PKPCARGO

Consolidated Financial Statements of **PKP CARGO CAPITAL GROUP** for the financial year ended 31 december 2019

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

	2019	2018	
Revenues from contracts with customers	4,781.6	5,183.0	*Note 2.1*
Consumption of traction electricity and traction fuel	(583.8)	(615.1)	*Note 2.2*
Services of access to infrastructure	(572.6)	(732.0)	
Transport services	(363.3)	(463.1)	
Other services	(408.6)	(529.6)	*Note 2.2*
Employee benefits	(1,737.3)	(1,651.4)	*Note 2.2*
Other expenses	(292.8)	(298.9)	*Note 2.2*
Other operating revenue and (expenses)	36.7	14.1	*Note 2.3*
Operating profit without depreciation (EBITDA)	**859.9**	**907.0**	
Depreciation, amortization and impairment losses	(716.5)	(629.4)	*Note 2.2*
Profit on operating activities (EBIT)	**143.4**	**277.6**	
Financial revenue and (expenses)	(71.6)	(42.0)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	1.7	3.7	*Note 5.3*
Result on the sale of shares in entities accounted for under the equity method	-	4.5	
Profit before tax	**73.5**	**243.8**	
Income tax	(37.5)	(59.9)	*Note 3.1*
NET PROFIT	**36.0**	**183.9**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	9.9	(23.4)	
Income tax	(1.9)	4.4	*Note 3.1*
Fx differences resulting from translation of financial statements	1.7	16.5	
Total other comprehensive income subject to reclassification in the financial result	**9.7**	**(2.5)**	
Actuarial profits / (losses) on post-employment benefits	(52.2)	(13.2)	*Note 5.8*
Income tax	10.0	2.5	*Note 3.1*
Measurement of equity instruments at fair value	0.7	-	
Total other comprehensive income not subject to reclassification in the financial result	**(41.5)**	**(10.7)**	
Total other comprehensive income	**(31.8)**	**(13.2)**	
TOTAL COMPREHENSIVE INCOME	**4.2**	**170.7**	
Net profit attributable:			
Net profit attributable to the shareholders of the Parent Company	36.0	183.9	
Total other comprehensive income attributable:			
Total other comprehensive income attributable to shareholders of the Parent Company	4.2	170.7	
Earnings per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings per share	**0.80**	**4.11**	

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

	31/12/2019	31/12/2018	
ASSETS			
Rolling stock	4,329.6	3,997.0	*Note 5.1*
Other property, plant and equipment	872.4	949.9	*Note 5.1*
Rights-of-use assets	1,078.8	-	*Note 5.2*
Investments in entities accounted for under the equity method	40.4	47.3	*Note 5.3*
Trade receivables	3.0	0.7	*Note 5.5*
Lease receivables	10.9	-	
Other assets	55.0	56.7	*Note 5.6*
Deferred tax assets	113.7	135.6	*Note 3.1*
Total non-current assets	**6,503.8**	**5,187.2**	
Inventories	161.0	161.7	*Note 5.4*
Trade receivables	591.3	684.6	*Note 5.5*
Lease receivables	0.7	-	
Income tax receivables	51.4	3.0	
Bank deposits over 3 months	-	201.1	
Other assets	132.7	121.4	*Note 5.6*
Cash and cash equivalents	550.4	447.3	*Note 4.4*
Total current assets	**1,487.5**	**1,619.1**	
TOTAL ASSETS	**7,991.3**	**6,806.3**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	781.4	628.2	
Other items of equity	(77.7)	(44.2)	
Fx differences resulting from translation of financial statements	77.5	75.8	
Retained earnings	402.8	584.4	
Total equity	**3,423.3**	**3,483.5**	
Debt liabilities	2,201.4	1,156.5	*Note 4.1*
Trade liabilities	2.7	0.5	
Investment liabilities	157.0	109.8	*Note 5.7*
Provisions for employee benefits	657.1	591.5	*Note 5.8*
Other provisions	5.4	20.5	*Note 5.9*
Deferred tax liability	92.3	88.5	*Note 3.1*
Other liabilities	-	1.8	*Note 5.10*
Total long-term liabilities	**3,115.9**	**1,969.1**	
Debt liabilities	421.3	270.5	*Note 4.1*
Trade liabilities	412.2	499.4	
Investment liabilities	181.5	177.6	*Note 5.7*
Provisions for employee benefits	127.1	115.5	*Note 5.8*
Other provisions	45.6	56.9	*Note 5.9*
Other liabilities	264.4	233.8	*Note 5.10*
Total short-term liabilities	**1,452.1**	**1,353.7**	
Total liabilities	**4,568.0**	**3,322.8**	
TOTAL EQUITY AND LIABILITIES	**7,991.3**	**6,806.3**	

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

			Other items of equity						
	Share capital	Supplementary capital	Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits/ (losses) on post-employment benefits	Measurement of hedging instruments	FX differences resulting from translation of financial statements	Retained earnings	Total equity	
1/01/2019 (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**	*Note 1.3*
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)**	*Note 4.2*
Other changes for the financial year	-	153.2	-	-	-	-	(153.2)	**-**	*Note 4.2*
31/12/2019	**2,239.3**	**781.4**	**(12.2)**	**(75.0)**	**9.5**	**77.5**	**402.8**	**3,423.3**	
1/01/2018 (audited)	**2,239.3**	**619.3**	-	**(22.1)**	**20.5**	**59.9**	**400.3**	**3,317.2**	
Changes resulting from the implementation of IFRS 9	-	-	(12.9)	-	-	-	9.1	**(3.8)**	
1/01/2018 (restated)	**2,239.3**	**619.3**	**(12.9)**	**(22.1)**	**20.5**	**59.9**	**409.4**	**3,313.4**	
Net result for the financial year	-	-	-	-	-	-	183.9	**183.9**	
Other comprehensive income for the financial year (net)	-	-	-	(10.7)	(19.0)	16.5	-	**(13.2)**	
Total comprehensive income	-	-	-	(10.7)	(19.0)	16.5	183.9	**170.7**	
Other changes for the financial year	-	8.9	-	-	-	(0.6)	(8.9)	**(0.6)**	
31/12/2018	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**	

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

CONSOLIDATED CASH FLOW STATEMENT

	2019	2018	
Cash flow from operating activities			
Profit before tax	**73.5**	**243.8**	
Adjustments			
Depreciation, amortization and impairment losses	716.5	629.4	*Note 2.2*
(Profits) / losses on interest, dividends	53.7	18.3	
Received / (paid) interest	1.7	4.3	
Received / (paid) income tax	(53.1)	(75.8)	
Movement in working capital	70.8	78.4	*Note 4.5*
Other adjustments	(56.6)	(35.4)	*Note 4.5*
Net cash from operating activities	**806.5**	**863.0**	
Cash flow from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(1,045.8)	(719.7)	
Proceeds from the sale of non-financial non-current assets	18.3	25.1	
Proceeds from the sale of entities accounted for under the equity method	-	12.2	
Proceeds from dividends received	2.4	2.4	
Inflows / (outflows) on bank deposits over 3 months	200.0	53.0	
Other inflows / (outflows) from investing activities	10.3	15.0	
Net cash from investing activities	**(814.8)**	**(612.0)**	
Cash flow from financing activities			
Payments on financial lease liabilities	(127.3)	(46.7)	*Note 4.1*
Proceeds from bank loans and borrowings	549.1	0.3	*Note 4.1*
Repayment of bank loans and borrowings	(248.3)	(248.6)	*Note 4.1*
Interest paid on financial lease liabilities and bank loans and borrowings	(53.2)	(31.4)	*Note 4.1*
Grants received	63.2	5.1	
Dividends paid out to owners	(67.2)	-	*Note 4.2*
Other outflows from financing activities	(4.9)	(1.6)	
Net cash from financing activities	**111.4**	**(322.9)**	
Net increase / (decrease) in cash and cash equivalents	103.1	(71.9)	
Cash and cash equivalents at the beginning of the reporting period	447.3	516.8	*Note 4.4*
Impact exerted by FX rate movements on the cash balance in foreign currencies	-	2.4	
Cash and cash equivalents at the end of the reporting period, including:	**550.4**	**447.3**	*Note 4.4*
Restricted cash	*49.2*	*39.6*	*Note 4.4*

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

PKP CARGO S.A. ("Company", "Parent Company") was established pursuant to a Notary Deed of 29 June 2001 (Rep. A No. 1287/2001). The Parent Company's registered office is Warsaw at Grójecka Street no 17. The Parent Company was registered in the National Court Register in the District Court in Katowice, Commercial Division of the National Court Register under file number KRS 0000027702. Currently, as a consequence of moving the Parent Company's registered office, the registration files are kept by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. The Parent Company was assigned the REGON statistical number 277586360 and the NIP tax identification number 954-23-81-960.

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 December 2019 were presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2019 in **Chapters 9.11** and **9.4**, respectively.

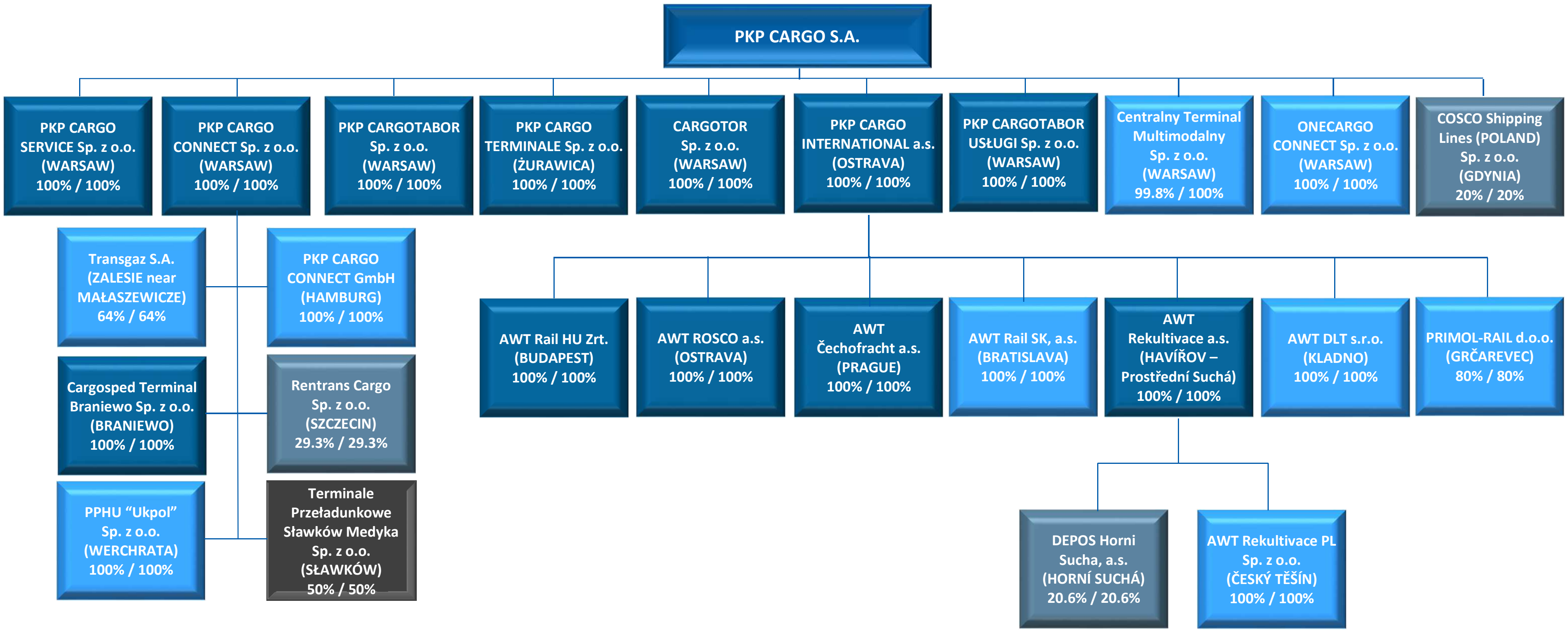
Information about the Group

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 21 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.)



Subsidiaries – consolidated by the full method
Associates in the Group
Other subsidiaries in the Group
Shares in the Group's joint ventures

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

On 29 May 2019, the National Court Register (KRS) registered the change of the name of PKP CARGO TERMINALE Sp. z o.o. (former name: PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.).

On 1 July 2019, AWT CE s.r.o. and Advanced World Transport a.s. were merged, as a result of which AWT CE s.r.o. was removed from the Czech commercial register.

On 31 July 2019, Trade Trans Finance Sp. z o.o. (hereinafter: TTF) was taken over by PKP CARGO CONNECT Sp. z o.o. (hereinafter PKPCC). The merger was registered in the National Court Register (KRS).

On 27 August 2019, based on the concluded agreement AWT Čechofracht a.s. sold its shares in RND s.r.o. As a result of the above, RND s.r.o. ceased to be a related party of the PKP CARGO Group.

As at 2 October 2019, Advanced World Transport a.s. changed its name to PKP CARGO INTERNATIONAL a.s.

On 31 October 2019, the company PKP CARGO TERMINALE Sp. z o.o. was merged with PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. by way of a transfer of all the assets of the company being acquired, i.e. PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. to PKP CARGO TERMINALE Sp. z o.o. as the acquiring company.

On 12 November 2019, the Parent Company signed an agreement to sell 50% shares in ONECARGO Sp. z o.o. to PKP S.A.

On 5 December 2019, the National Court Register registered the change of the name of Centralny Terminal Multimodalny Sp. z o.o. (former name: ONECARGO Sp. z o.o.)

On 10 December 2019, the share capital of Centralny Terminal Multimodalny Sp. z o.o. was increased through creation of new shares, which were subscribed by PKP CARGO S.A. The change was registered in the National Court Register on 13 January 2020.

Effective as of 1 January 2020, a cross-border merger of AWT Rekultivace a.s. and AWT Rekultivace PL Sp. z o.o. was effected, as a result of which 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.

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 2019 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.

The Group's accounting principles described in individual notes were applied in a continuous manner to all presented periods, except for changes resulting from the entry into force of IFRS 16, as described in Note 1.3 Accounting policy. 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
		2019	2018		
2.1	Revenues from contracts with customers	4,781.6	5,183.0	X	X
2.2	Operating expenses	(4,674.9)	(4,919.5)		
2.3	Other operating revenue and (expenses)	36.7	14.1		
2.4	Financial revenue and (expenses)	(71.6)	(42.0)		
3.1	Income tax	(37.5)	(59.9)	X	X
5.1	Rolling stock	4,329.6	3,997.0	X	X
5.1	Other property, plant and equipment	872.4	949.9	X	X
5.2	Rights-of-use assets	1,078.8	-	X	X
5.3	Investments in entities accounted for under the equity method	40.4	47.3	X	
5.4	Inventories	161.0	161.7	X	
5.5	Trade receivables	594.3	685.3	X	X
	Lease receivables	11.6	-		
	Income tax receivables	51.4	3.0		
	Bank deposits over 3 months	-	201.1		
5.6	Other assets	187.7	178.1	X	
3.1	Deferred tax assets	113.7	135.6		X
4.4	Cash and cash equivalents	550.4	447.3	X	
4.2	Equity	3,423.3	3,483.5	X	
4.1	Debt liabilities	2,622.7	1,427.0	X	X
	Trade liabilities	414.9	499.9		
5.7	Investment liabilities	338.5	287.4	X	
5.8	Provisions for employee benefits	784.2	707.0	X	X
5.9	Other provisions	51.0	77.4	X	
5.10	Other liabilities	264.4	235.6	X	
3.1	Deferred tax liability	92.3	88.5		X
7.3	Contingent liabilities	229.1	244.8	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 2019 and 31 December 2018. 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 from the 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.

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

(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 2019 and 31 December 2018, 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 cash flow statement	
	31/12/2019	31/12/2018	2019	2018
EUR	4.2585	4.3000	4.3018	4.2669
CZK	0.1676	0.1673	0.1676	0.1663
HUF	0.0129	0.0134	0.0132	0.0133

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

1.3 Applied International Financial Reporting Standards platform

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

IFRS 16 "Leases" – as of 1 January 2019, the Group applied the new IFRS 16 regarding the measurement and presentation of lease contracts. In accordance with the new standard, the lessee recognizes a right-of-use asset and a lease liability.

The accounting policies are described in **Notes 4.1** and **5.2** to these Consolidated Financial Statements.

Effect of application of the new standard

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

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

- application of a single discount rate to the measurement of the portfolio of leases with relatively similar characteristics,
- adjustment of the value of the right-of-use assets by the amount of the provision for onerous contracts recognized in accordance with IAS 37 directly before the date of first application of IFRS 16,
- the use of post-factual knowledge and experience in determining the term of the lease if the contract contains options for renewal or termination,
- not recognizing the right-of-use assets and liabilities for contracts for which the remaining lease term as at 1 January 2019 was shorter than 12 months.

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

The lessee's incremental rates applied for the purposes of estimation of the value of lease liabilities ranged from 1.16% to 4.29%. The diversification of the rates was a result of the following factors having been taken into account:

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

The weighted average lease rate applied for the measurement of liabilities was 3.83%.

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

1.3 Applied International Financial Reporting Standards platform (cont.)

Consolidated statement of financial position as at 1 January 2019

	31/12/2018	Effect of the implementation of IFRS 16	1/01/2019
ASSETS			
Rolling stock	3,997.0	(160.9)	3,836.1
Other property, plant and equipment	949.9	(50.0)	899.9
Rights-of-use assets	-	1,002.8	1,002.8
Lease receivables	-	8.6	8.6
Other assets	56.7	(7.7)	49.0
Deferred tax assets	135.6	(0.7)	134.9
Total non-current assets	**5,187.2**	**792.1**	**5,979.3**
Lease receivables	-	0.4	0.4
Other assets	121.4	(1.8)	119.6
Total current assets	**1,619.1**	**(1.4)**	**1,617.7**
TOTAL ASSETS	**6,806.3**	**790.7**	**7,597.0**
EQUITY AND LIABILITIES			
Retained earnings	584.4	2.8	587.2
Total equity	**3,483.5**	**2.8**	**3,486.3**
Debt liabilities	1,156.5	701.5	1,858.0
Other provisions	20.5	(1.3)	19.2
Total long-term liabilities	**1,969.1**	**700.2**	**2,669.3**
Debt liabilities	270.5	102.2	372.7
Trade liabilities	499.4	(12.1)	487.3
Other provisions	56.9	(2.4)	54.5
Total short-term liabilities	**1,353.7**	**87.7**	**1,441.4**
Total liabilities	**3,322.8**	**787.9**	**4,110.7**
TOTAL EQUITY AND LIABILITIES	**6,806.3**	**790.7**	**7,597.0**

Consolidated statement of profit or loss and other comprehensive income

The implementation of IFRS 16 has also affected the structure of the statement of profit or loss and other comprehensive income. In the financial year ended 31 December 2019, due to the implementation of the new standard, depreciation increased by PLN 113.5 million, the operating result increased by PLN 23.2 million and the pre-tax result fell by PLN 6.5 million. As a result of implementation the new standard, EBITDA went up by approximately PLN 136.7 million.

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

Amount of future minimum lease payments under non-cancellable operating leases	**190.7**
Operating lease liabilities recognized as at 31 December 2018 as trade liabilities	**9.0**
Finance lease liabilities recognized as at 31 December 2018	**95.2**
Adjustments	**860.6**
Extension and termination options which the Group is highly likely to exercise	810.6
Exemptions for short-term leases and leases of assets with a low initial value	(24.3)
Perpetual usufruct right to land	74.2
Other	0.1
Lease liabilities recognized as at 31 December 2018, adjusted	**1,155.5**
Discount	(256.6)
Lease liabilities as at 1 January 2019	**898.9**
including the effect of recognition under IFRS 16	803.7

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

1.3 Applied International Financial Reporting Standards platform (cont.)

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

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

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

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

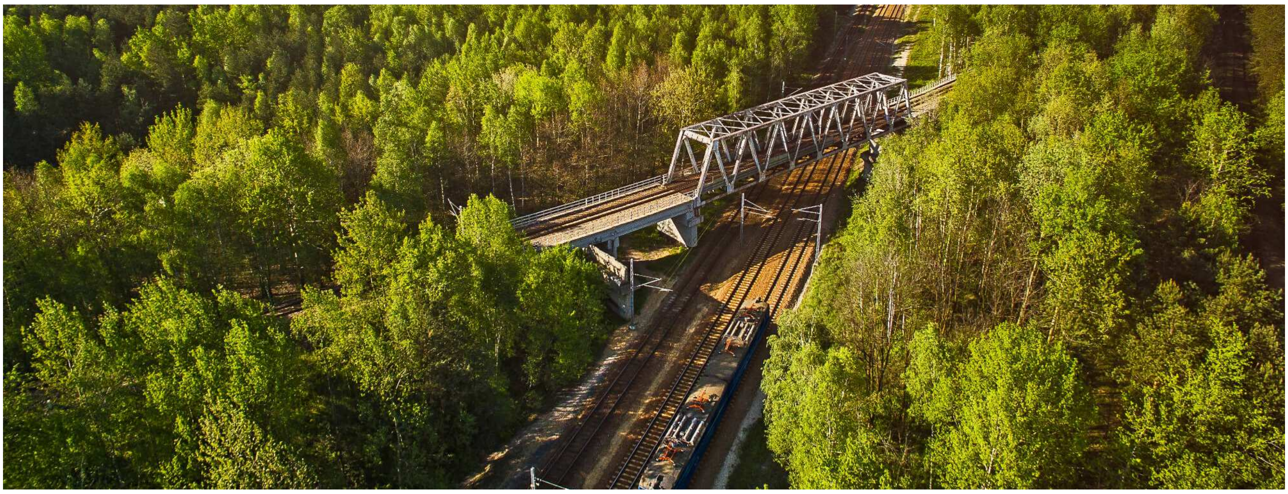
In the opinion of the Parent Company's Management Board, the standards and interpretations mentioned below will not result in any major amendments to the Accounting Policy applied by the Group in the successive reporting periods:

Standard / Interpretation	Effective date
Amendments to references to the IFRS Conceptual Framework	1 January 2020
Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" – definition of material	1 January 2020
Amendments to IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement" – IBOR reform	1 January 2020

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

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 31 December 2019 have not yet been approved by the EU and have not entered into effect. In the 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" – Definition of a business	1 January 2020
IFRS 17 "Insurance contracts"	1 January 2021



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

2.1 Revenues from contracts with customers

Accounting policy applied

The 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. 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.

Revenues from sales of services are recognized in the statement of profit or loss and other comprehensive income over time, because the customer receives and at the same time benefits from the performance provided by the 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 related to services that have not yet been invoiced but 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.

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.

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 raw materials	-	-	2.2	53.3	**55.5**
Revenue from lease of assets and other revenue	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**

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

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

2.1 Revenues from contracts with customers (cont.)

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:

	31/12/2019			31/12/2018		
	Siding services	Reclamation services	Total	Siding services	Reclamation services	Total
Up to 1 year	40.2	35.1	**75.3**	48.6	41.6	**90.2**
1 to 3 years	33.0	2.8	**35.8**	54.8	15.9	**70.7**
Over 3 years	-	0.4	**0.4**	-	0.5	**0.5**
Total	**73.2**	**38.3**	**111.5**	**103.4**	**58.0**	**161.4**

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:

	2019	2018
Poland	3,411.9	3,658.4
Czech Republic	597.3	626.4
Germany	294.6	293.9
Slovakia	111.8	159.1
Denmark	59.2	55.2
Austria	53.2	50.1
Other countries	253.6	339.9
Total	**4,781.6**	**5,183.0**

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

	2019	2018
Poland	5,576.0	4,310.7
Czech Republic	787.8	727.7
Other countries	4.3	4.9
Total	**6,368.1**	**5,043.3**

Information on key customers

In the financial year ended 31 December 2019 and 31 December 2018, the Group's revenue from any single client did not exceed 10% of the total revenues from contracts with customers.

Assets from contracts with customers

	2019	2018
As at the beginning of the reporting period	**37.1**	**43.6**
Recognition of revenue before the payment due date	18.6	37.2
Reclassification to receivables	(37.1)	(43.7)
As at the end of the reporting period	**18.6**	**37.1**

Liabilities from contracts with customers

	2019	2018
As at the beginning of the reporting period	**1.6**	**5.2**
Recognition of revenues:		
From the opening balance of liabilities from contracts with customers	(1.6)	(5.2)
Payment received or due in advance	0.9	1.6
As at the end of the reporting period	**0.9**	**1.6**

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

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	2019	2018
Consumption of traction fuel	(176.8)	(210.6)
Consumption of traction electricity	(407.0)	(404.5)
Total	**(583.8)**	**(615.1)**

Other services

	2019	2018
Repair services	(56.5)	(64.9)
Rent and fees for the use of real properties and rolling stock	(87.2)	(216.6)
Telecommunications services	(6.6)	(6.4)
Legal, consulting and similar services	(15.8)	(16.1)
IT services	(46.4)	(44.2)
Maintenance and operation services for facilities and fixed assets	(39.9)	(32.1)
Transshipment services	(14.3)	(20.0)
Reclamation services	(86.9)	(75.0)
Other services	(55.0)	(54.3)
Total	**(408.6)**	**(529.6)**

Employee benefits

	2019	2018
Payroll	(1,303.3)	(1,246.2)
Social security expenses	(275.7)	(266.0)
Expenses for contributions to the Company Social Benefits Fund	(25.2)	(22.3)
Other employee benefits during employment	(46.5)	(40.9)
Post-employment benefits	(4.9)	(6.6)
Movement in provisions for employee benefits	(81.7)	(69.4)
Total	**(1,737.3)**	**(1,651.4)**

Other expenses

	2019	2018
Consumption of non-traction fuel	(27.7)	(22.5)
Consumption of electricity, gas and water	(37.8)	(36.7)
Consumption of materials	(98.2)	(106.2)
Taxes and charges	(35.6)	(27.6)
Cost of goods and materials sold	(35.0)	(45.1)
Business trips	(33.2)	(33.5)
Other	(25.3)	(27.3)
Total	**(292.8)**	**(298.9)**

Depreciation, amortization and impairment losses

	2019	2018
Depreciation of rolling stock	(501.5)	(461.7)
Depreciation of other property, plant and equipment	(78.0)	(80.3)
Depreciation of rights-of-use assets	(123.9)	-
Amortization of intangible assets	(13.1)	(16.8)
Recognized / (reversed) impairment losses:		
Rolling stock	0.4	(69.0)
Other property, plant and equipment	(0.4)	(1.6)
Total	**(716.5)**	**(629.4)**

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

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	2019	2018
Profit on sales of non-financial non-current assets	8.4	5.8
Reversed impairment losses on trade receivables	7.2	14.8
Other, including:		
Penalties and compensations	19.4	18.2
Reversal of other provisions (1)	27.5	3.3
Interest on trade and other receivables	2.5	5.6
Net result on FX differences on trade receivables and liabilities	-	2.1
VAT refund (2)	12.6	-
Other	6.3	4.7
Total other operating revenue	**83.9**	**54.5**
Recognized impairment losses on trade receivables	(14.0)	(11.8)
Other, including:		
Penalties and compensations	(7.5)	(8.4)
Costs of liquidation of non-current and current assets	(6.3)	(4.5)
Other provisions	(10.6)	(8.2)
Net result on FX differences on trade receivables and liabilities	(1.9)	-
Other	(6.9)	(7.5)
Total other operating expenses	**(47.2)**	**(40.4)**
Other operating revenue and (expenses)	**36.7**	**14.1**

[1] In the financial year ended 31 December 2019, the derecognized provisions item refers mainly to the derecognition of the provision for VAT settlement liabilities in the amount of PLN 24.4 million, which is described in **Note 5.9** of these Consolidated Financial Statements.
(2) In 2019, the Group recognized revenues on due VAT related to receivables from OKD covered by the restructuring proceedings.

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2019	2018
Interest income	4.9	10.6
Dividend income	0.3	0.3
Other		
Profit on sales of shares and stocks	0.8	5.0
Net result on FX differences	1.6	-
Other	0.2	0.1
Total financial revenue	**7.8**	**16.0**
Interest expenses (1)	(58.6)	(33.3)
Other		
Settlement of the discount on provisions for employee benefits	(17.6)	(19.4)
Net result on FX differences	-	(1.6)
Other	(3.2)	(3.7)
Total financial expenses	**(79.4)**	**(58.0)**
Financial revenue and (expenses)	**(71.6)**	**(42.0)**

(1) The increase in interest expenses during the financial year ended 31 December 2019 was caused chiefly by the recognition of interest expense on leases in the amount of PLN 30.2 million resulting from the entry into force of IFRS 16.

3. Explanatory notes on taxation

3.1 Income tax

Accounting policy applied

The income tax of the reporting period includes current and deferred income tax. The current tax charge is calculated on the basis of the tax result for the given reporting period. The tax result differs from the accounting 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.

The Tax Group

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

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

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

In the year ended 31 December 2019, the Tax Group incurred a tax loss of PLN 89.3 million.

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.

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

3.1 Income tax (cont.)

Income tax recognized in profit / loss

	2019	2018
Current income tax		
Current tax liability	(3.9)	(70.0)
Adjustments recognized in the current year relating to tax from previous years	(0.7)	(1.6)
Deferred tax		
Deferred income tax of the reporting period	(32.9)	11.7
Income tax recognized in profit / loss	**(37.5)**	**(59.9)**

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

	2019	2018
Deferred tax on the measurement of hedging instruments	(1.9)	4.4
Deferred tax on actuarial earnings / (losses) pertaining to post-employment benefits	10.0	2.5
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income	(0.2)	(2.4)
Deferred income tax recognized in other comprehensive income	**7.9**	**4.5**

Reconciliation of the effective tax rate

	2019	2018
Profit / (loss) before tax	**73.5**	**243.8**
Income tax expense at 19%	(14.0)	(46.3)
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	0.4	0.4
Valuation under the equity method	0.3	0.7
Recovered VAT	5.0	1.7
Other	0.2	0.6
Tax effect of non-deductible expenses arising from tax regulations, including:		
Unused tax losses	(17.0)	-
PFRON disability fund	(5.1)	(4.8)
Establishment of non-tax provisions and impairment losses	(0.2)	(0.2)
Permanent differences in expenses related with property, plant and equipment	(2.7)	(5.4)
Representation expenses	(0.7)	(0.9)
Penalties and compensations	(1.2)	(1.2)
Value added tax and other public law liabilities	(0.3)	(1.1)
Other	(1.6)	(5.6)
Effect of tax losses used in a period in which deferred tax was not recognized	**0.2**	**3.6**
Effect of the recognition/(reversal) of a deferred tax asset on tax losses	**(0.8)**	**(0.9)**
Effect of application of various tax rates	**-**	**(0.1)**
Adjustments disclosed in the current year with reference to past years' tax	**(0.1)**	**(0.4)**
Income tax recognized in profit / loss	**(37.5)**	**(59.9)**
Effective tax rate	**51.0%**	**24.6%**

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

3.1 Income tax (cont.)

The corporate income tax rate effective in Poland in the years 2018 - 2019 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 10% in Hungary.

Balance of deferred tax assets and liabilities

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

	31/12/2019	31/12/2018
Deferred tax assets	113.7	135.6
Deferred tax liabilities	(92.3)	(88.5)
Total	**21.4**	**47.1**

Movements in deferred tax before the set-off

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	7.6	-	-	**17.0**
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	(0.4)	(1.9)	-	**(2.0)**
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**

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

3.1 Income tax (cont.)

2018	1/01/2018 (audited)	Effect of the implementation of IFRS 9	1/01/2018 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2018
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non-current assets	(144.1)	-	(144.1)	13.4	-	(2.7)	**(133.4)**
Other provisions and liabilities	9.5	-	9.5	1.2	-	0.1	**10.8**
Inventories	(1.9)	-	(1.9)	(2.2)	-	-	**(4.1)**
Trade receivables	4.1	0.6	4.7	(1.1)	-	-	**3.6**
Provisions for employee benefits	129.8	-	129.8	1.6	2.5	0.1	**134.0**
Other	(4.3)	-	(4.3)	0.2	4.4	-	**0.3**
Unused tax losses	37.2	-	37.2	(1.4)	-	0.1	**35.9**
Total	**30.3**	**0.6**	**30.9**	**11.7**	**6.9**	**(2.4)**	**47.1**

Maturity analysis of deferred tax assets from tax losses

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

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

Based on the long-term forecasts adopted in the Group, as at 31 December 2019 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 applied as at 31 December 2018

Year	2021	2022	2023	2024 and beyond	Total
Unused tax losses	18.1	8.4	84.7	76.9	**188.1**

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:

	31/12/2019	31/12/2018
PKP CARGO INTERNATIONAL a.s.	-	20.2
AWT Rail HU Zrt.	21.5	22.1
AWT Čechofracht a.s.	10.6	9.2
PKP CARGOTABOR USŁUGI Sp. z o.o.	7.5	7.5
CARGOSPED Terminal Braniewo Sp. z o.o.	0.4	1.6
Total	**40.0**	**60.6**

In the financial year ended 31 December 2019, in connection with the merger of AWT CE s.r.o. and PKP CARGO INTERNATIONAL a.s., the company lost the possibility of settling tax losses in the amount of PLN 20.2 million.

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**

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

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

As at 31 December 2019, the companies comprising the Tax Group generated a tax loss of PLN 89.3 million, however the loss cannot be reconciled in subsequent reporting periods. This is why the above tax loss has not been included in the calculation of deferred tax assets.

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

4.1 Reconciliation of debt liabilities

Accounting policy applied

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

Accounting policy applied since 1 January 2019

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

The current value of future lease payments is calculated using the interest rate applicable to the lease. If the interest rate applicable to a lease is unknown, the 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 made; 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 25,000.

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.

Accounting policy applied until 31 December 2018

As at 31 December 2018, the Group presented lease agreements under IAS 17, classifying each of its agreements as finance lease agreements and operating lease agreements. A lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership. Otherwise, the agreement was classified as an operating lease agreement.

Finance lease liabilities were presented in the statement of financial position under long-term or short-term debt liabilities, depending on their maturity.

In the statement of financial position, the Group did not present liabilities and assets under operating leases, except for lease payments that were not paid by the balance sheet date and were recognized on the accrual basis.

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

4.1 Reconciliation of debt liabilities (cont.)

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

a) the discount rate

The 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. As regards the agreements recognized as at 1 January 2019 n connection with the implementation of IFRS 16, due to the limited scope of available data necessary to determine it, the Group has ascertained the current value of the lease liability based on the lessee's 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.

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, CZK and EUR and pertain mainly to real properties and rolling stock.

Items in foreign currencies

31/12/2019	In the functional currency – PLN	In 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**
Variable-interest-rate liabilities	1,234.5	469.7	-	**1,704.2**
Fixed-interest-rate liabilities	658.4	213.6	46.5	**918.5**
Total	**1,892.9**	**683.3**	**46.5**	**2,622.7**

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

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

4.1 Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

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 differences 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	2019
Revenue from operating leases	Revenues from contracts with customers	40.1
Interest income from finance leases	Financial revenue	0.5
Costs on account of:		
Short-term leases	Other services	(43.6)
Leases of low-value assets	Other services	(5.1)
Variable lease fees not included in the measurement of lease liabilities	Other services	(2.9)

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

Net debt

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

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

4.1 Reconciliation of debt liabilities (cont.)

The Net Debt/EBITDA ratio is presented below

	31/12/2019	31/12/2018
Bank loans and borrowings	1,626.2	1,331.8
Leases	996.5	95.2
Total debt	**2,622.7**	**1,427.0**
Cash and cash equivalents	(550.4)	(447.3)
Bank deposits over 3 months	-	(201.1)
Total net debt	**2,072.3**	**778.6**
EBITDA	859.9	907.0
Net debt/EBITDA	**2.4**	**0.9**

The loan agreement performance ratios are calculated at the level of standalone financial statements for Polish companies and at the level of the consolidated financial statements for the PKP CARGO INTERNATIONAL Group. In most cases, the impact of IFRS 16 has been eliminated in the calculation of the net debt/EBITDA ratio. Accordingly, as at 31 December 2019, the estimated value of the consolidated net debt/EBITDA ratio after the elimination of impact of IFRS 16 was 1.7.

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2019	31/12/2018
Investment loan	European Investment Bank	19/07/2020	EUR	22.0	70.7
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	15/07/2019	PLN	-	0.7
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/12/2021	PLN	100.0	-
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2020	PLN	100.0	100.0
Leasing facility	Millennium Leasing Sp. z o.o.	02/12/2020	PLN	51.3	-
Total				**273.3**	**171.4**

In 2019, the Parent Company signed two loan agreements with Bank Polska Kasa Opieki S.A. up to the total maximum amount of PLN 250 million and two loan agreements with Bank Gospodarstwa Krajowego up to the total maximum amount of PLN 250 million, which were launched in 2019 and their repayment date expires on 20 December 2024.

Moreover, the Parent Company signed a leasing facility agreement with Millennium Leasing Sp. z o.o. with the total value of PLN 150 million, for the period of 12 months with an extension option, of which by 31 December 2019 it has used PLN 98.7 million.
The above agreements were concluded for the financing and refinancing of the capital expenditure plan for 2018-2019 and acquisitions.

On 19 December 2019, the Parent Company signed a loan agreement with Bank Powszechna Kasa Oszczędności Bank Polski S.A. up to the total maximum amount of PLN 100 million to finance current activity. The end of the availability period and the final repayment date is 19 December 2021.

Breaches of the terms and conditions of loan agreements

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

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

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 from 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

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

As at 31 December 2019 and 31 December 2018, the 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 2019 and 31 December 2018, there were no movements in the share capital of the Parent Company.

Movement in supplementary capital and retained earnings

On 26 June 2019, the Ordinary Shareholder Meeting of the Parent Company adopted a resolution on the distribution of the net profit earned in 2018 of PLN 254.0 million as follows:

a) allocate PLN 148.0 million to increase the supplementary capital,
b) allocate PLN 38.8 million to cover losses from previous year.
c) allocate PLN 67.2 million to the disbursement of a dividend (PLN 1.50 per share).

The dividend was paid on 10 July 2019.

In the financial year ended 31 December 2019, other changes to the Group's supplementary capital and retained earnings resulted from resolution of 13 June 2019 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o in the matter of partial allocation of the net profit of 2018 in the amount of PLN 5.4 million to supplementary capital and resolution of 14 June 2019 adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. in the matter of partial coverage of the net loss for 2018 from supplementary capital in the amount of PLN 0.2 million.

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

On 23 March 2020, the Parent Company's Management Board adopted a resolution to cover the loss for 2019 shown in the Standalone Financial Statements with retained earnings.

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

4.2 Equity and capital management policy (cont.)

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 (hence equity may not be lower than 40% of total assets). The debt level is monitored by the Group as at the end of each quarter. The 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:

	31/12/2019	31/12/2018
Total liabilities	4,568.0	3,322.8
Total balance sheet	7,991.3	6,806.3
Total debt ratio	57%	49%

4.3 Liquidity risk management

The Group may be exposed to liquidity risk following from the ratio of current assets to short-term liabilities. To ensure an additional source of funds required to secure its short-term liquidity the Group had current account overdraft facilities. Additionally, to secure its long-term liquidity, the Group used investment loans and leases (financing of capital expenditures). As at 31 December 2019, the Group had unused credit facilities in the aggregate amount of PLN 222.0 million and an unused leasing facility in the amount of PLN 51.3 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):

31/12/2019	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**

31/12/2018	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	77.9	216.4	852.1	365.9	**1,512.3**	**1,427.0**
Trade liabilities	495.7	3.7	0.5	-	**499.9**	**499.9**
Investment liabilities	156.1	23.2	110.1	3.1	**292.5**	**287.4**
Derivative instruments – FX forwards	-	0.1	0.1	-	**0.2**	**0.2**
Total	**729.7**	**243.4**	**962.8**	**369.0**	**2,304.9**	**2,214.5**

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

	31/12/2019	31/12/2018
Cash on hand and on bank accounts	192.2	204.6
Bank deposits up to 3 months	358.2	242.7
Total	**550.4**	**447.3**
including restricted cash	*49.2*	*39.6*

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

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

4.5 Notes to the statement of cash flows

Movement in working capital

2019	Movement in statement of financial position	Effect of the implementation of IFRS 16	Movement in tax settlements	Net cash flow from investing activities	Net cash flow from financing 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	-	0.3	1.6	-	0.7	31.4
Total	**127.8**	**6.3**	**0.3**	**(49.8)**	**-**	**(13.8)**	**70.8**

2018	Movement in statement of financial position	Effect of the implementation of IFRS 9	Movement in tax settlements	Net cash flow from investing activities	Net cash flow from financing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(13.2)	-	-	5.4	-	-	(7.8)
Trade receivables	3.5	(3.3)	-	(1.4)	-	(0.3)	(1.5)
Other assets	(19.6)	(1.1)	(0.1)	7.5	-	(18.4)	(31.7)
Provisions	18.0	-	-	-	-	-	18.0
Trade liabilities	52.7	-	-	-	-	0.1	52.8
Investment liabilities	208.3	-	-	(173.3)	-	-	35.0
Other liabilities	8.6	-	1.3	8.8	(5.1)	-	13.6
Total	**258.3**	**(4.4)**	**1.2**	**(153.0)**	**(5.1)**	**(18.6)**	**78.4**

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

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

Other adjustments

	2019	2018
Actuarial profits / (losses) on post-employment benefits recognized in other comprehensive income	(52.2)	(13.2)
Measurement of hedging instruments	4.1	(8.4)
Measurement of equity instruments at fair value	0.7	-
(Profit) / loss on the sale and liquidation of non-financial non-current assets	(6.3)	(3.2)
Result on the sale of entities accounted for under the equity method	-	(4.5)
(Profit) / loss on investing activities	(0.8)	(4.1)
FX differences resulting from translation of financial statements	(0.1)	0.3
Other	(2.0)	(2.3)
Other adjustments in the cash flow statement	**(56.6)**	**(35.4)**

Non-cash transactions

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

- Offsetting mutual settlements

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

- Liquidation of rolling stock

When it is decided to liquidate a rolling stock component, its residual value is posted in the item of inventories. In 2019, the residual value of non-current assets reclassified to inventories amounted to PLN 7.0 million, whereas in 2018 it was PLN 5.4 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.

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

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

Accounting policy applied

Repairs and inspections

Rolling stock undergoes planned maintenance operations at five levels, the extent of which is defined in the Regulation of the Minister of Infrastructure dated 12 October 2005 on general technical conditions for the operation of railroad vehicles (Journal of Laws of 2016, Item 226, as amended). Detailed requirements for these operations are given in the Maintenance System Documentation (DSU), which is mandatory for each of the operated railroad vehicles. Rolling stock undergoes planned maintenance operations in accordance with repair cycles defined in the Maintenance System Documentation (DSU), depending on the permissible time and/or course of the vehicle's operation.
After completing repair or modernization at level 4 and 5, a technical railworthiness certificate is issued. A technical railworthiness certificate confirms that the given rolling stock asset is allowed to be used until the next repair at level P4 or P5. An asset may be operated in the entire certificate validity period provided also that a P3 inspection is carried out halfway through the cycle. If no repair / inspection at levels P3, P4 and P5 is carried out, the rolling stock asset loses its operational capacity and cannot be used in rail transport. The Group considers periodic repairs and inspections at levels P3, P4 and P5 as the condition for continuous use of rolling stock asset item and at the moment of performing such a repair, if the criteria for its recognition are satisfied, the costs of the repair are recognized in the carrying amount of the rolling stock asset and are depreciated in the period between repairs.
Other costs of 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.

Residual value of rolling stock

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

Depreciation of property, plant and equipment

The Group applies straight-line depreciation. The value of property, plant and equipment subject to depreciation is distributed systematically over the useful life. The initial value subject to depreciation for a given asset is determined after deducting its residual value.
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

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

Accounting policy applied

Impairment of property, plant and equipment

At each balance sheet date, the Group performs an analysis of carrying amounts of owned non-current assets to determine if there are any indications of their impairment. If such indications of impairment are identified, the recoverable amount of the cash-generating units or individual assets is estimated to determine a potential related charge.
The recoverable amount is measured at the higher of the following two values: fair value less cost of disposal or value in use. The value in use is defined as the present value of estimated future cash flows discounted using a discount rate before tax. If the recoverable amount of a cash-generating unit or individual asset is lower than its carrying amount, the latter is reduced to the recoverable amount. An impairment loss is recognized in the line item "depreciation and impairment losses".
When an impairment loss is reversed, the net value of the asset is increased to the revised estimate of the recoverable amount, which, however, does not exceed the carrying amount of the asset that would have been determined if an impairment loss had not been recognized in previous years. The reversal of an impairment loss is recognized in the line item "depreciation, amortization and impairment losses".

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 2019 and 31 December 2018 did not reveal the need to make material changes to previous periods.

Residual value of the rolling stock

As at 31 December 2019, the Group verified the residual value of its rolling stock. As a result of this verification, the Group decided to update the residual value of its rolling stock, 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 2019, the Group performed impairment tests with respect to two cash-generating units defined at the level of assets of the Parent Company and the PKP CARGO INTERNATIONAL Group, because:
- the market value of the Group's net assets continued to be lower than their carrying amount,
- observed changes in the Czech rail freight market.

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

PKP CARGO S.A.

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 2020-2029. In the opinion of the Parent Company's Management Board, adopting financial projections for more than five years is reasonable because the property, plant and equipment used by the Parent Company have a considerably longer economic useful lives.
Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:
a) in the whole period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 1.1% in real terms,
b) in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 14.6% in real terms,
c) the after-tax weighted average capital cost (WACC) level will be at 5.33% 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 2019, the Parent Company recognized no impairment loss for the assets.

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

(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

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 2020-2029. In the opinion of the Group, adopting financial projections for more than five years is reasonable, because the property, plant and equipment used by the PKP CARGO INTERNATIONAL Group have considerably longer useful lives and such projections enable a better depiction of the impact of expected changes in the Czech coal and rail market on the Group's performance.

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

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 2019, which as at that date amounted to PLN 101.6 million.

Presented below is the estimated amount of impairment loss as at 31 December 2019 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	(45.0)	39.3
Increase after the detailed projection period	24.4	(28.4)

(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

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.)

2018	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2018	**6,024.6**	**914.6**	**405.9**	**100.5**	**39.5**	**41.2**	**1,501.7**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	598.4	**598.4**
Other acquisitions	-	-	-	-	-	287.4	**287.4**
Finance leases	-	-	0.8	-	-		**0.8**
Settlement of fixed assets under construction	786.7	27.5	26.9	3.0	2.2	(846.3)	**(786.7)**
Grant for non-current assets	-	-	-	-	-	(9.2)	**(9.2)**
Sales	(27.5)	(0.9)	(1.1)	(6.1)	-	-	**(8.1)**
Liquidation	(332.1)	(0.8)	(1.9)	(0.2)	(0.1)	(0.1)	**(3.1)**
FX differences	19.5	3.3	0.9	1.0	0.1	0.5	**5.8**
Other	-	-	0.6	-	(0.6)	-	**-**
31/12/2018	**6,471.2**	**943.7**	**432.1**	**98.2**	**41.1**	**71.9**	**1,587.0**
Accumulated depreciation							
1/01/2018	**(2,129.5)**	**(195.7)**	**(270.7)**	**(60.4)**	**(31.6)**	**-**	**(558.4)**
Increases / (decreases):							
Depreciation	(461.7)	(38.8)	(32.1)	(6.4)	(3.0)	-	**(80.3)**
Sales	5.7	0.3	1.0	6.0	-	-	**7.3**
Liquidation	326.0	0.6	1.6	0.2	0.1	-	**2.5**
FX differences	(3.9)	(0.5)	(0.3)	(0.2)	-	-	**(1.0)**
Other	-	-	(0.6)	-	0.6	-	**-**
31/12/2018	**(2,263.4)**	**(234.1)**	**(301.1)**	**(60.8)**	**(33.9)**	**-**	**(629.9)**
Accumulated impairment							
1/01/2018	**(144.7)**	**(2.7)**	**(0.3)**	**-**	**-**	**(2.7)**	**(5.7)**
Increases / (decreases):							
Recognition	(69.0)	(0.1)	(1.4)	-	-	(0.1)	**(1.6)**
Utilization	4.0	-	-	-	-	0.1	**0.1**
FX differences	(1.1)	-	-	-	-	-	**-**
31/12/2018	**(210.8)**	**(2.8)**	**(1.7)**	**-**	**-**	**(2.7)**	**(7.2)**
Net value							
1/01/2018	**3,750.4**	**716.2**	**134.9**	**40.1**	**7.9**	**38.5**	**937.6**
including finance lease	*246.1*	-	*10.8*	*7.0*	-	-	*17.8*
31/12/2018	**3,997.0**	**706.8**	**129.3**	**37.4**	**7.2**	**69.2**	**949.9**
including finance lease	*160.9*	-	*4.4*	*3.9*	-	-	*8.3*

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

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

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 2019 and 31 December 2018, the carrying amount of rolling stock without valid technical railworthiness certificates, for which the Group recognized an impairment loss, was PLN 300 million and PLN 367 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 right-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 reviews of right-of-use assets, the Group applies IAS 16, i.e. presents assets related to repairs and their periodic reviews in the same item of the statement of financial position, i.e. in the right-of-use assets item.

Useful life of rights-of-use assets

The Group applies straight-line depreciation. The value of a right-of-use asset is distributed systematically over its useful life. The useful lives of rights-of-use assets 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 2019 did not reveal the need to correct the previously applied depreciation rates.

Movement in rights-of-use assets

	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
Effect of the implementation of IFRS 16	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 (restated)	**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**

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

5.3 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Carrying amount	
	31/12/2019	31/12/2018
COSCO Shipping Lines (POLAND) Sp. z o.o.	0.9	0.8
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	20.3	19.5
Transgaz S.A.	6.1	6.3
Trade Trans Finance Sp. z o.o.	-	8.1
Rentrans Cargo Sp. z o.o.	7.9	8.1
PPHU “Ukpol” Sp. z o.o.	-	-
PKP CARGO CONNECT GmbH	0.4	1.0
AWT Rail SK a. s.	2.4	3.5
PRIMOL-RAIL d.o.o.	0.9	-
Centralny Terminal Multimodalny Sp. z o.o.	1.5	-
Total	**40.4**	**47.3**

Changes in investments in entities accounted for under the equity method

	2019	2018
As at the beginning of the reporting period	**47.3**	**53.6**
Merger of PKPCC and TTF [(1)]	(7.7)	-
Share purchase	1.5	-
Sale of shares	-	(8.5)
Share in the profit / (loss) of entities accounted by the equity method	1.7	3.7
Movement in equity on account of dividends	(3.3)	(2.1)
Recognition of entities accounted for under the equity method	0.9	-
Fx differences resulting from translation of financial statements	-	0.6
As at the end of the reporting period	**40.4**	**47.3**

[(1)] On 31 July 2019, TTF and PKPCC were merged, which is described in **Note 1.1** to these Consolidated Financial Statements. By the date of the merger, TTF had been measured using the equity method. According to the PKP CARGO Group accounting policy, mergers under common control are accounted for in accordance with the pooling of shares method defined in the Accounting Act. Because of the immaterial influence of the merger on the consolidated financial statements of the PKP CARGO Group, the comparative data have not been restated.

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

	31/12/2019	31/12/2018
Non-current assets	31.9	33.4
Current assets	111.8	113.1
Total assets	**143.7**	**146.5**
Long-term liabilities	0.4	0.3
Short-term liabilities	57.1	53.1
Total liabilities	**57.5**	**53.4**
Net assets	**86.2**	**93.1**
Group’s shares in the net assets of the entities accounted for under the equity method	39.6	47.3
Total revenues	122.0	326.7
Net result for the financial year	4.8	10.5
Group’s shares in the result of the entities accounted for under the equity method	1.7	3.7
Group’s shares in the comprehensive income of the entities accounted for under the equity method	1.7	3.7

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

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

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

	31/12/2019	31/12/2018
Strategic inventories	38.1	31.4
Rolling stock during liquidation	13.5	20.7
Other inventories	114.2	114.1
Impairment losses	(4.8)	(4.5)
Net inventories	**161.0**	**161.7**

List of changes in impairment losses for inventories

	2019	2018
As at the beginning of the reporting period	**(4.5)**	**(5.0)**
Recognition	(0.3)	(0.4)
Utilization	-	0.9
As at the end of the reporting period	**(4.8)**	**(4.5)**

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

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

5.5 Trade receivables (cont.)

Structure of trade receivables

	31/12/2019	31/12/2018
Trade receivables	739.5	840.7
Impairment loss on receivables	(145.2)	(155.4)
Total	**594.3**	**685.3**
Non-current assets	3.0	0.7
Current assets	591.3	684.6
Total	**594.3**	**685.3**

Reconciliation of impairment losses on trade receivables

	Expected credit losses					
	2019		Total	2018		Total
	without impairment	with impairment		without impairment	with impairment	
As at the beginning of the reporting period (audited)	**(3.0)**	**(152.4)**	**(155.4)**	**-**	**(156.0)**	**(156.0)**
Effect of the implementation of IFRS 9	-	-	**-**	(3.3)	-	**(3.3)**
As at the beginning of the reporting period (restated)	**(3.0)**	**(152.4)**	**(155.4)**	**(3.3)**	**(156.0)**	**(159.3)**
Recognition	-	(14.0)	**(14.0)**	-	(11.8)	**(11.8)**
Reversal	1.3	5.9	**7.2**	0.3	14.5	**14.8**
Transfer	-	-	**-**	-	-	**-**
Utilization	-	16.5	**16.5**	-	3.6	**3.6**
FX valuation	-	0.5	**0.5**	-	(0.6)	**(0.6)**
FX differences resulting from translation of financial statements	-	-	**-**	-	(2.1)	**(2.1)**
As at the end of the reporting period	**(1.7)**	**(143.5)**	**(145.2)**	**(3.0)**	**(152.4)**	**(155.4)**

Movement in the carrying amount of gross trade receivables

	2019		Total	2018		Total
	without impairment	with impairment		without impairment	with impairment	
As at the beginning of the reporting period	**684.4**	**156.3**	**840.7**	**685.1**	**159.7**	**844.8**
Recognized	5,580.3	0.1	**5,580.4**	6,410.0	0.1	**6,410.1**
Interest accrued	2.0	0.1	**2.1**	3.0	0.1	**3.1**
Written off	-	(16.5)	**(16.5)**	-	(3.6)	**(3.6)**
Repaid	(5,658.1)	(8.9)	**(5,667.0)**	(6,407.2)	(11.5)	**(6,418.7)**
Transferred	(13.5)	13.5	**-**	(8.8)	8.8	**-**
FX valuation	0.1	(0.8)	**(0.7)**	(0.6)	0.9	**0.3**
Fx differences resulting from translation of financial statements	0.3	0.2	**0.5**	2.9	1.8	**4.7**
As at the end of the reporting period	**595.5**	**144.0**	**739.5**	**684.4**	**156.3**	**840.7**

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

5.5 Trade receivables (cont.)

Age analysis of trade receivables

	31/12/2019			31/12/2018		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net
Non-overdue receivables	539.2	(0.7)	538.5	613.3	(1.9)	611.4
Overdue receivables						
to 30 days	43.7	(0.7)	43.0	47.3	(0.3)	47.0
31 - 90 days	6.5	(0.4)	6.1	16.7	(0.7)	16.0
91-180 days	5.9	(4.0)	1.9	6.2	(1.5)	4.7
181 - 365 days	7.0	(4.9)	2.1	6.5	(2.9)	3.6
over 365 days	137.2	(134.5)	2.7	150.7	(148.1)	2.6
Total	**739.5**	**(145.2)**	**594.3**	**840.7**	**(155.4)**	**685.3**

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.

Structure of other assets

	31/12/2019	31/12/2018
Financial assets		
FX forwards	7.4	3.5
Shares in unlisted companies	6.3	6.8
Non-financial assets		
Costs settled in time		
Prepayments for purchase of electricity	27.2	31.2
Lease rents	0.5	12.3
Insurance	7.8	7.4
IT services	9.0	4.2
Other costs settled over time	5.8	6.2
Other	12.2	1.6
Other receivables		
VAT settlements	68.5	65.2
Other	12.7	5.0
Intangible assets		
Licenses	24.7	28.5
Other intangible assets	0.2	0.2
Intangible assets under development	5.4	6.0
Total	**187.7**	**178.1**
Non-current assets	55.0	56.7
Current assets	132.7	121.4
Total	**187.7**	**178.1**

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

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

	31/12/2019	31/12/2018
Investment liabilities related to rolling stock	304.0	234.3
Investment liabilities related to real properties	12.9	18.1
Other	21.6	35.0
Total	**338.5**	**287.4**
Long-term liabilities	157.0	109.8
Short-term liabilities	181.5	177.6
Total	**338.5**	**287.4**

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 to employees upon reaching a specified number of years in employment. Retirement and disability severance pays are paid out as lump sum when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The 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 captures the foregoing benefits at the current value of the liability as at the date ending the reporting period.

The amount of long-term benefits during the employment period and post-employment benefits is calculated by an independent actuarial firm using the forecast individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. Current service cost reflects the increase in the defined benefit obligation resulting from employee service in the current period and is recognized in profit and loss as employee benefits, except when it is recognized as the cost of manufacturing an asset. Past service costs are recognized directly in the financial result. Net interest cost is calculated by applying a discount rate to the net value of the defined benefit obligation and presented in financial expenses.

Actuarial profits and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

	Valuation as at [%]	
	31/12/2019	31/12/2018
Discount rate	2.1	3.0
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 4.0	up to 3.0
Assumed growth of the price of transportation benefits	2.5	up to 2.5
Assumed average annual growth of the base for calculation of provisions on account of charge for Company Benefits Fund	4.0	3.5 - 5.0
Weighted average employee mobility ratio	2.0 - 10.6	1.7 - 8.2

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

5.8 Provisions for employee benefits (cont.)

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

Sensitivity analysis of provisions for employee benefits

	31/12/2019	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	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**

	31/12/2018	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	304.0	(4.3)	4.4	3.7	(3.7)	(3.8)	3.8
Retirement and disability severance benefits	195.8	(3.3)	3.4	2.9	(2.8)	(3.0)	2.9
Post-mortem benefits	7.9	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	130.2	(5.0)	5.3	4.4	(4.2)	(0.8)	0.8
Transportation benefits	32.8	(1.3)	1.3	1.1	(1.1)	(0.3)	0.3
Total	**670.7**	**(14.0)**	**14.5**	**12.2**	**(11.9)**	**(8.0)**	**7.9**

Movement in provisions for employee benefits

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2019	**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) and losses recognized in other comprehensive income	37.4	10.0	3.6	1.2	-	-	**52.2**
Actuarial (profits) and losses recognized in the statements 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)**
Merger of the Companies	-	-	-	-	-	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.)

	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2018	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**
Current service cost	5.7	1.9	1.6	0.2	11.2	-	**20.6**
Interest expense	4.8	4.7	1.1	0.2	8.6	-	**19.4**
Actuarial (profits) and losses recognized in other comprehensive income	27.3	(12.5)	(2.7)	1.1	-	-	**13.2**
Actuarial (profits) and losses recognized in the statements of profit or loss	-	-	-	-	37.2	-	**37.2**
Recognition of provisions	-	-	-	-	-	30.9	**30.9**
Reversal of provisions	-	-	-	-	-	(19.3)	**(19.3)**
Benefits paid out	(16.6)	(7.4)	(1.0)	(0.7)	(41.1)	(12.7)	**(79.5)**
FX differences	-	-	-	-	0.1	0.2	**0.3**
31/12/2018	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**
Long-term provisions	169.1	125.3	31.7	6.6	258.8	-	**591.5**
Short-term provisions	26.7	4.9	1.1	1.3	45.2	36.3	**115.5**
Total	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**

Items recognized in the result in reference to employee benefits programs

	31/12/2019	31/12/2018
Employee benefits	(81.7)	(69.4)
Financial expenses	(17.6)	(19.4)
Total recognized in the profit before tax	**(99.3)**	**(88.8)**

Actuarial (profits) / losses

2019	Change of demographic assumptions	Change of financial assumptions	Other amendments	Total
Actuarial losses / (profits) – post-employment benefits				
Retirement and disability severance benefits	(0.5)	19.6	18.3	**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)	24.2	29.5	**52.3**
Total	**(2.3)**	**65.1**	**41.7**	**104.5**

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

5.8 Provisions for employee benefits (cont.)

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

Analysis of maturities of paid out employee benefits

31/12/2019	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	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**

31/12/2018	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	26.7	4.9	1.1	1.3	45.2	36.3	**115.5**
1 to 5 years	63.6	21.9	5.2	3.3	133.6	-	**227.6**
over 5 years	105.5	103.4	26.5	3.3	125.2	-	**363.9**
Total	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**

The average maturity of employee benefits in the Parent Company was 11.8 years as at 31 December 2019. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using actuarial methods, is approx. 90%.

5.9 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.

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

5.9 Other provisions (cont.)

Structure of other provisions

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**

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

Provision for penalties imposed by anti-monopoly authorities

As at 31 December 2019, this item included:
- provision of PLN 14.2 million for a penalty imposed by the Office for Competition and Consumer Protection (UOKiK),
- provision of PLN 0.4 million for a penalty, established in connection with a pending procedure initiated by the Czech Antimonopoly Office.

In 2019, the movement in provisions was due to the administrative procedure initiated in October 2016 by the Czech Antimonopoly Office against AWT Čechofracht a.s. in connection with the suspicion of involvement in a cartel arrangement in 2004-2010. As a result of the progress of the procedure and analysis of its current status, the Group decided to adjust the PLN 0.6 million provision for the potential penalty to PLN 0.4 million.

In connection with a change of the expected date of closing the above cases case, as at 31 December 2019 the Group reclassified its provision of PLN 14.6 million from long-term to short-term.

Provision for land reclamation

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

Provision for VAT liabilities

In the financial year ended 31 December 2019, the Group derecognized the provision for VAT settlement liabilities for the period from April 2013 to July 2013 in the amount of PLN 24.4 million. The decision on derecognizing the provision was made on the basis of the inspection results issued by the Mazowiecki Customs and Tax Office in Warsaw.

Provision for onerous contracts

As at 31 December 2018, the provision for onerous contracts represented a provision for losses arising from an operating lease agreement for a real property the expected lease revenues from which did not cover future lease expenses to be incurred by the Group.
In connection with the implementation of IFRS 16, the Group decided to apply a practical solution permitted by the standard and adjust the carrying amount of the right-of-use assets as at 1 January 2019 by the carrying amount of this provision.

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

5.9 Other provisions (cont.)

Other provisions

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

According to the Parent Company's Management Board, the amount of other provisions as at 31 December 2019, and as at 31 December 2018, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. 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

	31/12/2019	31/12/2018
Financial liabilities		
FX forwards	-	0.2
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	40.5	36.9
Public law settlements (1)	117.6	86.9
Settlements with employees	97.4	95.2
Received grants	0.3	2.6
Other settlements	4.6	7.0
VAT settlements	4.0	6.5
Current income tax liabilities	-	0.3
Total	**264.4**	**235.6**
Long-term liabilities	-	1.8
Short-term liabilities	264.4	233.8
Total	**264.4**	**235.6**

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

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' ("SPPI"). The nature and the purpose of financial assets are determined at the moment of initial recognition.

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

Accounting policy applied

Financial assets carried at amortized cost

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

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

As at 31 December 2019 and 31 December 2018, the Group did not have any financial assets of a debt nature measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Investments in equity instruments

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

Financial liabilities

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

a) financial liabilities at fair value through profit or loss,
b) liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies,
c) financial guarantee contracts,
d) commitments to provide a loan at a below-market interest rate,
e) contingent consideration recognized by 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 the hedging relationship. The effective portion of profits / (losses) related to a hedging instrument is recognized in other comprehensive income. The non-effective portion of profits or losses related to the hedging instrument is recognized in the period's financial result unless it has no material value. Profits/losses related to evaluation of hedging instruments and recognized in other comprehensive income are recognized in the financial result when the hedged item affects the financial performance. The Group derecognizes a financial asset when, and only when, the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and all related risks and rewards of ownership of the financial asset to another entity.

(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	31/12/2019	31/12/2018
Hedging financial instruments			
Derivatives	*Note 5.6*	7.4	3.5
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	6.3	6.8
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	594.3	685.3
Receivables on account of sale of non-financial non-current assets		0.5	-
Bank deposits over 3 months		-	201.1
Cash and cash equivalents	*Note 4.4*	550.4	447.3
Financial assets excluded from the scope of IFRS 9		11.6	-
Total		**1,170.5**	**1,344.0**

Financial liabilities by categories and classes	Note	31/12/2019	31/12/2018
Hedging financial instruments			
Derivatives	*Note 5.10*	-	0.2
Bank loans and borrowings	*Note 4.1*	469.7	468.1
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	1,156.5	863.7
Trade liabilities		414.9	499.9
Investment liabilities	*Note 5.7*	338.5	287.4
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	996.5	95.2
Total		**3,376.1**	**2,214.5**

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

Hedge accounting

In the period from 1 January 2019 to 31 December 2019, 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 2019, the following hedging instruments were established by the Parent Company:
- investment loans denominated in EUR. The hedged cash flows will be realized until July 2034. As at 31 December 2019, the nominal amount of the hedging instrument was EUR 110.3 million, which is an equivalent of PLN 469.7 million,
- FX forward contracts. The hedged cash flows will be realized until September 2021. As at 31 December 2019, the value of the assets on account of measurement of a hedging instrument was PLN 6.6 million.

This item also includes measurement of hedging instruments in a subsidiary in the form of FX forward contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until July 2020. As at 31 December 2019, the value of the assets on account of measurement of hedging instruments was PLN 0.8 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 2019 and 31 December 2018, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	31/12/2019		31/12/2018	
	Level 2	Level 3	Level 2	Level 3
Assets				
Derivatives –forward FX contracts	7.4	-	3.5	-
Investments in equity instruments - shares in unlisted companies	-	6.3	-	6.8
Liabilities				
Derivatives –forward FX contracts	-	-	0.2	-

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 share in Euroterminal Sławków Sp. z o.o. worth PLN 5.6 million, the value of which was measured by an independent adviser using the modified Swiss method. The Swiss method is a mixed measurement method as it combines the asset value aspect with the ability to generate future cash flows. According to the Swiss method, the value of the enterprise is calculated as the weighted average of the values determined by the asset-based approach and the income-based approach. This method attaches a greater weight (twice as large) to the value determined by the income-based approach. The adoption of the Swiss method is justified on the grounds that Euroterminal Sławków Sp. z o.o. has a moderate ability to generate profits in the future but owns material assets in the form of land plots and real properties.

c) Other financial instruments

For the category of financial instruments that are not measured at fair value as at the balance sheet date, the Group does not disclose fair value because as at 31 December 2019 and 31 December 2018 fair value was not materially different from the value presented in the statement of financial position.

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

	2019	2018
As at the beginning of the reporting period (audited)	**6.8**	**-**
Changes resulting from the implementation of IFRS 9	-	6.2
As at the beginning of the reporting period	**6.8**	**6.2**
Profit for the period recognized in other comprehensive income	0.7	-
Purchase of shares	-	1.0
Sale of shares	(0.2)	(0.4)
Recognition of entities accounted for under the equity method	(0.9)	-
Exchange differences resulting from conversion of financial statements	(0.1)	-
As at the end of the reporting period	**6.3**	**6.8**

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

(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

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**
Pre-tax profit / (loss)	**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.

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

In the financial year ended 31 December 2018, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN 7.3 million and financial expenses in respect of interest on finance lease liabilities in the amount of PLN (0.3) million.
In the financial year ended 31 December 2018, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (8.5) million and bank loans in the amount of PLN (14.9) million, recognized as part of the hedge accounting applied by the Group.

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

6.1 Financial instruments (cont.)

Offsetting financial assets

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

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

Offsetting financial liabilities

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**

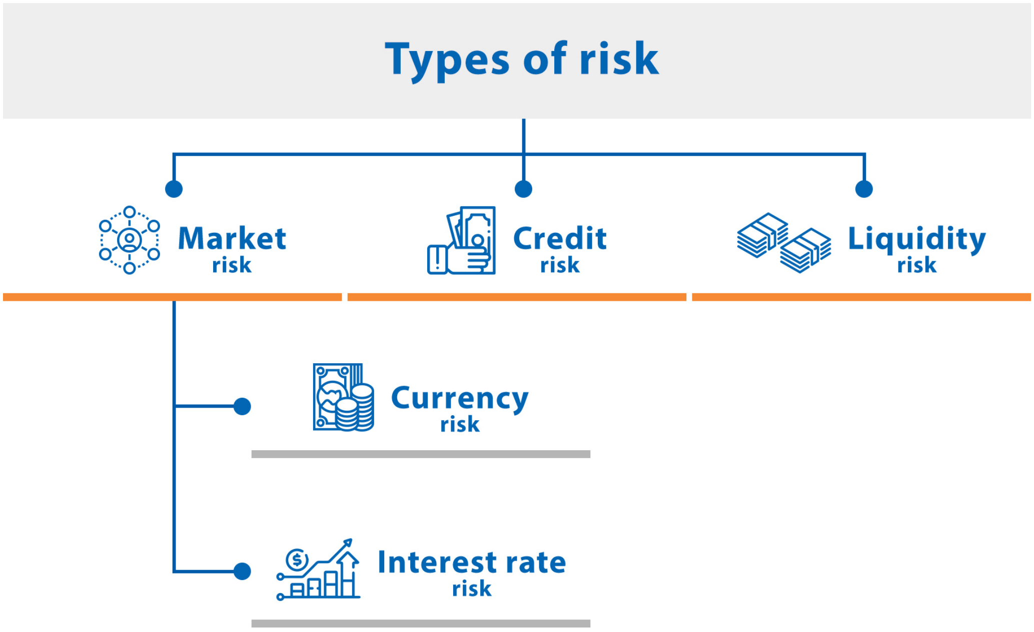
31/12 2018	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	499.9	499.9	(0.7)	499.2
Total	**499.9**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

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 2019, the Group applied FX risk management transactions for the EUR/PLN currency pair.

Foreign exchange risk management

As at 31 December 2019, 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 in 2018-2019 and established hedging relationships between cash flows arising from bank loans denominated in EUR and future highly probable cash flows arising from operating activities denominated in EUR.

(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

31/12/2019	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 – forward FX contracts [1]	1.7	17.9	1.7	-	-
Current assets					
Trade receivables	174.4	20.7	88.0	515.5	86.4
Other assets – forward FX 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**

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

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

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

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

Sensitivity to FX risk

The Group is exposed mainly to the foreign exchange risk 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 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 (excluding derivatives such as forward contracts) 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 2019 and 2018.

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 – forward FX contracts	1.7	-	-	(2.4)	2.4	-	-
Current assets							
Trade receivables	174.4	3.2	(3.2)	-	-	7.9	(7.9)
Other assets – forward FX 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.)

31/12/2018	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	
		+6%	-6%	+6%	-6%	+4%	-4%
ASSETS							
Non-current assets							
Other assets – forward FX contracts	0.8	-	-	(4.4)	4.4	-	-
Current assets							
Trade receivables	202.9	7.7	(7.7)	-	-	2.9	(2.9)
Other assets – forward FX contracts	2.7	-	-	(11.8)	11.8	-	-
Cash and cash equivalents	125.7	3.6	(3.6)	-	-	2.6	(2.6)
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	526.3	(2.8)	2.8	(25.6)	25.6	(2.1)	2.1
Investment liabilities	0.7	-	-	-	-	-	-
Short-term liabilities							
Debt liabilities	71.4	(1.6)	1.6	(2.5)	2.5	(0.1)	0.1
Trade liabilities	165.5	(3.8)	3.8	-	-	(3.9)	3.9
Other liabilities –forward FX contracts	0.2	-	-	(2.3)	2.3	-	-
Total gross effect		**3.1**	**(3.1)**	**(46.6)**	**46.6**	**(0.6)**	**0.6**

(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 2019 and 2018, FX forward transactions were applied on the EUR/PLN currency pair. (sale and purchase of currency).

List of unrealized FX forward contracts

As at 31 December 2019

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of assets
Bank A	forward	02/2018 - 09/2019	01/2020 - 08/2020	EUR/PLN	6.9	30.8	0.8
Bank B	forward	02/2018 - 08/2019	01/2020 - 06/2021	EUR/PLN	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**

As at 31 December 2018

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of assets	Fair value of liabilities
Bank A	forward	05/2017 - 12/2018	01/2019 - 02/2020	EUR/PLN	9.2	40.3	0.3	-
Bank B	forward	01/2017 - 12/2018	01/2019 - 12/2020	EUR/PLN	16.9	75.0	0.9	0.1
Bank C	forward	06/2017 - 12/2018	01/2019 - 08/2020	EUR/PLN	16.4	72.3	0.8	-
Bank D	forward	01/2017 - 11/2018	01/2019 - 11/2020	EUR/PLN	25.5	112.7	1.3	0.1
Bank E	forward	02/2017 - 07/2018	01/2019 - 06/2020	EUR/PLN	3.2	14.2	0.2	-
Total					**71.2**	**314.5**	**3.5**	**0.2**

Interest rate risk management

As at 31 December 2019, 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 EUR was EURIBOR 6M and for agreements signed in PLN the reference rate was WIBOR 1M.
As part of its fixed-rate lease liabilities, the 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, quarterly and semi-annual periods, depending on the agreement.

The cash held by the Group as at 31 December 2019 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 2018-2019, 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	31/12/2019			31/12/2018		
	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	11.6	-	**11.6**	-	-	**-**
Receivables from sale of non-financial non-current assets	0.5	-	**0.5**	-	-	**-**
Bank deposits over 3 months	-	-	**-**	201.1	-	**201.1**
Cash and cash equivalents	550.4	-	**550.4**	447.3	-	**447.3**
Total	**562.5**	**-**	**562.5**	**648.4**	**-**	**648.4**

Financial liabilities	31/12/2019			31/12/2018		
	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	918.5	1,704.2	**2,622.7**	75.6	1,351.4	**1,427.0**
Investment liabilities	204.6	-	**204.6**	235.1	-	**235.1**
Total	**1,123.1**	**1,704.2**	**2,827.3**	**310.7**	**1,351.4**	**1,662.1**

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 2019, the Group identified the exposure to interest rate risk mainly for WIBOR, EURIBOR, while in 2018 for WIBOR, EURIBOR and PRIBOR. Interest rate deviations are calculated on the basis of observations of average interest rate fluctuations. The sensitivity analysis presented below does not comprise the interest accrued as at the balance sheet date. The analysis results are presented in gross terms (before tax).

31/12/2019	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**

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

(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:

	31/12/2019	31/12/2018
Trade receivables	594.3	685.3
Lease receivables	11.6	-
FX forwards	7.4	3.5
Cash and cash equivalents	550.4	447.3
Bank deposits over 3 months	-	201.1
Receivables from sale of non-financial non-current assets	0.5	-
Total	**1,164.2**	**1,337.2**

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

	31/12/2019	31/12/2018
Group of entities related to the biggest external counterparty	8.9%	7.4%
PKP Group related parties	0.8%	0.8%
State Treasury related parties	29.6%	25.6%
Other entities	60.7%	66.2%
Total	**100.0%**	**100.0%**

In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts from its customers securities in the form of, among others: receivables insurance, bank / insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes. As at 31 December 2019, 12.1% 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	31/12/2019
Bank A	Moody's	Baa1	28.0%
Bank B	Fitch	A-	27.3%
Bank C	Moody's	A2	19.0%
Bank D	Moody's	A3	9.1%
Bank E	Moody's	Aa2	5.8%
Bank F	Moody's	Aa3	4.4%
Other			6.4%
Total			**100.00%**

(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 2019 and the financial year ended 31 December 2018, 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 2019 and 31 December 2018, there were no transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be 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: ENEA, JSW, PGE, PGG, Azoty and PKN Orlen. In the financial year ended 31 December 2019, 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:

	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

	2018		31/12/2018	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.4	71.1	1.4	9.6
Subsidiaries / co-subsidiaries	9.2	14.4	2.6	1.5
Associates	1.7	0.3	-	-
Other PKP Group related parties	12.9	721.3	1.9	63.3

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

In the PKP CARGO Group sales transactions covered freight transport services, lease of equipment and sub-lease of real estate. Purchase transactions comprised, among 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.

Loans granted to / received from related parties

	31/12/2019	31/12/2018
Loans received from related parties	-	1.4

(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	
	2019	2018	2019	2018
Short-term benefits	2.6	2.4	6.2	6.5
Post-employment benefits	-	0.5	1.0	3.1
Termination benefits	-	0.1	0.2	0.1
Total	**2.6**	**3.0**	**7.4**	**9.7**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	2019	2018	2019	2018
Short-term benefits	1.2	1.0	1.6	1.2
Total	**1.2**	**1.0**	**1.6**	**1.2**

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	2019	2018	2019	2018
Short-term benefits	6.8	6.4	19.8	20.8
Post-employment benefits	0.1	0.7	1.3	1.2
Termination benefits	0.1	0.1	0.3	0.2
Total	**7.0**	**7.2**	**21.4**	**22.2**

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

	31/12/2019	31/12/2018
Contractual liabilities on account of the acquisition of non-financial non-current assets	1,208.9	538.4
Total	**1,208.9**	**538.4**

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

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

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

(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

	31/12/2019	31/12/ 2018
Guarantees issued on the Group's order	115.1	125.0
Other contingent liabilities	114.0	119.8
Total	**229.1**	**244.8**

Guarantees issued on the Group's order

As at 31 December 2019, 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.

7.4 Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2019 and 31 December 2018 the Group had assets which constituted collateral for repayment of liabilities. The assets secure mainly correct performance of facility agreements. The amounts of the collateral are limited to the amount of the loan liability as at the balance sheet date.

Carrying amount of assets securing repayment of liabilities

	31/12/2019	31/12/2018
Other property, plant and equipment	247.0	281.8
Inventories	-	0.6
Trade receivables	84.1	75.9
Cash	4.3	4.4
Total	**335.4**	**362.7**

7.5 Subsequent events

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

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

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

Other subsequent events are described in **Note 1.1** to these Consolidated Financial Statements.

7.6 Approval of the financial statements

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

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 23 March 2020