-	**75.5**
Total	**21.4**	**49.9**	**19.2**	**(3.4)**	**87.1**

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

3.1 Income tax (cont.)

2019	1/01/2019 (audited)	Effect of the implementation of IFRS 16	1/01/2019 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2019
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non-current assets	**(133.4)**	11.9	**(121.5)**	(45.3)	-	(0.2)	**(167.0)**
Rights-of-use assets and lease liabilities	**-**	(9.5)	**(9.5)**	3.5	-	-	**(6.0)**
Other provisions and liabilities	**10.8**	(1.4)	**9.4**	5.0	-	-	**14.4**
Inventories	**(4.1)**	-	**(4.1)**	(0.6)	-	-	**(4.7)**
Lease receivables	**-**	(1.7)	**(1.7)**	(0.4)	-	-	**(2.1)**
Trade receivables	**3.6**	-	**3.6**	(1.9)	-	-	**1.7**
Provisions for employee benefits	**134.0**	-	**134.0**	4.9	10.0	-	**148.9**
Other	**0.3**	-	**0.3**	2.2	(1.9)	-	**0.6**
Unused tax losses	**35.9**	-	**35.9**	(0.3)	-	-	**35.6**
Total	**47.1**	**(0.7)**	**46.4**	**(32.9)**	**8.1**	**(0.2)**	**21.4**

Maturity analysis of deferred tax assets from tax losses

Expiration dates of the tax losses to which deferred tax assets were recognized as at 31 December 2020

Year	2022	2023	2024	2025	Total
Unused tax losses	0.7	85.3	195.4	115.5	**396.9**

Based on the long-term forecasts adopted in the Group, as at 31 December 2020 the Parent Company's Management Board believes the risk that the above assets cannot be realized is low.

Expiration dates of the tax losses to which deferred tax assets were recognized as at 31 December 2019

Year	2021	2022	2023	2024	Total
Unused tax losses	12.6	8.4	85.4	80.3	**186.7**

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:

	31/12/2020	31/12/2019
PKP CARGO INTERNATIONAL HU Zrt.	11.7	21.5
AWT Čechofracht a.s.	14.6	10.6
PKP CARGOTABOR USŁUGI Sp. z o.o.	3.8	7.5
CARGOSPED Terminal Braniewo Sp. z o.o.	-	0.4
Total	**30.1**	**40.0**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2020

Year	2021	2022	2023	2024	2025	Total
Unused tax losses	8.6	6.4	6.7	4.8	3.6	**30.1**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2019

Year	2020	2021	2022	2023	2024	Total
Unused tax losses	3.9	8.8	6.3	6.9	14.1	**40.0**

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

4.1 Reconciliation of debt liabilities

Accounting policy applied

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

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

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

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

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

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

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

- short-term leases, i.e. leases where the term of the agreement is no longer than 12 months and which do not include a purchase option;
- leases for which the underlying asset is low value. The Group defines assets of low value as those whose value, when new, does not exceed PLN 25 thousand.

In cases where the exemptions referred to above are applied, the Group recognizes lease payments as an expense falling under the straight-line method over the lease term or under another method that provides a better reflection of the benefits obtained by the Group.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

a) the discount rate

The Group discounts lease payments using the interest rate implicit in the lease, if that rate can be readily determined; otherwise it uses the incremental borrowing rate. The incremental borrowing rate is calculated on the basis of the following two components:

- risk-free rate, which is based on a reference rate appropriate for the currency in question; and
- credit risk premium, which is based on the banks' credit margins and takes into account the contract term and the financial situation of each company in which leases have been identified.

b) term of lease

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

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

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

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

4.1 Reconciliation of debt liabilities (cont.)

The Group's debt liabilities consist of the following two main categories: bank loans and borrowings and leases. Loan agreements were signed mainly to finance current activity, finance and refinance the investment plan and acquisitions. The repayment of liabilities contracted under the executed loan agreements is made in PLN and EUR. The collateral established to secure the repayment of liabilities is described in **Note 7.4** of these Consolidated Financial Statements.
Lease agreements are signed in PLN, EUR and CZK and pertain mainly to property and rolling stock.

Items in foreign currencies

31/12/2020	In the functional currency – PLN	In a foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	999.2	660.1	-	**1,659.3**
Leases	772.6	113.7	34.7	**921.0**
Total	**1,771.8**	**773.8**	**34.7**	**2,580.3**

31/12/2019	In the functional currency – PLN	In a foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	1,085.2	541.0	-	**1,626.2**
Leases	807.7	142.3	46.5	**996.5**
Total	**1,892.9**	**683.3**	**46.5**	**2,622.7**

Reconciliation of debt liabilities

2020	Bank loans and borrowings	Leases	Total
1/01/2020	**1,626.2**	**996.5**	**2,622.7**
New liabilities contracted	285.7	36.9	**322.6**
Modifications of existing agreements	-	29.1	**29.1**
Leaseback	-	9.1	**9.1**
Transaction costs	2.1	-	**2.1**
Accrual of interest	21.0	33.5	**54.5**
Payments under debt, including:			
Repayments of the principal	(301.2)	(148.5)	**(449.7)**
Interest paid	(21.5)	(31.5)	**(53.0)**
Transaction costs	(1.6)	-	**(1.6)**
Other	-	(14.2)	**(14.2)**
FX valuation	46.1	8.6	**54.7**
FX resulting from translation	2.5	1.5	**4.0**
31/12/2020	**1,659.3**	**921.0**	**2,580.3**
Long-term	1,322.3	779.5	**2,101.8**
Short-term	337.0	141.5	**478.5**
Total	**1,659.3**	**921.0**	**2,580.3**

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

4.1 Reconciliation of debt liabilities (cont.)

2019	Bank loans and borrowings	Leases	Total
1/01/2019 (audited)	**1,331.8**	**95.2**	**1,427.0**
Effect of the implementation of IFRS 16	-	803.7	**803.7**
1/01/2019 (restated)	**1,331.8**	**898.9**	**2,230.7**
New liabilities contracted	549.1	191.1	**740.2**
Modifications of existing agreements	-	42.9	**42.9**
Transaction costs	2.3	-	**2.3**
Accrual of interest	21.7	34.3	**56.0**
Payments under debt, including:			
Repayments of the principal	(248.3)	(127.3)	**(375.6)**
Interest paid	(21.9)	(31.3)	**(53.2)**
Transaction costs	(2.3)	-	**(2.3)**
Other	-	(10.6)	**(10.6)**
FX valuation	(6.3)	(1.3)	**(7.6)**
FX resulting from translation	0.1	(0.2)	**(0.1)**
31/12/2019	**1,626.2**	**996.5**	**2,622.7**
Long-term	1,355.5	845.9	**2,201.4**
Short-term	270.7	150.6	**421.3**
Total	**1,626.2**	**996.5**	**2,622.7**

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

	Presentation in the statement of profit or loss and other comprehensive income	2020	2019
Revenues from operating leases	Revenues from contracts with customers	36.5	40.1
Interest income from leases	Financial revenue	0.5	0.5
Costs on account of:			
Short-term leases	Other services	(30.7)	(43.6)
Leases of low-value assets	Other services	(5.0)	(5.1)
Variable lease payments not included in the measurement of lease liabilities	Other services	(2.1)	(2.9)

Terms and conditions of loan agreements

Contracts signed with banks impose legal and financial obligations on the Group that are standard in such transactions. The key ratios indicating the performance of the agreements signed by the Group include: the Net Debt/EBITDA ratio and the total debt ratio.
The above ratios are calculated on the basis of data contained in both the Standalone and Consolidated Financial Statements of PKP CARGO S.A. and selected subsidiaries, as well as the consolidated financial statements of the PKP CARGO Group and the PKP CARGO INTERNATIONAL Group.

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

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

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

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

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

In the case of other subsidiaries, there was no need to seek a waiver of any of the covenants set forth in the loan agreements as at 31 December 2020.

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

4.1 Reconciliation of debt liabilities (cont.)

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2020	31/12/2019
Investment loan	European Investment Bank	19/07/2020	EUR	-	22.0
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2021	PLN	100.0	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/12/2021	PLN	99.9	100.0
Overdraft	Bank Polska Kasa Opieki S.A.	25/06/2021	PLN	10.0	-
Investment loan	Bank Polska Kasa Opieki S.A.	31/05/2021	PLN	10.0	-
Overdraft	Bank Polska Kasa Opieki S.A.	09/07/2021	PLN	1.6	-
Leasing facility	Millennium Leasing Sp. z o.o.	02/12/2021	PLN	38.7	51.3
Total				**260.2**	**273.3**

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).

Supplementary capital includes a share premium account (agio), profit of previous years transferred to supplementary capital and the reserve capital created from the retirement of shares.

Other items of equity include Actuarial profit/(loss) pertaining to employee benefits, the effect of measurement of equity instruments at fair value and the effective portion of gains and losses on hedging instruments in hedge accounting applied by the Group.

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

Exchange differences resulting from translation of financial statements of foreign operations arise as a result of translation of financial data of such operations to the Polish currency based on the following principles:

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.

Share capital

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

As at 31 December 2020 and 31 December 2019, the share capital consisted of common shares with a par value of PLN 50 each. Fully paid 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.

PKP S.A. is the parent company of PKP CARGO S.A. Pursuant to 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 Chairperson 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 2020 and 31 December 2019, there were no movements in the share capital of the Parent Company.

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

4.2 Equity and capital management policy (cont.)

Movement in supplementary capital and retained earnings

In the financial year ended 31 December 2020, changes in the Group's supplementary capital resulted from a resolution adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o in the matter of allocating the net profit of PLN 1.0 million generated in 2019 to supplementary capital.

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

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

Equity management

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

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

	31/12/2020	31/12/2019
Total liabilities	4,415.6	4,568.0
Total balance sheet	7,559.4	7,991.3
Total debt ratio	**58%**	**57%**

4.3 Liquidity risk management

The Group may be exposed to liquidity risk following from the ratio of current assets to current liabilities. Additionally, to secure its long-term liquidity, the Group used investment loans and leases (financing of capital expenditures).
To minimize the risk of cash flow disturbances and the risk of liquidity loss as well as to optimize financial expenses in the PKP CARGO Group, a cash pool system is in place and comprises, as at 31 December 2020, 8 Group companies. The cash pool, independently of the cash collected by particular participants, is associated with a flexible line of credit in the form of a current account overdraft facility. As at 31 December 2020, the Group had unused credit facilities in the aggregate amount of PLN 221.5 million and an unused leasing facility in the amount of PLN 38.7 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):

31/12/2020	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	130.3	388.9	1,453.0	869.7	**2,841.9**	**2,580.3**
Trade liabilities	322.1	25.4	1.5	-	**349.0**	**349.0**
Investment liabilities	91.7	44.3	148.3	-	**284.3**	**279.0**
Derivative instruments – FX forwards	1.1	1.6	-	-	**2.7**	**2.7**
Cash pool	1.1	-	-	-	**1.1**	**1.1**
Total	**546.3**	**460.2**	**1,602.8**	**869.7**	**3,479.0**	**3,212.1**

31/12/2019	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	139.3	342.3	1,602.8	877.8	**2,962.2**	**2,622.7**
Trade liabilities	396.3	15.9	2.7	-	**414.9**	**414.9**
Investment liabilities	147.4	36.7	160.9	-	**345.0**	**338.5**
Total	**683.0**	**394.9**	**1,766.4**	**877.8**	**3,722.1**	**3,376.1**

(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

	31/12/2020	31/12/2019
Cash on hand and on bank accounts	134.0	192.2
Bank deposits up to 3 months	171.6	358.2
Other cash	0.4	-
Total	**306.0**	**550.4**
including restricted cash	*49.1*	*49.2*

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

4.5 Notes to the cash flow statement

Movement in working capital

2020	Movement in statement of financial position	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(4.8)	35.4	-	30.6
Trade receivables	5.5	(4.4)	0.8	1.9
Other assets	64.5	(4.5)	(11.0)	49.0
Provisions	(4.8)	-	-	(4.8)
Trade liabilities	(65.9)	(1.8)	(0.2)	(67.9)
Investment liabilities	(59.5)	45.3	-	(14.2)
Other liabilities	21.8	(1.2)	(2.8)	17.8
Total working capital	**(43.2)**	**68.8**	**(13.2)**	**12.4**

2019	Movement in statement of financial position	Effect of the implementation of IFRS 16	Net cash flow from investing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	0.7	-	7.0	-	7.7
Trade receivables	91.0	-	(0.9)	-	90.1
Other assets	(9.6)	(9.5)	19.2	(14.4)	(14.3)
Provisions	50.8	3.7	-	(0.1)	54.4
Trade liabilities	(85.0)	12.1	-	-	(72.9)
Investment liabilities	51.1	-	(76.7)	-	(25.6)
Other liabilities	28.8	-	1.6	1.0	31.4
Total working capital	**127.8**	**6.3**	**(49.8)**	**(13.5)**	**70.8**

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

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

Other adjustments

	2020	2019
Actuarial profits / (losses) on post-employment benefits recognized in other comprehensive income	(50.2)	(52.2)
Measurement of hedging instruments	(10.0)	4.1
Measurement of equity instruments at fair value	(0.7)	0.7
(Profit) / loss on investing activities	-	(0.8)
FX differences resulting from translation of financial statements	(0.7)	(0.1)
Other	(1.7)	(1.7)
Other adjustments in the cash flow statement	**(63.3)**	**(50.0)**

Non-cash transactions

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

- Offsetting off mutual settlements

The Group set off trade receivables with liabilities arising from the purchase of non-financial non-current assets. The total amount of set offs in 2020 amounted to PLN 4.4 million, whereas in 2019 it was PLN 0.8 million.

- Liquidation of rolling stock

When it is decided to liquidate a rolling stock component, its residual value is posted in the item of inventories. In 2020, the residual value of non-current assets reclassified to inventories amounted to PLN 35.4 million, whereas in 2019 it was PLN 7.0 million.

5. Explanatory notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Accounting policy applied

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

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

An item of property, plant and equipment is removed from the statement of financial position at the moment of sale or when no economic benefits are expected from its use. When it is decided to derecognize an item of property, plant and equipment, its carrying amount is recognized in the profit or loss of the period in which the decision was taken. Items of rolling stock are an exception – their residual value is recognized in the inventory item when the decision is made to liquidate them.

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 commercial 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.

Residual value of rolling stock

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

(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 of rolling stock

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

After completing repair or modernization at level 4 and 5, a technical railworthiness certificate is issued. A technical railworthiness certificate confirms that the given rolling stock asset is allowed to be used until the next repair at level P4 or P5. An asset may be operated in the entire certificate validity period provided also that a P3 inspection is carried out halfway through the cycle. If no repair / inspection at levels P3, P4 and P5 is carried out, the rolling stock asset loses its operational capacity and cannot be used in rail transport. The 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 is recognized in the carrying amount of the rolling stock asset and are depreciated in the period between repairs.

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

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.

Freehold land and rights of perpetual usufruct of land exempt from fees are not depreciated.

The estimated useful lives, residual values and depreciation methods are verified at the end of each reporting period, including prospective application of any changes to estimates.

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

	Useful lives
Real properties, including:	
Land and perpetual usufruct rights to land	are not depreciated
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

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

The 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 2020 and 31 December 2019 did not reveal the need to make material changes to previously applied depreciation rates.

Residual value of the rolling stock

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

Impairment of non-current assets

As at 31 December 2020, the Group performed impairment tests with respect to three cash-generating units defined at the level of assets of the Parent Company, PKP CARGOTABOR Sp. z o.o. and the PKP CARGO INTERNATIONAL Group, because of the market value of the Group's net assets being persistently lower than their carrying amount and the lower than expected financial results achieved by the Group. The tests were performed on cash-generating units by determining their recoverable amount at the level of their value in use. The recoverable amount of the analyzed assets was determined on the basis of their estimated value in use using the net discounted cash flows method, in line with detailed financial projections developed for 2021-2030. In the opinion of the Parent Company's Management Board, adopting financial projections for more than five years is reasonable because the property, plant and equipment used by the Group have a considerably longer economic useful lives.

PKP CARGO S.A.

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 2.5% in real terms,
b) in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 15.3% in real terms,
c) the after-tax weighted average cost of capital (WACC) will be at 6.0% 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 2020, the Parent Company recognized no impairment loss for the assets.

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

PKP CARGOTABOR Sp. z o.o.

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

a) in the period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 1.8% in real terms,
b) in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 4.1% in real terms,
c) the after-tax weighted average cost of capital (WACC) will be at 6.0% 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 tested assets owned by PKP CARGOTABOR Sp. z o.o., as at 31 December 2020 the Group recognized no impairment loss for assets owned by PKP CARGOTABOR Sp. z o.o.

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

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

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

PKP CARGO INTERNATIONAL GROUP

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

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

Because the recoverable amount determined as a result of the test was not materially different from the carrying amount of the tested non-current assets owned by the PKP CARGO INTERNATIONAL Group, the Group did not revalue the impairment loss for the assets as at 31 December 2020, which as at that date amounted to PLN 109.4 million.

Presented below is the estimated amount of impairment loss as at 31 December 2020 when changing only the following key parameters and keeping the other assumptions on a fixed level:

	PKP CARGO INTERNATIONAL GROUP	
	- 0.3 p.p.	+ 0.3 p.p.
WACC	(42.9)	36.1
Increase after the detailed projection period	21.2	(26.5)

(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

2020	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							
1/01/2020	**6,847.0**	**916.4**	**435.8**	**99.6**	**43.9**	**73.2**	**1,568.9**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	276.5	**276.5**
Other acquisitions	-	-	-	-	-	403.4	**403.4**
Purchases of leased items	-	-	2.9	2.6	-	-	**5.5**
Settlement of fixed assets under construction	601.8	25.9	42.1	1.1	1.4	(672.3)	**(601.8)**
Grant for non-current assets	(68.1)	-	(0.2)	-	-	(3.6)	**(3.8)**
Sales	(26.5)	(1.0)	(0.3)	(4.4)	-	-	**(5.7)**
Liquidation(1)	(214.7)	(2.6)	(3.0)	(0.3)	(0.5)	(0.6)	**(7.0)**
Reclassified to assets held for sale(2)	(128.9)	-	-	-	-	-	**-**
FX differences	35.0	6.6	2.0	2.1	0.1	1.7	**12.5**
Other	(1.6)	(0.1)	0.1	-	(0.3)	-	**(0.3)**
31/12/2020	**7,044.0**	**945.2**	**479.4**	**100.7**	**44.6**	**78.3**	**1,648.2**
Accumulated depreciation							
1/01/2020	**(2,310.2)**	**(262.0)**	**(309.7)**	**(81.0)**	**(36.8)**	**-**	**(689.5)**
Increases / (decreases):							
Depreciation	(537.4)	(34.4)	(35.7)	(4.6)	(2.7)	-	**(77.4)**
Purchases of leased items	-	-	(1.7)	(2.1)	-	-	**(3.8)**
Sales	9.6	-	0.3	4.3	-	-	**4.6**
Liquidation(1)	170.4	2.4	3.0	0.3	0.5	-	**6.2**
Reclassified to assets held for sale(2)	63.3	-	-	-	-	-	**-**
FX differences	(8.8)	(1.8)	(1.0)	(1.5)	(0.1)	-	**(4.4)**
Other	0.2	(0.1)	(0.5)	(0.1)	0.2	-	**(0.5)**
31/12/2020	**(2,612.9)**	**(295.9)**	**(345.3)**	**(84.7)**	**(38.9)**	**-**	**(764.8)**
Accumulated impairment							
1/01/2020	**(207.2)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.9)**	**(7.0)**
Increases / (decreases):							
Recognition	(1.8)	-	-	-	-	(1.4)	**(1.4)**
Derecognition	-	-	0.1	-	-	-	**0.1**
Utilization(1)	12.3	-	-	-	-	0.6	**0.6**
Reclassified to assets held for sale(2)	18.5	-	-	-	-	-	**-**
FX differences	(7.9)	-	(0.1)	-	-	-	**(0.1)**
31/12/2020	**(186.1)**	**(2.4)**	**(1.7)**	**-**	**-**	**(3.7)**	**(7.8)**
Net value							
1/01/2020	**4,329.6**	**652.0**	**124.4**	**18.6**	**7.1**	**70.3**	**872.4**
31/12/2020	**4,245.0**	**646.9**	**132.4**	**16.0**	**5.7**	**74.6**	**875.6**

(1) In 2020, the Group made a decision on physical liquidation of:
- 1,647 wagons with the book value of PLN 20.4 million, and
- 113 locomotives with the book value of PLN 15.0 million.

These assets were recognized as inventories designated for scrapping.

(2) In 2020, the Parent Company decided to sell and reclassify to assets held for sale:
- 2,761 wagons with the book value of PLN 29.8 million,
- 210 locomotives with the book value of PLN 17.3 million.

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

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

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

2019	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2019 (audited)	**6,471.2**	**943.7**	**432.1**	**98.2**	**41.1**	**71.9**	**1,587.0**
Effect of the implementation of IFRS 16	(217.4)	(42.8)	(6.3)	(10.7)	-	-	**(59.8)**
1/01/2019 (restated)	**6,253.8**	**900.9**	**425.8**	**87.5**	**41.1**	**71.9**	**1,527.2**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	632.0	**632.0**
Other acquisitions	-	-	-	-	-	472.1	**472.1**
Purchases of leased items	25.3	-	-	6.8	-	-	**6.8**
Settlement of fixed assets under construction	1,029.9	22.1	32.3	8.4	3.2	(1,095.9)	**(1,029.9)**
Grant for non-current assets	(58.2)	-	-	(0.3)	-	(6.5)	**(6.8)**
Sales	(53.3)	(0.1)	(4.0)	(5.6)	(0.1)	-	**(9.8)**
Liquidation	(347.7)	(10.5)	(18.6)	(0.1)	(0.2)	(0.2)	**(29.6)**
FX differences	0.7	0.2	0.1	-	(0.1)	-	**0.2**
Other	(3.5)	3.8	0.2	2.9	-	(0.2)	**6.7**
31/12/2019	**6,847.0**	**916.4**	**435.8**	**99.6**	**43.9**	**73.2**	**1,568.9**
Accumulated depreciation							
1/01/2019 (audited)	**(2,263.4)**	**(234.1)**	**(301.1)**	**(60.8)**	**(33.9)**	**-**	**(629.9)**
Effect of the implementation of IFRS 16	56.5	1.1	1.9	6.8	-	-	**9.8**
1/01/2019 (restated)	**(2,206.9)**	**(233.0)**	**(299.2)**	**(54.0)**	**(33.9)**	**-**	**(620.1)**
Increases / (decreases):							
Depreciation	(501.5)	(37.4)	(32.1)	(5.3)	(3.2)	-	**(78.0)**
Purchases of leased items	(4.6)	-	-	(5.0)	-	-	**(5.0)**
Sales	41.9	-	3.3	5.6	0.1	-	**9.0**
Liquidation	338.0	9.6	18.6	0.1	0.2	-	**28.5**
FX differences	(0.6)	-	(0.1)	-	-	-	**(0.1)**
Other	23.5	(1.2)	(0.2)	(22.4)	-	-	**(23.8)**
31/12/2019	**(2,310.2)**	**(262.0)**	**(309.7)**	**(81.0)**	**(36.8)**	**-**	**(689.5)**
Accumulated impairment							
1/01/2019 (audited)	**(210.8)**	**(2.8)**	**(1.7)**	**-**	**-**	**(2.7)**	**(7.2)**
Increases / (decreases):							
Recognition	-	-	-	-	-	(0.4)	**(0.4)**
Derecognition	0.4	-	-	-	-	-	**-**
Utilization	2.5	0.4	-	-	-	0.2	**0.6**
FX differences	0.7	-	-	-	-	-	**-**
31/12/2019	**(207.2)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.9)**	**(7.0)**
Net value							
1/01/2019 (restated)	**3,836.1**	**665.1**	**124.9**	**33.5**	**7.2**	**69.2**	**899.9**
31/12/2019	**4,329.6**	**652.0**	**124.4**	**18.6**	**7.1**	**70.3**	**872.4**

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

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

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

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

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

As at 31 December 2020 and 31 December 2019, the carrying amount of rolling stock without valid technical railworthiness certificates, for which the Group recognized an impairment loss, was PLN 326 million and PLN 300 million, respectively.

5.2 Rights-of-use assets

Accounting policy applied

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

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

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

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

Useful life of rights-of-use assets

The Group applies straight-line depreciation. The value of a rights-of-use asset are distributed systematically over its useful life. The useful lives of rights-of-use assets were as follows:

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

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

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

5.2 Rights-of-use assets (cont.)

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Useful lives of rights-of-use assets

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

Movement in rights-of-use assets

2020	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2020	**450.6**	**767.0**	**23.7**	**18.5**	**1.7**	**1,261.5**
Increases / (decreases):						
New leases	18.0	11.9	4.6	1.6	0.8	**36.9**
Modifications of existing agreements	3.2	24.9	0.3	0.2	-	**28.6**
Leaseback	8.2	-	-	-	-	**8.2**
Periodic repairs of rolling stock	2.9	-	-	-	-	**2.9**
Return of leased items	(16.2)	(12.0)	(0.1)	(0.1)	-	**(28.4)**
Purchases of leased items	-	-	(2.9)	(2.6)	-	**(5.5)**
Other	(6.2)	(1.6)	2.9	(0.2)	(0.6)	**(5.7)**
FX differences	6.7	1.9	0.6	0.2	-	**9.4**
31/12/2020	**467.2**	**792.1**	**29.1**	**17.6**	**1.9**	**1,307.9**
Accumulated depreciation						
1/01/2020	**(109.2)**	**(61.8)**	**(4.9)**	**(6.4)**	**(0.4)**	**(182.7)**
(Increases) / decreases:						
Depreciation	(64.9)	(62.9)	(4.8)	(5.2)	(0.3)	**(138.1)**
Return of leased items	14.1	3.2	-	-	-	**17.3**
Purchases of leased items	-	-	1.7	2.1	-	**3.8**
Other	4.9	(0.6)	(0.5)	(0.1)	0.1	**3.8**
FX differences	(2.4)	(0.7)	(0.2)	(0.1)	-	**(3.4)**
31/12/2020	**(157.5)**	**(122.8)**	**(8.7)**	**(9.7)**	**(0.6)**	**(299.3)**
Net value						
1/01/2020	**341.4**	**705.2**	**18.8**	**12.1**	**1.3**	**1,078.8**
31/12/2020	**309.7**	**669.3**	**20.4**	**7.9**	**1.3**	**1,008.6**

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

5.2 Rights-of-use assets (cont.)

2019	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
Effect of the implementation of IFRS 16	310.1	729.2	14.6	14.0	1.2	**1,069.1**
1/01/2019 (restated)	**310.1**	**729.2**	**14.6**	**14.0**	**1.2**	**1,069.1**
Increases / (decreases):						
New leases	170.6	1.2	7.8	11.0	0.5	**191.1**
Modifications of existing agreements	(1.3)	42.5	1.2	0.3	-	**42.7**
Periodic repairs of rolling stock	3.8	-	-	-	-	**3.8**
Return of leased items	(9.5)	(2.4)	-	-	-	**(11.9)**
Purchases of leased items	(25.3)	-	-	(6.8)	-	**(32.1)**
Other	2.0	(3.6)	0.1	-	-	**(1.5)**
FX differences	0.2	0.1	-	-	-	**0.3**
31/12/2019	**450.6**	**767.0**	**23.7**	**18.5**	**1.7**	**1,261.5**
Accumulated depreciation						
Effect of the implementation of IFRS 16	(56.5)	(1.1)	(1.9)	(6.8)	-	**(66.3)**
1/01/2019 (restated)	**(56.5)**	**(1.1)**	**(1.9)**	**(6.8)**	**-**	**(66.3)**
Increases / (decreases):						
Depreciation	(57.7)	(58.2)	(3.0)	(4.6)	(0.4)	**(123.9)**
Return of leased items	3.2	0.1	-	-	-	**3.3**
Purchases of leased items	4.6	-	-	5.0	-	**9.6**
Other	(2.8)	(2.6)	-	-	-	**(5.4)**
FX differences	-	-	-	-	-	**-**
31/12/2019	**(109.2)**	**(61.8)**	**(4.9)**	**(6.4)**	**(0.4)**	**(182.7)**
Net value						
1/01/2019	**253.6**	**728.1**	**12.7**	**7.2**	**1.2**	**1,002.8**
31/12/2019	**341.4**	**705.2**	**18.8**	**12.1**	**1.3**	**1,078.8**

5.3 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Carrying amount	
	31/12/2020	**31/12/2019**
COSCO Shipping Lines (POLAND) Sp. z o.o.	1.2	0.9
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	21.2	20.3
Transgaz S.A.	6.3	6.1
Rentrans Cargo Sp. z o.o.	7.0	7.9
PKP CARGO CONNECT GmbH	0.2	0.4
PKP CARGO INTERNATIONAL SK a. s.	2.8	2.4
PRIMOL-RAIL d.o.o.	2.1	0.9
Centralny Terminal Multimodalny Sp. z o.o.	1.2	1.5
Total	**42.0**	**40.4**

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

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

Investments in entities accounted for under the equity method

	2020	2019
As at the beginning of the reporting period	**40.4**	**47.3**
Merger under common control	-	(7.7)
Share purchase	-	1.5
Share in the profit / (loss) of entities accounted for under the equity method	2.5	1.7
Movement in equity on account of dividends	(0.4)	(3.3)
Impairment losses on entities accounted for under the equity method	(0.8)	-
Recognition of entities accounted for under the equity method	-	0.9
FX differences from translation of financial statements	0.3	-
As at the end of the reporting period	**42.0**	**40.4**

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

	31/12/2020	31/12/2019
Non-current assets	31.6	31.9
Current assets	105.6	111.8
Total assets	**137.2**	**143.7**
Long-term liabilities	0.4	0.4
Short-term liabilities	46.3	57.1
Total liabilities	**46.7**	**57.5**
Net assets	**90.5**	**86.2**
Group's shares in the net assets of entities accounted for under the equity method	41.9	39.6
Total revenue	111.4	122.0
Net result for the financial year	4.4	4.8
Group's shares in the result of the entities accounted for under the equity method	2.5	1.7
Group's shares in the comprehensive income of the entities accounted for under the equity method	2.8	1.7

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

5.4 Inventories

Accounting policy applied

Inventories are carried at their cost or net realizable value, whichever is lower. Inventories releases are made using the FIFO method. The realizable value is the estimated sale price of inventories less any costs necessary to effect the sale. The 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

	31/12/2020	31/12/2019
Strategic inventories	33.7	38.1
Rolling stock during liquidation	40.3	13.5
Other inventories	97.2	114.2
Impairment losses	(5.4)	(4.8)
Net inventories	**165.8**	**161.0**

List of changes in impairment losses for inventories

	2020	2019
As at the beginning of the reporting period	**(4.8)**	**(4.5)**
Recognition	(3.0)	(0.3)
Reversal	0.4	-
Utilization	2.0	-
As at the end of the reporting period	**(5.4)**	**(4.8)**

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

5.5 Trade receivables

Accounting policy applied

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The calculation and measurement of impairment losses on trade receivables and assets arising from contracts with customers is an area that requires estimation. Expected credit losses are calculated on the basis of an individual assessment of the recoverability of a given receivable and taking into account the model applied by the 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 2017-2020 obtained from financial and accounting systems. The COVID-19 pandemic had no significant impact on the level of expected credit losses, which is described in **Note 1.4**. The reconciliation of impairment losses on receivables is presented in the tables below.

Structure of trade receivables

	31/12/2020	31/12/2019
Trade receivables	738.0	739.5
Impairment loss on receivables	(149.2)	(145.2)
Total	**588.8**	**594.3**
Non-current assets	3.0	3.0
Current assets	585.8	591.3
Total	**588.8**	**594.3**

Reconciliation of impairment losses on trade receivables

	Expected credit losses					
	2020			2019		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	**(1.7)**	**(143.5)**	**(145.2)**	**(3.0)**	**(152.4)**	**(155.4)**
Recognition	(0.2)	(7.0)	**(7.2)**	-	(14.0)	**(14.0)**
Reversal	-	4.9	**4.9**	1.3	5.9	**7.2**
Utilization	-	2.9	**2.9**	-	16.5	**16.5**
FX valuation	-	(1.6)	**(1.6)**	-	0.5	**0.5**
FX differences resulting from translation of financial statements	-	(3.0)	**(3.0)**	-	-	**-**
As at the end of the reporting period	**(1.9)**	**(147.3)**	**(149.2)**	**(1.7)**	**(143.5)**	**(145.2)**

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

5.5 Trade receivables (cont.)

Movement in the carrying amount of gross trade receivables

	2020			2019		
	Without impairment	With impairment	Total	Without impairment	With impairment	Total
As at the beginning of the reporting period	**595.5**	**144.0**	**739.5**	**684.4**	**156.3**	**840.7**
Recognized	4,795.5	0.1	**4,795.6**	5,580.3	0.1	**5,580.4**
Interest accrued	2.2	0.2	**2.4**	2.0	0.1	**2.1**
Written off	(0.1)	(3.1)	**(3.2)**	-	(16.5)	**(16.5)**
Repaid	(4,805.1)	(5.0)	**(4,810.1)**	(5,658.1)	(8.9)	**(5,667.0)**
Transferred	(8.9)	8.9	-	(13.5)	13.5	-
FX valuation	3.7	1.6	**5.3**	0.1	(0.8)	**(0.7)**
FX differences resulting from translation of financial statements	5.5	3.0	**8.5**	0.3	0.2	**0.5**
As at the end of the reporting period	**588.3**	**149.7**	**738.0**	**595.5**	**144.0**	**739.5**

Age analysis of trade receivables

	31/12/2020			31/12/2019		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	550.5	(1.5)	549.0	539.2	(0.7)	538.5
Overdue receivables						
to 30 days	23.3	(0.3)	23.0	43.7	(0.7)	43.0
31 - 90 days	7.3	(1.1)	6.2	6.5	(0.4)	6.1
91-180 days	2.7	(1.2)	1.5	5.9	(4.0)	1.9
181 - 365 days	9.4	(2.8)	6.6	7.0	(4.9)	2.1
over 365 days	144.8	(142.3)	2.5	137.2	(134.5)	2.7
Total	**738.0**	**(149.2)**	**588.8**	**739.5**	**(145.2)**	**594.3**

5.6 Other assets

Accounting policy applied

The accounting policy pertaining to financial instruments is described in **Note 6** to these Consolidated Financial Statements.
As other assets, the Group recognizes predominantly prepaid expenses which are set in the amount of incurred expenses that relate to future periods and will generate future economic benefits for the Group. Prepaid expenses are settle in line with the passage of time.
Other receivables include predominantly 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.

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

5.6 Other assets (cont.)

Structure of other assets

	31/12/2020	31/12/2019
Financial assets		
FX forwards	-	7.4
Shares in unlisted companies	5.6	6.3
Non-financial assets		
Costs settled in time		
Prepayments for purchase of electricity	24.0	27.2
Insurance	7.0	7.8
IT services	8.1	9.0
Other costs settled over time	2.5	6.3
Other	1.9	12.2
Other receivables		
VAT settlements	35.6	68.5
Other	12.6	12.7
Intangible assets		
Licenses	20.8	24.7
Other intangible assets	0.3	0.2
Intangible assets under development	4.8	5.4
Total	**123.2**	**187.7**
Non-current assets	35.1	55.0
Current assets	88.1	132.7
Total	**123.2**	**187.7**

5.7 Investment liabilities

Accounting policy applied

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

Structure of investment liabilities

	31/12/2020	31/12/2019
Investment liabilities related to rolling stock	260.5	304.0
Investment liabilities related to real properties	9.8	12.9
Other	8.7	21.6
Total	**279.0**	**338.5**
Long-term liabilities	145.5	157.0
Short-term liabilities	133.5	181.5
Total	**279.0**	**338.5**

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

5.8 Provisions for employee benefits

Accounting policy applied

The Group provides its employees with long-term benefits during their employment (jubilee awards) as well as post-employment benefits (retirement and disability severance benefits, transportation benefits 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 upon reaching a specified number of years in employment. Retirement and disability severance pays are paid out once when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The 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 post-employment benefits 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 post-employment benefits is calculated by an independent actuarial firm using the forecast individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. Current service cost reflects the increase in the defined benefit obligation resulting from employee service in the current period and is recognized in profit and loss as employee benefits, except when it is recognized as the cost of manufacturing an asset. Past service costs are recognized directly in the financial result. Net interest cost is calculated by applying a discount rate to the net value of the defined benefit obligation and presented in financial expenses.
Actuarial profits and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

	Valuation as at [%]	
	31/12/2020	31/12/2019
Discount rate	1.4	2.1
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 2.5	up to 4.0
Assumed growth of the price of transportation benefits	2.5	2.5
Assumed average annual growth of the base for calculation of provisions on account of charge for Company Benefits Fund	4.0	4.0
Weighted average employee mobility ratio	2.0 - 7.9	2.0 - 10.6

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

Sensitivity analysis of provisions for employee benefits

	31/12/2020	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	310.5	(5.4)	5.6	5.3	(5.2)	(4.2)	4.3
Retirement and disability severance benefits	234.5	(4.3)	4.5	3.9	(3.8)	(2.7)	2.8
Post-mortem benefits	7.3	(0.2)	0.2	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	179.3	(8.5)	9.1	7.8	(7.4)	(1.0)	1.1
Transportation benefits	40.3	(1.8)	1.9	1.7	(1.6)	(0.3)	0.3
Total	**771.9**	**(20.2)**	**21.3**	**18.8**	**(18.1)**	**(8.3)**	**8.6**

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

5.8 Provisions for employee benefits (cont.)

	31/12/2019	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	329.4	(5.0)	5.1	4.1	(4.0)	(4.4)	4.4
Retirement and disability severance benefits	234.6	(4.0)	4.1	3.4	(3.3)	(3.5)	3.5
Post-mortem benefits	8.8	(0.1)	0.2	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	139.7	(5.9)	6.4	5.2	(4.9)	(1.0)	1.0
Transportation benefits	36.9	(1.5)	1.6	1.3	(1.3)	(0.3)	0.3
Total	**749.4**	**(16.5)**	**17.4**	**14.1**	**(13.6)**	**(9.3)**	**9.3**

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
1/01/2020	**234.6**	**139.7**	**36.9**	**8.8**	**329.4**	**34.8**	**784.2**
Current service cost	8.5	2.9	0.8	0.5	15.7	-	**28.4**
Interest expenses	4.3	2.9	0.8	0.2	6.5	-	**14.7**
Actuarial (profits)/ losses recognized in other comprehensive income	9.3	39.0	2.8	(0.9)	-	-	**50.2**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	9.7	-	**9.7**
Recognition of provisions	-	-	-	-	-	3.4	**3.4**
Reversal of provisions	-	-	-	-	-	(3.4)	**(3.4)**
Benefits paid out	(22.2)	(5.2)	(1.0)	(1.3)	(51.0)	(6.4)	**(87.1)**
FX differences	-	-	-	-	0.2	0.3	**0.5**
31/12/2020	**234.5**	**179.3**	**40.3**	**7.3**	**310.5**	**28.7**	**800.6**
Long-term provisions	201.4	173.9	39.0	6.4	263.6	-	**684.3**
Short-term provisions	33.1	5.4	1.3	0.9	46.9	28.7	**116.3**
Total	**234.5**	**179.3**	**40.3**	**7.3**	**310.5**	**28.7**	**800.6**

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2019	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**
Current service cost	6.8	2.4	0.7	0.4	12.5	-	**22.8**
Interest expenses	5.1	3.8	0.9	0.1	7.7	-	**17.6**
Actuarial (profits)/ losses recognized in other comprehensive income	37.4	10.0	3.6	1.2	-	-	**52.2**
Actuarial (profits)/ losses recognized in the statement of profit or loss	-	-	-	-	52.3	-	**52.3**
Past service cost	1.3	-	-	-	(0.1)	-	**1.2**
Recognition of provisions	-	-	-	-	-	18.6	**18.6**
Reversal of provisions	-	-	-	-	-	(13.2)	**(13.2)**
Benefits paid out	(11.8)	(6.7)	(1.1)	(0.8)	(47.0)	(7.0)	**(74.4)**
FX differences	-	-	-	-	-	0.1	**0.1**
31/12/2019	**234.6**	**139.7**	**36.9**	**8.8**	**329.4**	**34.8**	**784.2**
Long-term provisions	198.1	135.3	35.8	7.4	280.5	-	**657.1**
Short-term provisions	36.5	4.4	1.1	1.4	48.9	34.8	**127.1**
Total	**234.6**	**139.7**	**36.9**	**8.8**	**329.4**	**34.8**	**784.2**

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

5.8 Provisions for employee benefits (cont.)

Items recognized in the result in reference to employee benefits programs

	31/12/2020	31/12/2019
Employee benefits	(38.1)	(81.7)
Financial expenses	(14.7)	(17.6)
Total recognized in the profit before tax	**(52.8)**	**(99.3)**

Actuarial (profits) / losses

2020	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses/ (profits) – post-employment benefits				
Retirement and disability severance benefits	6.6	5.2	(2.5)	**9.3**
Company Social Benefits Fund	1.4	18.3	19.3	**39.0**
Transportation benefits	0.4	4.0	(1.6)	**2.8**
Post-mortem benefits	(0.3)	0.2	(0.8)	**(0.9)**
Actuarial losses/ (profits) – other long-term benefits				
Jubilee awards	(3.6)	6.1	7.2	**9.7**
Total	**4.5**	**33.8**	**21.6**	**59.9**

2019	Change of demographic assumptions	Change of financial assumptions	Other changes	Total
Actuarial losses/ (profits) – post-employment benefits				
Retirement and disability severance benefits	(0.5)	17.2	20.7	**37.4**
Company Social Benefits Fund	(0.2)	16.4	(6.2)	**10.0**
Transportation benefits	(0.1)	4.3	(0.6)	**3.6**
Post-mortem benefits	(0.1)	0.6	0.7	**1.2**
Actuarial losses/ (profits) – other long-term benefits				
Jubilee awards	(1.4)	20.8	32.9	**52.3**
Total	**(2.3)**	**59.3**	**47.5**	**104.5**

Analysis of maturities of paid out employee benefits

31/12/2020	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	33.1	5.4	1.3	0.9	46.9	28.7	**116.3**
1 to 5 years	85.9	23.4	5.3	2.9	130.0	-	**247.5**
over 5 years	115.5	150.5	33.7	3.5	133.6	-	**436.8**
Total	**234.5**	**179.3**	**40.3**	**7.3**	**310.5**	**28.7**	**800.6**

31/12/2019	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	36.5	4.4	1.1	1.4	48.9	34.8	**127.1**
1 to 5 years	79.6	20.6	5.5	3.4	141.1	-	**250.2**
over 5 years	118.5	114.7	30.3	4.0	139.4	-	**406.9**
Total	**234.6**	**139.7**	**36.9**	**8.8**	**329.4**	**34.8**	**784.2**

The average maturity of employee benefits in the Parent Company was 12 years as at 31 December 2020. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using actuarial methods, is approx. 90%.

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

5.9 Other provisions

Accounting policy applied

Provisions are established if the Group is subject to an existing legal or usually expected obligation attributable to past events and when it may be reasonably expected that the fulfillment of this obligation will cause the outflow of cash and the amount of such obligation may be credibly estimated. The recognized amount of provisions reflects the most precise possible estimate of the amount that must be used to settle the ongoing liability as at the balance sheet date, taking into account the risk and uncertainty related to that liability. If provisions are measured using the method of estimated cash flows necessary to settle a current liability, its carrying amount corresponds to the value of those flows at the given moment (if the time value of money effect is material). If it is likely that a portion or all the economic benefits, required for settlement of provisions, may be recovered from a third party, such receivables shall be 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.

Structure of other provisions

2020	Provision for penalties imposed by anti-monopoly authorities	Provision for land reclamation	Other provisions	Total
1/01/2020	**14.6**	**5.4**	**31.0**	**51.0**
Recognition	-	1.7	6.1	**7.8**
Reversal	-	(0.4)	(5.9)	**(6.3)**
Utilization	(14.2)	(0.6)	(8.3)	**(23.1)**
FX differences	-	0.3	0.1	**0.4**
31/12/2020	**0.4**	**6.4**	**23.0**	**29.8**
Long-term provisions	-	5.7	-	**5.7**
Short-term provisions	0.4	0.7	23.0	**24.1**
Total	**0.4**	**6.4**	**23.0**	**29.8**

2019	Provision for penalties imposed by anti-monopoly authorities	Provision for land reclamation	Provision for VAT liabilities	Provision for onerous contracts	Other provisions	Total
1/01/2019 (audited)	**14.8**	**5.3**	**23.6**	**3.7**	**30.0**	**77.4**
Effect of the implementation of IFRS 16	-	-	-	(3.7)	-	**(3.7)**
1/01/2019 (restated)	**14.8**	**5.3**	**23.6**	**0.0**	**30.0**	**73.7**
Recognition	-	0.1	0.8	-	9.7	**10.6**
Reversal	(0.2)	-	(24.4)	-	(4.9)	**(29.5)**
Utilization	-	-	-	-	(3.8)	**(3.8)**
31/12/2019	**14.6**	**5.4**	**-**	**-**	**31.0**	**51.0**
Long-term provisions	-	5.4	-	-	-	**5.4**
Short-term provisions	14.6	-	-	-	31.0	**45.6**
Total	**14.6**	**5.4**	**-**	**-**	**31.0**	**51.0**

Provision for penalties imposed by anti-monopoly authorities

As at 31 December 2020, this item included a provision for a penalty in the amount of PLN 0.4 million established in connection with a pending procedure initiated by the Czech Antimonopoly Office.

As at 31 December 2019, the provision also represented an estimate by the Parent Company's Management Board in connection with the likelihood of payment of a fine imposed by the Decision of 31 December 2015 of the President of the Office of Competition and Consumer Protection (hereinafter referred to as "UOKiK", "Office") in the amount of PLN 14.2 million. As at 31 December 2020, in connection with the judgment of 2 July 2020 handed down by the Appellate Court in Warsaw dismissing PKP CARGO S.A.'s appeal in this case, the Parent Company reclassified the claim amount to the other liabilities item. The due amount was paid to the Office in January 2021.

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

5.9 Other provisions (cont.)

Provision for land reclamation

The provision has been recognized 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.

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 2020, and as at 31 December 2019, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the Group's estimates may be changed in subsequent reporting periods.

5.10 Other liabilities

Accounting policy applied

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

Structure of other liabilities

	31/12/2020	31/12/2019
Financial liabilities		
FX forwards	2.7	-
Cash pool	1.1	-
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	46.5	40.5
Public law liabilities	121.5	117.6
Settlements with employees	97.0	97.4
Received grants	1.6	0.3
Other settlements	8.8	4.6
VAT settlements	5.3	4.0
Current income tax liabilities	1.7	-
Total	**286.2**	**264.4**
Short-term liabilities	286.2	264.4
Total	**286.2**	**264.4**

6. Financial instruments and principles of financial risk management

Accounting policy applied

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, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, financial assets of a debt nature are classified as measured:
a) at amortized cost,
b) fair value through other comprehensive income,
c) at fair value through profit or loss.

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

Financial assets carried at amortized cost
A financial asset is measured at amortized cost if both of the following conditions are met:
a) the financial asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows;
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

As at 31 December 2020 and 31 December 2019, the 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 the acquiring Group 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 like forward. These instruments are used to hedge future cash flows. Upon provision of the hedge, the Group defines a hedging relationship. The effective portion of profits or losses related to a hedging instrument is recognized in other comprehensive income. The non-effective portion of profits or losses related to the hedging instrument is recognized in the period's financial result unless it has no material value. Profits/losses related to the evaluation of hedging instruments and recognized in other comprehensive income are recognized in 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 generated 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.

(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	31/12/2020	31/12/2019
Hedging financial instruments			
Derivatives	*Note 5.6*	-	7.4
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	5.6	6.3
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	588.8	594.3
Receivables on account of sale of non-financial non-current assets		0.1	0.5
Cash and cash equivalents	*Note 4.4*	306.0	550.4
Financial assets excluded from the scope of IFRS 9		11.0	11.6
Total		**911.5**	**1,170.5**

Financial liabilities by categories and classes	Note	31/12/2020	31/12/2019
Hedging financial instruments			
Derivatives	*Note 5.10*	2.7	-
Bank loans and borrowings	*Note 4.1*	660.0	469.7
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	53.1	-
Financial liabilities carried at amortized cost			
Bank loans and borrowings	*Note 4.1*	999.3	1,156.5
Trade liabilities		349.0	414.9
Investment liabilities	*Note 5.7*	279.0	338.5
Cash pool	*Note 5.10*	1.1	-
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	867.9	996.5
Total		**3,212.1**	**3,376.1**

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

Hedge accounting

In the period from 1 January 2020 to 31 December 2020, 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 2020, the Group has established the following hedging instruments:

- investment loans denominated in EUR. The hedged cash flows will be realized until January 2035. As at 31 December 2020, the nominal amount of the hedging instrument was EUR 143.0 million, which is an equivalent of PLN 660.0 million.
- leases denominated in EUR. The hedged cash flows will be realized until May 2024. As at 31 December 2020, the nominal amount of the hedging instrument was EUR 11.5 million, which is an equivalent of PLN 53.1 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 31 December 2020, the value of liabilities from measurement of a hedging instrument was PLN 2.7 million.

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

6.1 Financial instruments (cont.)

Fair value hierarchy

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

	31/12/2020		31/12/2019	
	Level 2	Level 3	Level 2	Level 3
Assets				
Derivatives – FX forward contracts	-	-	7.4	-
Investments in equity instruments - shares in unlisted companies	-	5.6	-	6.3
Liabilities				
Derivatives – FX forward contracts	2.7	-	-	-

Measurement methods for financial instruments carried at fair value

a) FX forward contracts

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

b) Investments in financial instruments

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

c) Other financial instruments

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

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

	2020	2019
As at the beginning of the reporting period	**6.3**	**6.8**
Profits / (losses) for the period recognized in other comprehensive income	(0.7)	0.7
Sale of shares	-	(0.2)
Recognition of entities accounted for under the equity method	-	(0.9)
Exchange differences resulting from translation of financial statements	-	(0.1)
As at the end of the reporting period	**5.6**	**6.3**

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

(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

2020	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(3.3)	-	4.3	0.5	(21.9)	(33.1)	**(53.5)**
FX differences	-	-	8.3	-	(6.0)	(8.0)	**(5.7)**
Impairment losses / revaluation	(0.1)	-	(2.3)	-	-	-	**(2.4)**
Transaction costs related to loans	-	-	-	-	(2.1)	-	**(2.1)**
Effect of settlement of cash flow hedge accounting	(9.9)	-	-	-	-	-	**(9.9)**
Profit / (loss) before tax	**(13.3)**	**-**	**10.3**	**0.5**	**(30.0)**	**(41.1)**	**(73.6)**
Revaluation	(50.8)	(0.7)	-	-	-	-	**(51.5)**
Other comprehensive income	**(50.8)**	**(0.7)**	**-**	**-**	**-**	**-**	**(51.5)**

In the financial year ended 31 December 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (9.9) million.
In the financial year ended 31 December 2020, 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 (10.0) million and bank loans in the amount of PLN (40.6) million and lease liabilities in the amount of PLN (0.2) million, which are recognized as part as of the hedge accounting applied by the Group.

2019	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Dividends and profit-sharing	-	0.3	-	-	-	-	**0.3**
Interest income / (expense)	(2.7)	-	6.4	0.5	(21.8)	(34.3)	**(51.9)**
FX differences	(0.1)	-	(1.1)	-	(1.2)	1.3	**(1.1)**
Impairment losses / revaluation	(0.1)	-	(6.8)	-	-	-	**(6.9)**
Transaction costs related to loans	-	-	-	-	(2.3)	-	**(2.3)**
(Profit) / loss on the sale of investments	-	0.8	-	-	-	-	**0.8**
Effect of settlement of cash flow hedge accounting	4.7	-	-	-	-	-	**4.7**
Profit / (loss) before tax	**1.8**	**1.1**	**(1.5)**	**0.5**	**(25.3)**	**(33.0)**	**(56.4)**
Revaluation	9.9	0.7	-	-	-	-	**10.6**
Other comprehensive income	**9.9**	**0.7**	**-**	**-**	**-**	**-**	**10.6**

In the financial year ended 31 December 2019, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN 4.7 million.
In the financial year ended 31 December 2019, 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 4.2 million and bank loans in the amount of PLN 5.7 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

31/12/2020	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	588.8	588.8	(1.2)	587.6
Total	**588.8**	**588.8**	**(1.2)**	**587.6**

31/12/2019	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral received	Net value
Trade receivables	594.3	594.3	(1.9)	592.4
Total	**594.3**	**594.3**	**(1.9)**	**592.4**

Offsetting financial liabilities

31/12/2020	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 – cash collateral provided	Net value
Trade liabilities	349.0	349.0	(5.3)	343.7
Total	**349.0**	**349.0**	**(5.3)**	**343.7**

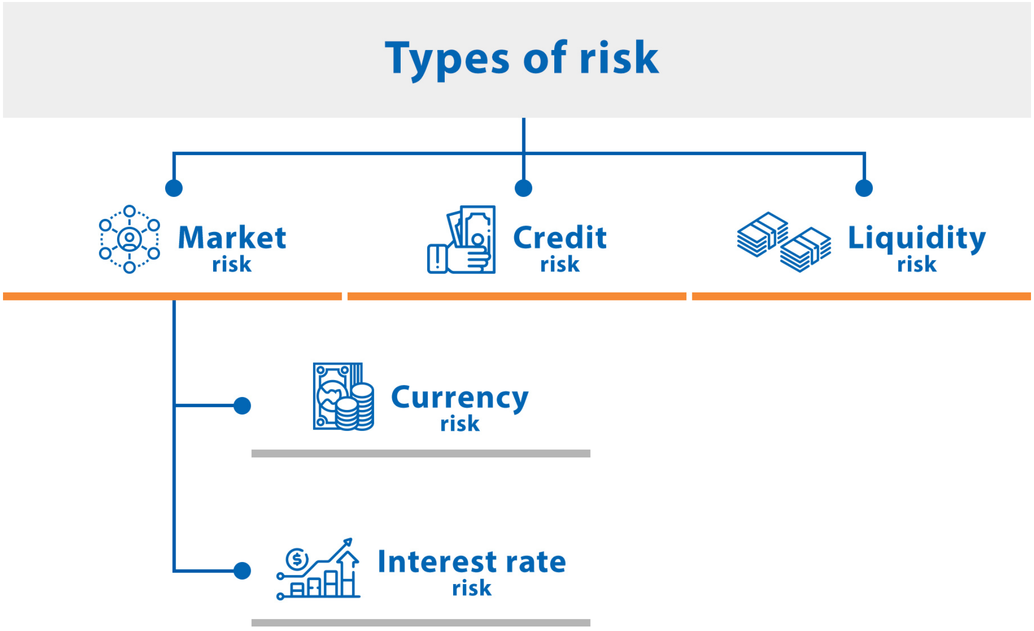
31/12/2019	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	414.9	414.9	(3.2)	411.7
Total	**414.9**	**414.9**	**(3.2)**	**411.7**

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.

According to the Financial Risk Management Policy in effect in the Group, in 2020, the Group applied FX risk management transactions for the EUR/PLN currency pair.

Foreign exchange risk management

As at 31 December 2020, the Group was exposed to foreign exchange risk concerning for the most part trade receivables and debt 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 foreign exchange differences. Their values fluctuate during the year, which is caused by changes in exchange rates.

In a long-term perspective, the valuation risk matches the risk of change of cash flows, therefore the 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 revenues from contracts with customers in EUR are partly balanced out by costs in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position exposed to change of the value in PLN. For this purpose, the Group applied forward transactions for the currency pair EUR/PLN and established hedging relationships between cash flows arising from bank loans and lease liabilities denominated in EUR and future highly probable cash flows 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

31/12/2020	Total value of items in PLN	EUR/PLN		CZK/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS					
Non-current assets					
Trade receivables	3.0	-	-	17.0	3.0
Other assets	0.4	-	-	2.0	0.4
Current assets					
Trade receivables	198.2	25.7	118.6	453.8	79.6
Other assets	11.3	0.6	2.6	49.4	8.7
Cash and cash equivalents	74.9	5.7	26.2	278.1	48.7
Total	**287.8**	**32.0**	**147.4**	**800.3**	**140.4**
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	613.7	126.6	584.0	169.3	29.7
Short-term liabilities					
Debt liabilities	194.8	41.1	189.8	28.5	5.0
Trade liabilities	96.6	9.1	41.5	314.4	55.1
Investment liabilities	14.1	-	-	80.3	14.1
Other liabilities – FX forward contracts [1]	2.7	18.9	2.7	-	-
Other liabilities	20.3	0.6	2.6	101.0	17.7
Total	**942.2**	**196.3**	**820.6**	**693.5**	**121.6**
Net currency item	**(654.4)**	**(164.3)**	**(673.2)**	**106.8**	**18.8**

31/12/2019	Total value of items in PLN	EUR/PLN		CZK/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS					
Non-current assets					
Trade receivables	3.0	-	-	18.3	3.0
Other assets – FX forward contracts [1]	1.7	17.9	1.7	-	-
Current assets					
Trade receivables	174.4	20.7	88.0	515.5	86.4
Other assets – FX forward contracts [1]	5.6	42.5	5.6	-	-
Cash and cash equivalents	93.8	11.6	49.4	264.6	44.4
Total	**278.5**	**92.7**	**144.7**	**798.4**	**133.8**
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	604.9	134.5	572.7	191.9	32.2
Short-term liabilities					
Debt liabilities	124.9	26.0	110.6	85.8	14.3
Trade liabilities	108.4	10.7	45.8	373.5	62.6
Investment liabilities	16.2	-	-	96.6	16.2
Total	**854.4**	**171.2**	**729.1**	**747.8**	**125.3**
Net currency item	**(575.9)**	**(78.5)**	**(584.4)**	**50.6**	**8.5**

[1] For other assets/other 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 associated with the EUR/PLN and CZK/PLN currency pairs in connection with its operating and financing activities. Deviations in exchange rates were calculated on the basis of the average daily 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 the foreign exchange risk in 2020 and 2019.

31/12/2020	Value of the item in PLN	Currency risk					
		EUR/PLN				CZK/PLN	
		impact on the result		impact on other comprehensive income		impact on other comprehensive income	
		+2%	-2%	+2%	-2%	+1%	-1%
ASSETS							
Non-current assets							
Trade receivables	3.0	-	-	-	-	-	-
Other assets	0.4	-	-	-	-	-	-
Current assets							
Trade receivables	198.2	2.3	(2.3)	-	-	0.8	(0.8)
Other assets	11.3	0.1	(0.1)	-	-	0.1	(0.1)
Cash and cash equivalents	74.9	0.5	(0.5)	-	-	0.5	(0.5)
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	613.7	(0.6)	0.6	(11.1)	11.1	(0.3)	0.3
Short-term liabilities							
Debt liabilities	194.8	(0.6)	0.6	(3.2)	3.2	-	-
Trade liabilities	96.6	(0.8)	0.8	-	-	(0.5)	0.5
Investment liabilities	14.1	-	-	-	-	(0.1)	0.1
Other liabilities – FX forward contracts	2.7	-	-	(1.7)	1.7	-	-
Other liabilities	20.3	(0.1)	0.1	-	-	(0.2)	0.2
Total gross effect		**0.8**	**(0.8)**	**(16.0)**	**16.0**	**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.)

31/12/2019	Value of the item in PLN	Currency risk					
		EUR/PLN				CZK/PLN	
		impact on the result		impact on other comprehensive income		impact on other comprehensive income	
		+3%	-3%	+3%	-3%	+9%	-9%
ASSETS							
Non-current assets							
Trade receivables	3.0	-	-	-	-	0.3	(0.3)
Other assets – FX forward contracts	1.7	-	-	(2.4)	2.4	-	-
Current assets							
Trade receivables	174.4	3.2	(3.2)	-	-	7.9	(7.9)
Other assets – FX forward contracts	5.6	-	-	(4.5)	4.5	-	-
Cash and cash equivalents	93.8	1.5	(1.5)	-	-	3.9	(3.9)
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	604.9	(4.7)	4.7	(12.5)	12.5	(2.9)	2.9
Short-term liabilities							
Debt liabilities	124.9	(1.7)	1.7	(1.6)	1.6	(1.3)	1.3
Trade liabilities	108.4	(1.5)	1.5	-	-	(5.5)	5.5
Investment liabilities	16.2	-	-	-	-	(1.5)	1.5
Total gross effect		**(3.2)**	**3.2**	**(21.0)**	**21.0**	**0.8**	**(0.8)**

(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 2020 and 2019, FX forward transactions were applied on the EUR/PLN currency pair (sale of currencies).

List of unrealized FX forward contracts

As at 31 December 2020

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

As at 31 December 2019

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of assets
Bank A	forward	02/2018 - 09/2019	01/2020 - 08/2020	EUR/PLN	6.9	30.8	0.8
Bank B	forward	02/2018 - 08/2019	01/2020 - 06/2021	EUR/PLN	16.4	73.1	2.1
Bank C	forward	02/2018 - 10/2019	01/2020 - 09/2021	EUR/PLN	23.6	104.8	2.8
Bank D	forward	03/2018 - 09/2019	01/2020 - 09/2021	EUR/PLN	13.0	57.7	1.6
Bank E	forward	07/2018	03/2020 - 06/2020	EUR/PLN	0.5	2.2	0.1
Total					**60.4**	**268.6**	**7.4**

Interest rate risk management

As at 31 December 2020, the Group was exposed to the risk of volatility of interest rate cash flows following from bank loans and lease agreements based on variable interest rates. Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M.

As part of its fixed-rate lease liabilities, the Group recognizes, for the most part, liabilities arising from lease and tenancy contracts containing price indexation provisions based on the rate of inflation. In accordance with IFRS 16, changes in future lease payments caused by price indexation will not result in a change in the discount rate applied to the measurement of such liabilities.

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

The cash held by the Group as at 31 December 2020 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 2019-2020, the Group did not use derivative instruments to hedge the 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	31/12/2020			31/12/2019		
	Interest rate			Interest rate		
	at a fixed interest rate	at a variable interest rate	Total	at a fixed interest rate	at a variable interest rate	Total
Lease receivables	11.0	-	**11.0**	11.6	-	**11.6**
Receivables from sale of non-financial non-current assets	0.1	-	**0.1**	0.5	-	**0.5**
Cash and cash equivalents	306.0	-	**306.0**	550.4	-	**550.4**
Total	**317.1**	**-**	**317.1**	**562.5**	**-**	**562.5**

Financial liabilities	31/12/2020			31/12/2019		
	Interest rate			Interest rate		
	at a fixed interest rate	at a variable interest rate	Total	at a fixed interest rate	at a variable interest rate	Total
Debt liabilities	971.2	1,609.1	**2,580.3**	918.5	1,704.2	**2,622.7**
Investment liabilities	202.2	-	**202.2**	204.6	-	**204.6**
Cash pool	1.1	-	**1.1**	-	-	**-**
Total	**1,174.5**	**1,609.1**	**2,783.6**	**1,123.1**	**1,704.2**	**2,827.3**

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. In 2020 and 2019, the Group identified the exposure to interest rate risk mainly for WIBOR and EURIBOR. Interest rate deviations are calculated on the basis of observations of average interest rate fluctuations. The sensitivity analysis presented below does not comprise the interest accrued as at the balance sheet date. The analysis results are presented in gross terms (before tax).

31/12/2020	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result		impact on the result	
		+ 100 bps	- 100 bps	+ 25 bps	- 25 bps
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,327.8	(9.2)	9.2	(1.0)	1.0
Short-term liabilities					
Debt liabilities	280.4	(2.2)	2.2	(0.1)	0.1
Total gross effect		**(11.4)**	**11.4**	**(1.1)**	**1.1**

31/12/2019	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result		impact on the result	
		+ 50 bps	- 50 bps	+ 50 bps	- 50 bps
EQUITY AND LIABILITIES					
Long-term liabilities					
Debt liabilities	1,422.4	(5.0)	5.0	(2.1)	2.1
Short-term liabilities					
Debt liabilities	280.9	(1.1)	1.1	(0.3)	0.3
Total gross effect		**(6.1)**	**6.1**	**(2.4)**	**2.4**

(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:

	31/12/2020	31/12/2019
Trade receivables	588.8	594.3
Lease receivables	11.0	11.6
FX forwards	-	7.4
Cash and cash equivalents	306.0	550.4
Receivables from sale of non-financial non-current assets	0.1	0.5
Total	**905.9**	**1,164.2**

The Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received.

In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. Based on its internal policies, the Group grants deferred payment terms only to counterparties with acceptable standing and a positive history of cooperation. Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy.

Structure of trade receivables in terms of entity types

	31/12/2020	31/12/2019
Group of entities related to the biggest external counterparty	9.1%	8.9%
PKP Group related parties	0.5%	0.8%
State Treasury related parties	27.6%	29.6%
Other entities	62.8%	60.7%
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 2020, 14.3% 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 held is presented in the table below.

Bank	Credit rating agency	Rating	31/12/2020
Bank A	Fitch	A-	55.7%
Bank B	Moody's	A2	13.1%
Bank C	Moody's	Aa3	9.6%
Bank D	Moody's	Aa3	7.4%
Bank E	Standard & Poor's	BBB	4.8%
Bank F	Moody's	A2	4.3%
Other			5.1%
Total			**100.0%**

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

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the financial year ended 31 December 2020 and the financial year ended 31 December 2019, the State Treasury was 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 the financial years ended 31 December 2020 and 31 December 2019, there were no individual transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be material 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: PGE, JSW, ENEA and Azoty. In the financial year ended 31 December 2020, the Group's most important suppliers related to the State Treasury were PKN Orlen Group entities.

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:

	2020		31/12/2020	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	73.3	1.2	589.4
Subsidiaries / co-subsidiaries	5.7	14.8	0.1	1.7
Associates	8.0	0.7	-	0.2
Other PKP Group related parties	20.8	502.3	2.5	61.1

	2019		31/12/2019	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	70.7	1.1	590.2
Subsidiaries / co-subsidiaries	4.4	15.5	0.1	0.7
Associates	0.1	0.3	-	-
Other PKP Group related parties	15.8	580.0	2.6	52.0

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

Sales transactions within the PKP Group included freight transport services, lease of equipment and sub-lease of real estate. Purchase transactions comprised, among others, maintenance and repair of rolling stock, freight forwarding services, transshipment services and intermodal transport.

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

In addition to commercial transactions, the Group had cash pooling settlements disclosed in **Note 5.10** of these Consolidated Financial Statements.

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

7.1 Related party transactions (cont.)

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	
	2020	2019	2020	2019
Short-term benefits	2.4	2.6	5.8	6.2
Post-employment benefits	0.3	-	0.1	1.0
Termination benefits	0.1	-	0.1	0.2
Total	**2.8**	**2.6**	**6.0**	**7.4**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	2020	2019	2020	2019
Short-term benefits	1.3	1.2	0.5	1.6
Total	**1.3**	**1.2**	**0.5**	**1.6**

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	2020	2019	2020	2019
Short-term benefits	6.9	6.8	17.8	19.8
Post-employment benefits	-	0.1	0.9	1.3
Termination benefits	-	0.1	-	0.3
Total	**6.9**	**7.0**	**18.7**	**21.4**

In the financial year ended 31 December 2020 and 31 December 2019, 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 Liabilities to incur expenditures for non-financial non-current assets

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

	31/12/2020	31/12/2019
Contractual liabilities on account of purchase and repairs of rolling stock and other property, plant and equipment	856.4	1,208.9
Contractual liabilities on account of non-commenced lease contracts	5.9	-
Total	**862.3**	**1,208.9**

As at 31 December 2020, contractual liabilities relating to the purchase of non-financial non-current assets resulted mainly from the performance of agreements concluded in previous periods. The Group was awarded co-financing from aid funds of the European Union for the performance of the contractual liabilities presented as at 31 December 2020 in the amount of approx. PLN 155.7 million.

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

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

7.3 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 likely that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Contingent liability items subject to significant estimations pertain to claims brought against the 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 unfavorable effect on the Group's financial result.

Structure of contingent liabilities

	31/12/2020	31/12/2019
Guarantees issued on the Group's order	93.9	115.1
Other contingent liabilities	114.9	114.0
Total	**208.8**	**229.1**

Guarantees issued on the Group's order

As at 31 December 2020, 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

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

7.4 Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2020 and 31 December 2019 the Group had assets which constituted collateral for repayment of liabilities. The assets secure mainly correct performance of facility agreements.

Carrying amount of assets securing repayment of liabilities

	31/12/2020	31/12/2019
Other property, plant and equipment	237.0	247.0
Trade receivables	74.5	84.1
Cash	5.0	4.3
Total	**316.5**	**335.4**

7.5 Subsequent events

Significant events after the balance sheet date are described in **Notes 1.1, 4.2** and **5.9** of these Consolidated Financial Statements and in **Chapter 6.1** of the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2020.

7.6 Approval of the financial statements

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

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 31 March 2021