QUARTERLY REPORT FOR Q3 2020

PKP CARGO GROUP'S
consolidated quarterly
report for Q3 2020

PKPCARGO

PKPCARGO

Quarterly Condensed Consolidated Financial Statements of the **PKP CARGO** Group for the period of 9 months ended 30 September 2020

Prepared in accordance with EU IFRS

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

QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019	
Revenues from contracts with customers	2,974.2	1,009.6	3,616.6	1,191.3	*Note 2.1*
Consumption of traction electricity and traction fuel	(359.2)	(124.6)	(430.2)	(150.3)	*Note 2.2*
Services of access to infrastructure	(375.4)	(131.8)	(431.6)	(142.1)	
Transport services	(238.4)	(77.8)	(287.2)	(83.7)	
Other services	(267.4)	(90.8)	(284.5)	(103.5)	*Note 2.2*
Employee benefits	(1,234.7)	(381.5)	(1,284.9)	(403.5)	*Note 2.2*
Other expenses	(193.9)	(60.8)	(210.2)	(68.9)	*Note 2.2*
Other operating revenue and (expenses)	128.4	84.6	25.1	23.7	*Note 2.3*
Operating profit without depreciation (EBITDA)	**433.6**	**226.9**	**713.1**	**263.0**	
Depreciation, amortization and impairment losses	(579.0)	(190.3)	(530.3)	(182.1)	*Note 2.2*
Profit/(loss) on operating activities (EBIT)	**(145.4)**	**36.6**	**182.8**	**80.9**	
Financial revenue and (expenses)	(64.4)	(14.6)	(55.2)	(20.6)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	1.4	0.6	1.4	0.7	*Note 5.3*
Profit/(loss) before tax	**(208.4)**	**22.6**	**129.0**	**61.0**	
Income tax	32.1	(7.0)	(30.3)	(10.2)	*Note 3.1*
NET PROFIT/(LOSS)	**(176.3)**	**15.6**	**98.7**	**50.8**	
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	(43.6)	(13.6)	(11.7)	(20.8)	*Note 6.1*
Income tax	8.3	2.6	2.2	3.9	*Note 3.1*
FX differences resulting from translation of financial statements	(6.4)	(0.6)	7.4	7.1	
Total other comprehensive income subject to reclassification in the financial result	**(41.7)**	**(11.6)**	**(2.1)**	**(9.8)**	
Actuarial profits / (losses) on post-employment benefits	(52.1)	-	(14.3)	(0.3)	*Note 5.8*
Income tax	9.9	-	2.7	-	*Note 3.1*
Measurement of equity instruments at fair value	(0.7)	-	0.7	-	*Note 6.1*
Total other comprehensive income not subject to reclassification in the financial result	**(42.9)**	**-**	**(10.9)**	**(0.3)**	
Total other comprehensive income	**(84.6)**	**(11.6)**	**(13.0)**	**(10.1)**	
TOTAL COMPREHENSIVE INCOME	**(260.9)**	**4.0**	**85.7**	**40.7**	
Net profit/(loss) attributable:					
Net profit/(loss) attributable to shareholders of the Parent Company	(176.3)	15.6	98.7	50.8	
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the Parent Company	(260.9)	4.0	85.7	40.7	
Earnings/(loss) per share (PLN per share)					
Weighted average number of ordinary shares	44,786,917	44,786,917	44,786,917	44,786,917	
Basic and diluted earnings/(loss) per share	**(3.94)**	**0.35**	**2.20**	**1.13**	

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

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

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30/09/2020	31/12/2019	
ASSETS			
Rolling stock	4,312.2	4,329.6	Note 5.1
Other property, plant and equipment	861.7	872.4	Note 5.1
Rights-of-use assets	1,022.7	1,078.8	Note 5.2
Investments in entities accounted for under the equity method	41.7	40.4	Note 5.3
Trade receivables	4.8	3.0	Note 5.5
Lease receivables	11.2	10.9	
Other assets	35.1	55.0	Note 5.6
Deferred tax assets	163.9	113.7	Note 3.1
Total non-current assets	**6,453.3**	**6,503.8**	
Inventories	158.7	161.0	Note 5.4
Trade receivables	577.0	591.3	Note 5.5
Lease receivables	0.7	0.7	
Income tax receivables	2.7	51.4	
Other assets	102.4	132.7	Note 5.6
Cash and cash equivalents	378.2	550.4	Note 4.3
Total current assets	**1,219.7**	**1,487.5**	
Non-current assets classified as held for sale	12.3	-	
TOTAL ASSETS	**7,685.3**	**7,991.3**	
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	Note 4.2
Supplementary capital	782.4	781.4	
Other items of equity	(155.9)	(77.7)	
FX differences resulting from translation of financial statements	71.1	77.5	
Retained earnings	225.5	402.8	
Total equity	**3,162.4**	**3,423.3**	
Debt liabilities	2,178.0	2,201.4	Note 4.1
Trade liabilities	3.5	2.7	
Investment liabilities	159.7	157.0	Note 5.7
Provisions for employee benefits	693.6	657.1	Note 5.8
Other provisions	5.4	5.4	Note 5.9
Deferred tax liability	85.5	92.3	Note 3.1
Other liabilities	0.1	-	Note 5.10
Total long-term liabilities	**3,125.8**	**3,115.9**	
Debt liabilities	472.2	421.3	Note 4.1
Trade liabilities	306.7	412.2	
Investment liabilities	187.6	181.5	Note 5.7
Provisions for employee benefits	133.0	127.1	Note 5.8
Other provisions	38.5	45.6	Note 5.9
Other liabilities	259.1	264.4	Note 5.10
Total short-term liabilities	**1,397.1**	**1,452.1**	
Total liabilities	**4,522.9**	**4,568.0**	
TOTAL EQUITY AND LIABILITIES	**7,685.3**	**7,991.3**	

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

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity: Profits / (losses) on measurement of equity instruments at fair value	Other items of equity: Actuarial profits / (losses) on post-employment benefits	Other items of equity: Measurement of hedging instruments	FX differences resulting from translation of financial statements	Retained earnings	Total equity
1/01/2020	**2,239.3**	**781.4**	**(12.2)**	**(75.0)**	**9.5**	**77.5**	**402.8**	**3,423.3**
Net result for the period	-	-	-	-	-	-	(176.3)	**(176.3)**
Other comprehensive income for the period (net)	-	-	(0.7)	(42.2)	(35.3)	(6.4)	-	**(84.6)**
Total comprehensive income	-	-	(0.7)	(42.2)	(35.3)	(6.4)	(176.3)	**(260.9)**
Other changes for the period		1.0	-	-	-	-	(1.0)	**-**
30/09/2020	**2,239.3**	**782.4**	**(12.9)**	**(117.2)**	**(25.8)**	**71.1**	**225.5**	**3,162.4**
1/01/2019 (audited)	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	-	2.8	**2.8**
1/01/2019 (restated)	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**587.2**	**3,486.3**
Net result for the period	-	-	-	-	-	-	98.7	**98.7**
Other comprehensive income for the period (net)	-	-	0.7	(11.6)	(9.5)	7.4	-	**(13.0)**
Total comprehensive income	-	-	0.7	(11.6)	(9.5)	7.4	98.7	**85.7**
Dividends	-	-	-	-	-	-	(67.2)	**(67.2)**
Other changes for the period	-	153.2	-	-	-	-	(153.2)	**-**
30/09/2019	**2,239.3**	**781.4**	**(12.2)**	**(44.4)**	**(8.0)**	**83.2**	**465.5**	**3,504.8**

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

QUARTERLY CONSOLIDATED CASH FLOW STATEMENT

	9 months ended 30/09/2020	9 months ended 30/09/2019	
Cash flows from operating activities			
Profit / (loss) before tax	**(208.4)**	**129.0**	
Adjustments			
Depreciation, amortization and impairment losses	579.0	530.3	*Note 2.2*
(Profits) / losses on interest, dividends	42.3	39.7	
Received / (paid) interest	1.9	1.2	
Received / (paid) income tax	45.4	(38.1)	
Movement in working capital	(21.2)	(76.9)	
Other adjustments	(57.9)	(21.9)	
Net cash from operating activities	**381.1**	**563.3**	
Cash flow from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(498.1)	(816.6)	
Proceeds from the sale of non-financial non-current assets	35.9	15.0	
Proceeds from the sale of other financial assets	-	1.0	
Proceeds from dividends received	0.4	2.4	
Inflows / (outflows) on bank deposits over 3 months	-	200.0	
Other inflows / (outflows) from investing activities	2.6	10.2	
Net cash from investing activities	**(459.2)**	**(588.0)**	
Cash flow from financing activities			
Payments on lease liabilities	(114.0)	(95.9)	*Note 4.1*
Proceeds from bank loans and borrowings	289.3	99.3	*Note 4.1*
Repayment of bank loans and borrowings	(241.4)	(186.1)	*Note 4.1*
Interest paid on lease liabilities and bank loans and borrowings	(42.7)	(40.0)	*Note 4.1*
Grants received	17.4	57.5	
Dividends paid out to owners	-	(67.2)	
Inflow / (outflow) as part of cash pool	1.5	-	
Other outflows from financing activities	(3.9)	(3.9)	
Net cash from financing activities	**(93.8)**	**(236.3)**	
Net increase / (decrease) in cash and cash equivalents	(171.9)	(261.0)	
Cash and cash equivalents at the beginning of the reporting period	550.4	447.3	*Note 4.3*
Impact exerted by FX rate movements on the cash balance in foreign currencies	(0.3)	0.8	
Cash and cash equivalents as at the end of the reporting period, including:	**378.2**	**187.1**	*Note 4.3*
Restricted cash	*44.6*	*43.0*	*Note 4.3*

NOTES TO THE QUARTERLY CONDENSED 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 30 September 2020 are presented in the Additional Information to the Consolidated Quarterly Report for Q3 2020 in **Chapters 3.1** and **3.3**, respectively.

Information about the Group

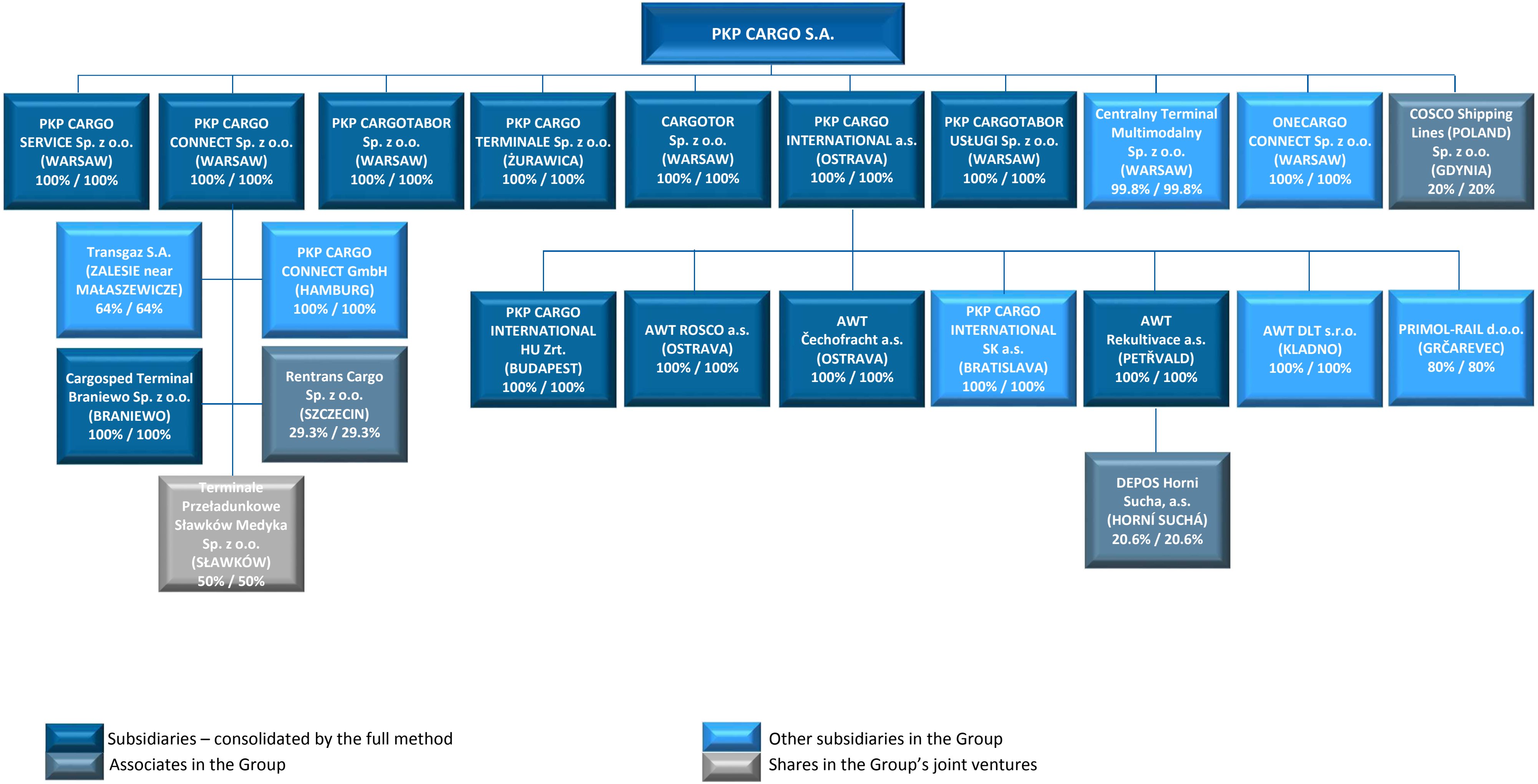
The Group's core business is rail freight transport. In addition to rail freight transport services, the Group also provides additional services:

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

The duration of individual Group companies is unlimited.

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

Detailed information about members of the Group as at 30 September 2020 is as follows:



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

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

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

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

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

1.2 Basis for preparation of the Quarterly Condensed Consolidated Financial Statements

These Quarterly Condensed 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 Quarterly Condensed Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2019 prepared according to EU IFRS.

These Quarterly Condensed Consolidated Financial Statements for the period of 9 months ended 30 September 2020 have been prepared based on the assumption that the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these Quarterly Condensed Financial Statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue its business as a going concern for a period of at least 12 months from the end of the reporting period.

These Quarterly Condensed 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.

In the interim period the Group's business does not show any material seasonal or cyclical trends.

These Quarterly Condensed Consolidated Financial Statements consist of the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and selected notes.

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

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

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

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

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

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

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

As at 30 September 2020, 31 December 2019 and 30 September 2019, for the needs of valuation of the financial statements of foreign operations subject to consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of profit or loss and other comprehensive income and the cash flow statement	
	30/09/2020	31/12/2019	9 months ended 30/09/2020	9 months ended 30/09/2019
EUR	4.5268	4.2585	4.4420	4.3086
CZK	0.1666	0.1676	0.1677	0.1675
HUF	0.0124	0.0129	0.0127	0.0133

These Quarterly Condensed Consolidated Financial Statements have not been audited by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 2019 were audited by a statutory auditor during the audit of the Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2019 prepared according to EU IFRS.

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 19 November 2020.

1.3 Applied International Financial Reporting Standards platform

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

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

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

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

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

IFRSs as endorsed 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 30 September 2020 were not yet endorsed by the EU and did not enter 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 4 "Insurance contracts" – deferral of IFRS 9	1 January 2021
Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance", IFRS 16 "Leases" - IBOR Reform - phase 2	1 January 2021
Amendments to IFRS 3 "Business combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	1 January 2022
Annual Improvements to IFRS 2018-2020 Cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022
Amendments to IAS 1 "Presentation of financial statements" – classification of liabilities as short-term or long-term	1 January 2023
IFRS 17 "Insurance contracts"	1 January 2023

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

Impairment of the Group's non-current assets

As a result of the COVID-19 pandemic, the Group achived lower financial results than expected and accordingly as at 30 June 2020 it was conducted impairment tests for two cash-generating units defined at the level of assets of the Parent Company and the PKP CARGO INTERNATIONAL Group. The results of tests did not show any need for revaluation of the non-current assets held by the Group. Detailed information on the impairment tests are described in **Note 1.5** to these Quarterly Condensed Consolidated Financial Statements.

Assessment of expected credit losses

The Group has conducted an analysis of the impact of the COVID-19 pandemic on the calculation of expected credit losses, by incorporating the additional credit risk related to the current economic situation, which may cause deterioration of liquidity of business partners and consequently affect the ratio of recovery of trade receivables. Based on analysis of the payments of receivables to date, the Group observed that the payment levels of trade receivables presented in the statement of financial position as at 30 September 2020 did not differ significantly from the rates in previous periods. Additionally, some trade receivables are secured. The Group remains in touch with key contractors and has received no signals indicating an increased risk of non-payment of receivables. Considering the above and given the uncertainty of projections on how the pandemic will develop and affect the economic environment, the Group has no data for estimating the additional credit risk and therefore it has not identified any indications of changing the estimates adopted to assess expected credit losses as at 30 September 2020. The Group analyzes the situation on an ongoing basis and if such indications arise it will update the assumptions adopted in the model for calculating the expected credit losses.

Impact on employee benefits

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

Under the Anti-Crisis Act, the Parent Company and selected subsidiaries were awarded support from the Guaranteed Employee Benefit Fund in the total amount of PLN 114.7 million.

Impact on other expenses

Other expenses incurred by the Group for COVID-19 preventive measures amounted to PLN 3.1 million and included mainly the costs incurred for personal protection equipment. Additionally, in April 2020, the Parent Company donated PLN 1.0 million to the PKP Group Foundation for combating the COVID-19 pandemic.

Liquidity standing of the Group

As at 30 September 2020, the working capital level fell as compared to 31 December 2019. The Group takes active actions to manage its working capital by changing the payment terms with its key customers and suppliers. During the 9 months of 2020, in order to secure its liquidity position, the Parent Company signed an agreement with the European Investment Bank to grant an investment loan up to the maximum amount of EUR 200 million, of which EUR 60 million was used by 30 September 2020. A drawdown of the remaining amount of the liability in the amount of EUR 140 million is optional and requires prior approval from the Supervisory Board and execution of a separate agreement with the bank. As at 30 September 2020, the Group also had unused credit and lease facilities in the amount of PLN 268.6 million.

Other information on the impact of the COVID-19 pandemic on the Group's activity are described in Additional Information to the Consolidated Quarterly Report for Q3 2020 in **Chapters 5.2** and **6.1**.

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

1.5 Significant values based on professional judgment and estimates

In the period of 9 months ended 30 September 2020, changes to material values based on professional judgment and estimation related to:

- rolling stock and other property, plant and equipment

As at 30 June 2020, 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. The impairment tests were prepared because the net market value of assets remained persistently below their carrying amount and the financial results achieved by the Group in the 6 months of 2020 had been lower than expected. The tests were performed on cash-generating units by determining their recoverable amount at the level of their value in use. The recoverable amount of the analyzed assets was determined on the basis of their estimated value in use using the net discounted cash flows method, in line with detailed financial projections developed for the period from July 2020 to 2029. In the opinion of the Parent Company's Management Board, adopting financial projections for more than five years was reasonable because the property, plant and equipment used by the tested cash-generating units have a considerably longer economic useful lives.

PKP CARGO S.A.

Presented below are the key assumptions affecting the estimate of the value of the cash-generating unit at the level of the Parent Company:

- in the detailed projection period of 2021-2029, the average annual growth rate (CAGR) of operating revenue will be at 1.3% in real terms,
- in the whole detailed projection period of 2021-2029, average annual capital expenditures will represent 14.6% of annual operating revenue in real terms,
- the after-tax weighted average capital cost (WACC) level will be at 5.62% in real terms,
- after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the assets tested as at 30 June 2020, the Parent Company recognized no impairment loss for its assets.

PKP CARGO INTERNATIONAL

Presented below are the key assumptions affecting the estimate of the value in use of the cash-generating unit at the level of the PKP CARGO INTERNATIONAL Group:

- 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,
- in the detailed projection period of 2021-2029, the average annual growth rate (CAGR) of operating revenue will be at 1.6% in real terms,
- the after-tax weighted average capital cost (WACC) level will be at 5.66% in real terms,
- 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 30 June 2020, which as at that date amounted to PLN 107.6 million.

Presented below is the estimated amount of impairment loss as at 30 June 2020 when changing only the following key parameters and keeping the other assumptions on a fixed level:

	PKP CARGO INTERNATIONAL GROUP	
	- 0.3 p.p.	**+ 0.3 p.p.**
WACC	(45.4)	39.5
Increase after the detailed projection period	24.8	(29.1)

1.5 Significant values based on professional judgment and estimates (cont.)

In the period of 3 months ended 30 September 2020, the Group achieved financial results that were lower than assumed in the impairment test prepared as at 30 June 2020, however the Management Board of the Parent Company believes that short-term deviations from the accepted assumptions will not cause significant deviations in the results of the prepared tests and accordingly there is no need to recognize additional impairment losses on assets owned by the Group as at 30 September 2020. This judgment is based on best estimates, knowledge and data available as at the balance date. In connection with the persisting uncertainty regarding the long-term forecasts related to the development of the pandemic, the Parent Company's Management Board is analyzing the situation on an ongoing basis and these estimates may change in subsequent reporting periods as a result if future events.

Moreover, as a result of the revaluation of the residual value of the rolling stock carried out as at 31 December 2019, depreciation costs in the 9-month period ended 30 September 2020 increased by PLN 11.7 million.

- deferred tax assets

In the period of 9 months ended 30 September 2020, in connection with the incurred tax loss, the Group created tax loss assets in the amount of PLN 32.3 million. As at 30 September 2020, deferred tax assets on tax losses amounted to PLN 67.9 million. Based on the long-term financial forecasts adopted in the Group, as at 30 September 2020 the Parent Company's Management Board believes the risk that the above assets cannot be realized is low.

- provisions for employee benefits

As at 30 June 2020, the Parent Company performed an actuarial valuation of its provisions for employee benefits mainly in connection with a change of the discount rate and a change of the basis for calculating provisions for the charge for the Company Social Benefits Fund for old-age and disability pensioners (provisions for the Company Social Benefits Fund). The discount rate adopted for the valuation of provisions for employee benefits was 1.4% (2.1% as at 31 December 2019). This change of the discount rate caused an increase in provisions for employee benefits by PLN 39.6 million, out of which PLN 10.6 million was charged to the Group's financial result. In the case of provisions for the Company Social Benefits Fund, the base for calculating the charge increased to PLN 258.38 per person (PLN 211.87 per person as at 31 December 2019). This change caused an increase in provisions for Company Social Benefits Fund by PLN 28.3 million. The other key assumptions adopted for the actuarial valuation were consistent with the assumptions used as at 31 December 2019. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using the actuarial method, was approx. 90%. The effect of revaluation as at 30 September 2020 is presented in **Note 5.8** to these Quarterly Condensed Consolidated Financial Statements.

- rights-of-use assets and lease liabilities under IFRS 16

In the period of 9 months ended 30 September 2020, the value of rights-of-use assets recognized in connection with the signing of new or modification of existing lease agreements was PLN 60.9 million.

During the 9 months ended 30 September 2020, no changes were made to other material assumptions adopted by the Parent Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

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

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

2.1 Revenues from contracts with customers

Structure of revenues from contracts with customers

The Group conducts its business within one segment only, i.e. domestic and international cargo freight and provision of comprehensive logistics services related to rail freight.

The Parent Company's Management Board does not evaluate the Group's performance and does not make decisions concerning allocation of resources to groups of services provided account being taken of the structure of revenues from contracts with customers, as presented below. Therefore, the specific service groups may not be treated as the Group's operating segments. The Parent Company's Management Board analyzes financial data in the layout in which they are presented in these Quarterly Condensed Consolidated Financial Statements.

9 months ended 30/09/2020	Group of entities related to the biggest external counterparty	PKP Group related parties	Other State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	168.9	4.7	601.2	1,602.2	**2,377.0**
Revenue from other transportation activity	0.4	0.1	0.9	99.9	**101.3**
Revenue from siding and traction services	-	6.8	102.8	94.9	**204.5**
Revenue from transshipment services	1.0	-	0.3	110.5	**111.8**
Revenue from reclamation services	-	-	1.0	53.9	**54.9**
Revenue from sales of goods and raw materials	-	-	-	38.6	**38.6**
Other revenues	0.8	12.9	8.8	63.6	**86.1**
Total	**171.1**	**24.5**	**715.0**	**2,063.6**	**2,974.2**
Revenue recognition date					
At a point of time	-	-	-	40.9	**40.9**
Over a period	171.1	24.5	715.0	2,022.7	**2,933.3**
Total	**171.1**	**24.5**	**715.0**	**2,063.6**	**2,974.2**

3 months ended 30/09/2020	Group of entities related to the biggest external counterparty	PKP Group related parties	Other State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	41.9	1.7	194.2	570.7	**808.5**
Revenue from other transportation activity	-	-	0.4	35.5	**35.9**
Revenue from siding and traction services	-	2.8	35.4	30.1	**68.3**
Revenue from transshipment services	0.2	-	0.2	38.2	**38.6**
Revenue from reclamation services	-	-	0.1	13.8	**13.9**
Revenue from sales of goods and raw materials	-	-	-	13.2	**13.2**
Other revenues	0.2	5.9	3.3	21.8	**31.2**
Total	**42.3**	**10.4**	**233.6**	**723.3**	**1,009.6**
Revenue recognition date					
At a point of time	-	-	-	13.4	**13.4**
Over a period	42.3	10.4	233.6	709.9	**996.2**
Total	**42.3**	**10.4**	**233.6**	**723.3**	**1,009.6**

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

2.1 Revenues from contracts with customers (cont.)

9 months ended 30/09/2019	Group of entities related to the biggest external counterparty	PKP Group related parties	Other State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	317.8	0.8	793.0	1,867.2	**2,978.8**
Revenue from other transportation activity	0.9	-	1.7	117.1	**119.7**
Revenue from siding and traction services	0.4	8.2	90.8	108.0	**207.4**
Revenue from transshipment services	0.9	-	0.4	114.5	**115.8**
Revenue from reclamation services	-	-	-	63.5	**63.5**
Revenue from sales of goods and raw materials	-	-	1.8	40.2	**42.0**
Other revenues	1.1	7.1	8.3	72.9	**89.4**
Total	**321.1**	**16.1**	**896.0**	**2,383.4**	**3,616.6**
Revenue recognition date					
At a point of time	-	-	1.8	49.3	**51.1**
Over a period	321.1	16.1	894.2	2,334.1	**3,565.5**
Total	**321.1**	**16.1**	**896.0**	**2,383.4**	**3,616.6**

3 months ended 30/09/2019	Group of entities related to the biggest external counterparty	PKP Group related parties	Other State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	105.2	0.2	248.6	611.4	**965.4**
Revenue from other transportation activity	0.1	-	0.7	41.9	**42.7**
Revenue from siding and traction services	-	3.4	30.7	36.3	**70.4**
Revenue from transshipment services	0.4	-	0.1	41.5	**42.0**
Revenue from reclamation services	-	-	-	23.7	**23.7**
Revenue from sales of goods and raw materials	-	-	1.8	15.0	**16.8**
Other revenues	0.3	2.3	2.9	24.8	**30.3**
Total	**106.0**	**5.9**	**284.8**	**794.6**	**1,191.3**
Revenue recognition date					
At a point of time	-	-	1.8	18.1	**19.9**
Over a period	106.0	5.9	283.0	776.5	**1,171.4**
Total	**106.0**	**5.9**	**284.8**	**794.6**	**1,191.3**

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

2.1 Revenues from contracts with customers (cont.)

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:

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Poland	2,046.5	683.6	2,590.7	852.8
Czech Republic	396.5	123.7	434.7	146.9
Germany	211.1	84.0	218.5	72.3
Slovakia	63.2	25.8	89.6	24.9
Austria	45.7	18.3	41.5	13.2
Denmark	41.0	13.4	44.6	17.7
Other countries	170.2	60.8	197.0	63.5
Total	**2,974.2**	**1,009.6**	**3,616.6**	**1,191.3**

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

	30/09/2020	31/12/2019
Poland	5,520.5	5,576.0
Czech Republic	742.3	787.8
Other countries	5.0	4.3
Total	**6,267.8**	**6,368.1**

Information on key customers

In the period of 9 months ended 30 September 2020 and 30 September 2019, revenues from any single customer of the Group did not exceed 10% of the total revenues from contracts with customers.

Assets from contracts with customers

	9 months ended 30/09/2020	9 months ended 30/09/2019
As at the beginning of the reporting period	**18.6**	**37.1**
Recognition of revenue before the payment due date	38.5	43.0
Reclassification to receivables	(18.6)	(37.1)
As at the end of the reporting period	**38.5**	**43.0**

Liabilities from contracts with customers

	9 months ended 30/09/2020	9 months ended 30/09/2019
As at the beginning of the reporting period	**0.9**	**1.6**
Recognition of revenues:		
From the opening balance of liabilities from contracts with customers	(0.9)	(1.6)
From liabilities from contracts with customers recognized during the period	-	(0.3)
Payment received or due in advance	1.0	1.9
As at the end of the reporting period	**1.0**	**1.6**

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

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Consumption of traction fuel	(86.4)	(27.9)	(132.7)	(40.4)
Consumption of traction electricity	(272.8)	(96.7)	(297.5)	(109.9)
Total	**(359.2)**	**(124.6)**	**(430.2)**	**(150.3)**

Other services

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Repair and maintenance services for non-current assets	(64.7)	(23.0)	(62.2)	(24.3)
Rent and fees for the use of real properties and rolling stock	(46.7)	(15.5)	(65.2)	(25.0)
Telecommunications services	(4.8)	(1.6)	(4.8)	(1.6)
Legal, consulting and similar services	(8.4)	(3.5)	(10.6)	(3.6)
IT services	(34.7)	(11.7)	(33.4)	(11.1)
Transshipment services	(9.0)	(2.3)	(11.0)	(3.1)
Reclamation services	(53.6)	(16.1)	(56.5)	(22.0)
Other services	(45.5)	(17.1)	(40.8)	(12.8)
Total	**(267.4)**	**(90.8)**	**(284.5)**	**(103.5)**

Employee benefits

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Payroll	(934.4)	(301.0)	(966.0)	(325.6)
Social security expenses	(196.6)	(62.7)	(204.0)	(67.9)
Expenses for contributions to the Company Social Benefits Fund	(25.4)	(8.5)	(20.1)	(6.2)
Other employee benefits during employment	(33.9)	(10.1)	(33.9)	(11.2)
Post-employment benefits	(3.8)	(1.5)	(4.1)	(1.3)
Movement in provisions for employee benefits	(40.6)	2.3	(56.8)	8.7
Total	**(1,234.7)**	**(381.5)**	**(1,284.9)**	**(403.5)**

Other expenses

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Consumption of non-traction fuel	(15.5)	(4.9)	(20.6)	(6.6)
Consumption of electricity, gas and water	(25.8)	(5.6)	(26.3)	(5.6)
Consumption of materials	(67.0)	(20.4)	(68.4)	(21.7)
Taxes and charges	(26.9)	(9.1)	(26.3)	(9.0)
Cost of goods and materials sold	(24.1)	(10.4)	(27.4)	(12.0)
Business trips	(20.5)	(6.8)	(24.5)	(8.2)
Other	(14.1)	(3.6)	(16.7)	(5.8)
Total	**(193.9)**	**(60.8)**	**(210.2)**	**(68.9)**

Depreciation, amortization and impairment losses

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Depreciation of rolling stock	(405.6)	(134.2)	(370.1)	(131.1)
Depreciation of other property, plant and equipment	(58.8)	(18.8)	(59.9)	(14.9)
Depreciation of rights-of-use assets	(104.8)	(33.9)	(90.3)	(32.7)
Amortization of intangible assets	(8.7)	(2.4)	(10.0)	(3.4)
Recognized / (reversed) impairment losses:				
Rolling stock	(1.0)	(1.0)	-	-
Other property, plant and equipment	(0.1)	-	-	-
Total	**(579.0)**	**(190.3)**	**(530.3)**	**(182.1)**

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

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Profit on sales of non-financial non-current assets	6.4	1.9	5.5	2.5
Reversed impairment losses on trade receivables	4.5	0.5	4.0	(0.6)
Penalties and compensations	13.2	5.0	12.8	4.4
Reversal of other provisions	2.0	0.6	25.4	24.6
Interest on trade and other receivables	3.0	0.4	2.1	0.7
Net result on FX differences on trade receivables and liabilities	3.9	1.6	-	-
Income from the Anti-Crisis Shield (1)	114.7	80.6	-	-
Other	3.6	1.3	5.2	1.9
Total other operating revenue	**151.3**	**91.9**	**55.0**	**33.5**
Recognized impairment losses on trade receivables	(4.9)	(2.2)	(9.2)	(3.6)
Penalties and compensations	(6.4)	(1.1)	(6.0)	(1.8)
Costs of liquidation of non-current and current assets	(4.0)	(0.8)	(3.9)	(1.9)
Recognized other provisions	(2.2)	(1.3)	(5.9)	(1.9)
Net result on FX differences on trade receivables and liabilities	-	-	(0.5)	1.0
Other	(5.4)	(1.9)	(4.4)	(1.6)
Total other operating expenses	**(22.9)**	**(7.3)**	**(29.9)**	**(9.8)**
Other operating revenue and (expenses)	**128.4**	**84.6**	**25.1**	**23.7**

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

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Interest income	2.1	0.6	4.2	0.8
Dividend income	-	-	0.3	-
Other	-	-	1.2	(0.5)
Total financial revenue	**2.1**	**0.6**	**5.7**	**0.3**
Interest expenses	(45.3)	(13.1)	(43.8)	(14.1)
Settlement of the discount on provisions for employee benefits	(10.4)	(3.4)	(13.3)	(4.5)
Net result on FX differences	(9.1)	1.8	(1.5)	(1.5)
Other	(1.7)	(0.5)	(2.3)	(0.8)
Total financial expenses	**(66.5)**	**(15.2)**	**(60.9)**	**(20.9)**
Financial revenue and (expenses)	**(64.4)**	**(14.6)**	**(55.2)**	**(20.6)**

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

3. Notes on taxation

3.1 Income tax

Income tax recognized in profit / loss

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Current income tax				
Current tax charge	(7.1)	(3.5)	(5.8)	(1.6)
Adjustments recognized in the current year relating to tax from previous years	1.6	-	(0.7)	-
Deferred tax				
Deferred income tax of the reporting period	37.6	(3.5)	(23.8)	(8.6)
Income tax recognized in profit / loss	**32.1**	**(7.0)**	**(30.3)**	**(10.2)**

According to the legal provisions in effect, no differentiation of tax 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

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Deferred tax on the measurement of hedging instruments	8.3	2.6	2.2	3.9
Deferred tax on actuarial profits / (losses) pertaining to post-employment benefits	9.9	-	2.7	-
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income[1]	1.2	0.1	(0.9)	(0.8)
Deferred income tax recognized in other comprehensive income	**19.4**	**2.7**	**4.0**	**3.1**

[1] This item is disclosed within equity as FX differences resulting from translation of financial statements.

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 Quarterly Condensed Consolidated Financial Statements:

	30/09/2020	31/12/2019
Deferred tax assets	163.9	113.7
Deferred tax liabilities	(85.5)	(92.3)
Total	**78.4**	**21.4**

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

3.1 Income tax (cont.)

Table of movements in deferred tax before the set-off

9 months ended 30/09/2020	1/01/2020	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	30/09/2020
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	**(167.0)**	10.6	-	1.2	**(155.2)**
Rights-of-use assets and lease liabilities	**(6.0)**	(1.4)	-	-	**(7.4)**
Other provisions and liabilities	**14.4**	(0.2)	-	-	**14.2**
Inventories	**(4.7)**	(4.9)	-	-	**(9.6)**
Lease receivables	**(2.1)**	(0.1)	-	-	**(2.2)**
Trade receivables	**1.7**	0.3	-	-	**2.0**
Provisions for employee benefits	**148.9**	(2.6)	9.9	-	**156.2**
Other	**0.6**	3.6	8.3	-	**12.5**
Unused tax losses	**35.6**	32.3	-	-	**67.9**
Total	**21.4**	**37.6**	**18.2**	**1.2**	**78.4**

9 months ended 30/09/2019	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	30/09/2019
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non-current assets	**(133.4)**	11.9	**(121.5)**	(30.8)	-	(0.9)	**(153.2)**
Rights-of-use assets and lease liabilities	**-**	(9.5)	**(9.5)**	3.7	-	(0.1)	**(5.9)**
Other provisions and liabilities	**10.8**	(1.4)	**9.4**	5.2	-	-	**14.6**
Inventories	**(4.1)**	-	**(4.1)**	0.2	-	-	**(3.9)**
Lease receivables	**-**	(1.7)	**(1.7)**	(0.8)	-	-	**(2.5)**
Trade receivables	**3.6**	-	**3.6**	(1.1)	-	-	**2.5**
Provisions for employee benefits	**134.0**	-	**134.0**	2.7	2.7	-	**139.4**
Other	**0.3**	-	**0.3**	(1.5)	2.2	0.1	**1.1**
Unused tax losses	**35.9**	-	**35.9**	(1.4)	-	-	**34.5**
Total	**47.1**	**(0.7)**	**46.4**	**(23.8)**	**4.9**	**(0.9)**	**26.6**

Maturity analysis of deferred tax assets from tax losses

Expiration dates of the tax losses to which deferred tax assets were recognized as at 30 September 2020

Year	2021	2022	2023	2024	2025	Total
Unused tax losses	0.7	3.6	85.3	173.2	93.8	**356.6**

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

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

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

3.1 Income tax (cont.)

Tax loss not recognized in calculation of deferred tax assets

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

	30/09/2020	31/12/2019
PKP CARGO INTERNATIONAL HU Zrt.	11.5	21.5
AWT Čechofracht a.s.	13.8	10.6
PKP CARGOTABOR USŁUGI Sp. z o.o.	7.5	7.5
CARGOSPED Terminal Braniewo Sp. z o.o.	-	0.4
Total	**32.8**	**40.0**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 30 September 2020

Year	2020	2021	2022	2023	2024	2025 and beyond	Total
Unused tax losses	3.8	8.4	6.2	6.6	4.5	3.3	**32.8**

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

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

4. Notes on debt

4.1 Reconciliation of debt liabilities

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. Liabilities contracted under the signed loan agreements are repaid in PLN and EUR.

Lease agreements are signed in PLN, EUR, CZK and HUF and pertain mainly to property and rolling stock.

Items in foreign currencies

30/09/2020	In functional currency	In foreign currency			Total
	PLN	EUR	CZK	HUF	
Bank loans and borrowings	1,039.1	670.9	-	-	**1,710.0**
Leases	776.6	129.0	34.4	0.2	**940.2**
Total	**1,815.7**	**799.9**	**34.4**	**0.2**	**2,650.2**
Variable-interest-rate liabilities	1,172.2	475.8	-	-	**1,648.0**
Fixed-interest-rate liabilities	643.5	324.1	34.4	0.2	**1,002.2**
Total	**1,815.7**	**799.9**	**34.4**	**0.2**	**2,650.2**

31/12/2019	In functional currency	In foreign currency		Total
	PLN	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**

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

4.1 Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

9 months ended 30/09/2020	Bank loans and borrowings	Leases	Total
1/01/2020	**1,626.2**	**996.5**	**2,622.7**
New liabilities contracted	289.3	31.9	**321.2**
Modifications of existing agreements	-	29.3	**29.3**
Transaction costs	1.3	-	**1.3**
Accrual of interest	17.3	25.5	**42.8**
Payments under debt, including:			
Repayments of the principal	(241.4)	(114.0)	**(355.4)**
Interest paid	(17.7)	(25.0)	**(42.7)**
Transaction costs	(1.3)	-	**(1.3)**
Other	-	(11.2)	**(11.2)**
FX valuation	34.5	7.4	**41.9**
FX differences resulting from translation	1.8	(0.2)	**1.6**
30/09/2020	**1,710.0**	**940.2**	**2,650.2**
Long-term	1,380.7	797.3	**2,178.0**
Short-term	329.3	142.9	**472.2**
Total	**1,710.0**	**940.2**	**2,650.2**

9 months ended 30/09/2019	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	99.3	84.8	**184.1**
Modifications of existing agreements	-	0.9	**0.9**
Transaction costs	1.7	-	**1.7**
Accrual of interest	16.2	25.8	**42.0**
Payments under debt, including:			
Repayments of the principal	(186.1)	(95.9)	**(282.0)**
Interest paid	(16.9)	(23.1)	**(40.0)**
Transaction costs	(1.7)	-	**(1.7)**
Other	-	(10.4)	**(10.4)**
FX valuation	7.8	1.6	**9.4**
FX differences resulting from translation	1.1	1.0	**2.1**
30/09/2019	**1,253.2**	**883.6**	**2,136.8**
Long-term	1,009.8	747.5	**1,757.3**
Short-term	243.4	136.1	**379.5**
Total	**1,253.2**	**883.6**	**2,136.8**

Terms and conditions of loan agreements

Contracts signed with banks impose legal and financial obligations on the Group that are standard in such transactions. The key ratios indicating the performance of the agreements signed by the Group include: the Net Debt/EBITDA ratio and the total debt ratio.

The Net Debt/EBITDA is the level of debt less cash to the generated EBITDA and is calculated without taking into account the impact of IFRS 16. The maximum permitted level of the Net Debt/EBITDA ratio must not exceed 3.0.

The total debt ratio, which is defined as the ratio of liabilities to total assets, cannot exceed 60%.

The above ratios are calculated on the basis of data contained in both the Standalone and Consolidated Financial Statements of PKP CARGO.

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

4.1 Reconciliation of debt liabilities (cont.)

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

The most recent test of compliance with terms of bank loan agreements, performed as at 30 June 2020, showed that there were no breaches of any loan agreements. Nevertheless, the economic situation associated, among others, with the effects of the COVID-19 pandemic, may have an important effect on the fulfillment of the ratios from the loan agreements on successive covenant review dates. In the event of a further economic slowdown, there is a risk that the terms and conditions of loan agreements may be breached in the future.

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	9 months ended 30/09/2020	9 months ended 30/09/2019
Revenues from operating leases	Revenues from contracts with customers	27.1	31.5
Interest income from leases	Financial revenue	0.4	0.4
Costs on account of:			
Short-term leases	Other services	(22.0)	(30.9)
Leases of low-value assets	Other services	(3.6)	(5.0)
Variable lease payments not included in the measurement of lease liabilities	Other services	(1.5)	(2.4)

Unused credit and lease facilities

Type of loan	Bank Name	Period of availability	Currency of the contract	30/09/2020	31/12/2019
Investment loan	European Investment Bank	19/07/2020	EUR	-	22.0
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2021	PLN	100.0	100.0
Overdraft	Powszechna Kasa Oszczędności Bank Polski S.A.	19/12/2021	PLN	100.0	100.0
Overdraft	Bank Polska Kasa Opieki S.A.	25/06/2021	PLN	6.2	-
Investment loan	Bank Polska Kasa Opieki S.A.	31/05/2021	PLN	10.0	-
Overdraft	Bank Polska Kasa Opieki S.A.	09/07/2021	PLN	1.6	-
Leasing facility	Millennium Leasing Sp. z o.o.	02/12/2020	PLN	50.8	51.3
Total				**268.6**	**273.3**

4.2 Equity

Share capital

	30/09/2020	31/12/2019
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 30 September 2020 and 31 December 2019, the share capital consisted of ordinary 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 the articles of association of the Parent Company, PKP S.A. holds special personal rights to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board plus one. PKP S.A. has a personal right to appoint the Supervisory Board 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 period of 9 months ended 30 September 2020 and the period of 9 months ended 30 September 2019, there were no movements in the share capital of the Parent Company.

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

4.2 Equity (cont.)

Movement in supplementary capital

In the period of 9 months ended 30 September 2020, changes in the Group's supplementary capital resulted from a resolution adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o in the matter of allocating the net profit of PLN 1 million generated in 2019 to supplementary capital.

In the period of 9 months ended 30 September 2019, changes in the Group's supplementary capital resulted from a resolution of 26 June 2019 adopted by the Ordinary Shareholder Meeting of PKP CARGO S.A. in the matter of a partial allocation to supplementary capital of the net profit generated in 2018 of PLN 148.0 million, and a resolution of 13 June 2019 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of a partial allocation to supplementary capital of the net profit generated in 2018 of PLN 5.4 million and resolution of 14 June 2019 adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. on covering the net loss for 2018 from supplementary capital in the amount of PLN 0.2 million.

Retained earnings

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

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	30/09/2020	31/12/2019
Cash on hand and on bank accounts	145.8	192.2
Bank deposits up to 3 months	232.3	358.2
Other cash	0.1	-
Total	**378.2**	**550.4**
including restricted cash	*44.6*	*49.2*

As at 30 September 2020 and as at 31 December 2019, restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.

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

5. Notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Movement in rolling stock and other property, plant and equipment

9 months ended 30/09/2020	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2020	**6,847.0**	**916.4**	**435.8**	**99.6**	**43.9**	**73.2**	**1,568.9**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	222.4	**222.4**
Other acquisitions	-	-	-	-	-	308.9	**308.9**
Purchase of leased items	-	-	2.9	1.9	-	-	**4.8**
Settlement of fixed assets under construction	480.1	12.5	22.7	0.8	0.6	(516.7)	**(480.1)**
Grant for non-current assets	(11.4)	-	(0.2)	-	-	(2.2)	**(2.4)**
Sales	(18.0)	(1.2)	(0.3)	(3.8)	-	-	**(5.3)**
Liquidation	(167.4)	(2.6)	(1.7)	(0.1)	(0.4)	(0.6)	**(5.4)**
Reclassified to assets held for sale(1)	(90.2)	-	-	-	-	-	**-**
FX differences	(3.8)	(0.4)	(0.2)	(0.1)	-	(0.2)	**(0.9)**
Other	(1.5)	(0.1)	0.1	-	(0.3)	-	**(0.3)**
30/09/2020	**7,034.8**	**924.6**	**459.1**	**98.3**	**43.8**	**84.8**	**1,610.6**
Accumulated depreciation							
1/01/2020	**(2,310.2)**	**(262.0)**	**(309.7)**	**(81.0)**	**(36.8)**	**-**	**(689.5)**
(Increases) / decreases:							
Depreciation	(405.6)	(25.5)	(27.5)	(3.6)	(2.2)	-	**(58.8)**
Purchase of leased items	-	-	(1.7)	(1.4)	-	-	**(3.1)**
Sales	9.7	0.3	0.3	3.7	-	-	**4.3**
Liquidation	129.0	2.3	1.7	0.1	0.4	-	**4.5**
Reclassified to assets held for sale(1)	41.6	-	-	-	-	-	**-**
FX differences	1.5	0.1	0.1	0.3	-	-	**0.5**
Other	0.1	(0.1)	(0.3)	(0.1)	0.2	-	**(0.3)**
30/09/2020	**(2,533.9)**	**(284.9)**	**(337.1)**	**(82.0)**	**(38.4)**	**-**	**(742.4)**
Accumulated impairment							
1/01/2020	**(207.2)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.9)**	**(7.0)**
(Increases) / decreases:							
Recognition	(1.0)	-	-	-	-	(0.1)	**(0.1)**
Utilization	11.1	-	-	-	-	0.6	**0.6**
Reclassified to assets held for sale(1)	13.7	-	-	-	-	-	**-**
FX differences	(5.3)	-	-	-	-	-	**-**
30/09/2020	**(188.7)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.4)**	**(6.5)**
Net value							
1/01/2020	**4,329.6**	**652.0**	**124.4**	**18.6**	**7.1**	**70.3**	**872.4**
30/09/2020	**4,312.2**	**637.3**	**120.3**	**16.3**	**5.4**	**82.4**	**861.7**

(1) On 25 March 2020, the Supervisory Board of the Parent Company gave its consent to sign an agreement with business partner for the sale of 1721 freight cars with total book value of PLN 22.1 million. The sale is pending. As at 30 September 2020 the carrying amount of the freight cars remaining for sale was PLN 1.2 million.
On 18 August 2020, the Management Board of the Parent Company gave its consent to sign agreements with business partners for the sale of 163 locomotives with the total book value of PLN 12.8 million. The sale is pending. As at 30 September 2020 the carrying amount of the locomotives remaining for sale was PLN 11.1 million.

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

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

9 months ended 30/09/2019	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	-	-	-	-	-	457.0	**457.0**
Other acquisitions	-	-	-	-	-	343.0	**343.0**
Purchase of leased items	25.3	-	-	6.2	-	-	**6.2**
Settlement of fixed assets under construction	763.2	16.4	18.0	3.3	1.5	(802.4)	**(763.2)**
Grant for non-current assets	(57.8)	-	-	-	-	-	**-**
Sales	(16.4)	-	(0.4)	(1.4)	-	-	**(1.8)**
Liquidation	(260.4)	(2.1)	(1.2)	(0.1)	(0.1)	(0.2)	**(3.7)**
Reclassified to assets held for sale	(28.8)	(0.1)	-	-	-	-	**(0.1)**
FX differences	9.5	1.8	0.4	0.1	-	0.3	**2.6**
Other	(3.5)	3.7	0.2	2.8	-	(0.2)	**6.5**
30/09/2019	**6,684.9**	**920.6**	**442.8**	**98.4**	**42.5**	**69.4**	**1,573.7**
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	(370.1)	(29.3)	(24.1)	(4.1)	(2.4)	-	**(59.9)**
Purchase of leased items	(4.6)	-	-	(4.6)	-	-	**(4.6)**
Sales	14.9	-	0.4	1.3	-	-	**1.7**
Liquidation	253.5	1.7	1.2	0.1	-	-	**3.0**
Reclassified to assets held for sale	18.5	0.1	-	-	-	-	**0.1**
FX differences	(2.2)	(0.3)	(0.2)	(0.1)	-	-	**(0.6)**
Other	23.4	(1.2)	(0.2)	(22.3)	-	-	**(23.7)**
30/09/2019	**(2,273.5)**	**(262.0)**	**(322.1)**	**(83.7)**	**(36.3)**	**-**	**(704.1)**
Accumulated impairment							
1/01/2019 (audited)	**(210.8)**	**(2.8)**	**(1.7)**	**-**	**-**	**(2.7)**	**(7.2)**
(Increases) / decreases:							
Utilization	0.8	0.4	-	-	-	0.1	**0.5**
Reclassified to assets held for sale	1.7	-	-	-	-	-	**-**
FX differences	(1.9)	-	-	-	-	-	**-**
30/09/2019	**(210.2)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.6)**	**(6.7)**
Net value							
1/01/2019	**3,836.1**	**665.1**	**124.9**	**33.5**	**7.2**	**69.2**	**899.9**
30/09/2019	**4,201.2**	**656.2**	**119.0**	**14.7**	**6.2**	**66.8**	**862.9**

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

5.2 Rights-of-use assets

Movement in rights-of-use assets

9 months ended 30/09/2020	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
1/01/2020	**450.6**	**767.0**	**23.7**	**18.5**	**1.7**	**1,261.5**
Increases / (decreases):						
New leases	17.8	11.2	1.8	1.1	-	**31.9**
Modifications of existing agreements	0.4	28.1	0.3	0.2	-	**29.0**
Periodic repairs of rolling stock	2.3	-	-	-	-	**2.3**
Return of leased items	(7.1)	(12.6)	(0.1)	(0.1)	-	**(19.9)**
Purchase of leased items	-	-	(2.9)	(1.9)	-	**(4.8)**
Other	(6.2)	(1.6)	2.9	(0.3)	(0.6)	**(5.8)**
FX differences	(0.9)	(0.2)	(0.1)	-	-	**(1.2)**
30/09/2020	**456.9**	**791.9**	**25.6**	**17.5**	**1.1**	**1,293.0**
Accumulated depreciation						
1/01/2020	**(109.2)**	**(61.8)**	**(4.9)**	**(6.4)**	**(0.4)**	**(182.7)**
(Increases) / decreases:						
Depreciation	(49.5)	(47.5)	(3.6)	(4.0)	(0.2)	**(104.8)**
Return of leased items	6.5	3.1	-	-	-	**9.6**
Purchase of leased items	-	-	1.7	1.4	-	**3.1**
Other	5.1	(0.5)	(0.5)	(0.1)	0.1	**4.1**
FX differences	0.3	0.1	-	-	-	**0.4**
30/09/2020	**(146.8)**	**(106.6)**	**(7.3)**	**(9.1)**	**(0.5)**	**(270.3)**
Net value						
1/01/2020	**341.4**	**705.2**	**18.8**	**12.1**	**1.3**	**1,078.8**
30/09/2020	**310.1**	**685.3**	**18.3**	**8.4**	**0.6**	**1,022.7**

9 months ended 30/09/2019	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
Effect of the implementation of IFRS 16	310.1	729.2	14.6	14.0	1.2	**1,069.1**
1/01/2019	**310.1**	**729.2**	**14.6**	**14.0**	**1.2**	**1,069.1**
Increases / (decreases):						
New leases	73.8	1.9	0.7	8.0	0.4	**84.8**
Modifications of existing agreements	0.9	(0.1)	0.1	-	-	**0.9**
Periodic repairs of rolling stock	3.2	-	-	-	-	**3.2**
Return of leased items	(5.1)	(1.8)	-	-	-	**(6.9)**
Purchase of leased items	(25.3)	-	-	(6.2)	-	**(31.5)**
Other	2.0	(6.9)	-	-	-	**(4.9)**
FX differences	1.6	0.5	0.2	0.1	-	**2.4**
30/09/2019	**361.2**	**722.8**	**15.6**	**15.9**	**1.6**	**1,117.1**
Accumulated depreciation						
Effect of the implementation of IFRS 16	(56.5)	(1.1)	(1.9)	(6.8)	-	**(66.3)**
1/01/2019	**(56.5)**	**(1.1)**	**(1.9)**	**(6.8)**	**-**	**(66.3)**
(Increases) / decreases:						
Depreciation	(41.2)	(43.2)	(2.2)	(3.4)	(0.3)	**(90.3)**
Return of leased items	1.6	0.1	-	-	-	**1.7**
Purchase of leased items	4.6	-	-	4.6	-	**9.2**
Other	(2.6)	(2.5)	(0.1)	-	-	**(5.2)**
FX differences	(0.4)	(0.1)	-	-	-	**(0.5)**
30/09/2019	**(94.5)**	**(46.8)**	**(4.2)**	**(5.6)**	**(0.3)**	**(151.4)**
Net value						
1/01/2019	**253.6**	**728.1**	**12.7**	**7.2**	**1.2**	**1,002.8**
30/09/2019	**266.7**	**676.0**	**11.4**	**10.3**	**1.3**	**965.7**

(in PLN million) (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	
	30/09/2020	31/12/2019
COSCO Shipping Lines (POLAND) Sp. z o.o.	1.2	0.9
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	20.6	20.3
Transgaz S.A.	6.1	6.1
Rentrans Cargo Sp. z o.o.	7.8	7.9
PKP CARGO CONNECT GmbH	0.2	0.4
PKP CARGO INTERNATIONAL SK a. s.	2.7	2.4
PRIMOL-RAIL d.o.o.	1.6	0.9
Centralny Terminal Multimodalny Sp. z o.o.	1.5	1.5
Total	**41.7**	**40.4**

Investments in entities accounted for under the equity method

	9 months ended 30/09/2020	9 months ended 30/09/2019
As at the beginning of the reporting period	**40.4**	**47.3**
Merger under common control	-	(7.7)
Share in the profit / (loss) of entities measured by the equity method	1.4	1.4
Movement in equity on account of dividends	(0.4)	(3.3)
FX differences from translation of financial statements of foreign operations	0.3	0.2
As at the end of the reporting period	**41.7**	**37.9**

5.4 Inventories

Structure of inventories

	30/09/2020	31/12/2019
Strategic inventories	33.8	38.1
Rolling stock during liquidation	37.6	13.5
Other inventories	91.6	114.2
Impairment losses	(4.3)	(4.8)
Net inventories	**158.7**	**161.0**

5.5 Trade receivables

Structure of trade receivables

	30/09/2020	31/12/2019
Trade receivables	725.6	739.5
Impairment loss on receivables	(143.8)	(145.2)
Total	**581.8**	**594.3**
Non-current assets	4.8	3.0
Current assets	577.0	591.3
Total	**581.8**	**594.3**

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

5.6 Other assets

Structure of other assets

	30/09/2020	31/12/2019
Financial assets		
FX forwards	-	7.4
Shares in unlisted companies	5.6	6.3
Non-financial assets		
Costs settled in time:		
Prepayments for purchase of electricity	32.2	27.2
Purchase of transportation services for eligible person	3.8	-
Insurance	8.7	7.8
IT services	6.6	9.0
Company Social Benefits Fund	9.5	-
Other costs settled over time	4.5	6.3
Other	2.0	12.2
Other receivables		
VAT settlements	28.6	68.5
Other	12.1	12.7
Intangible assets		
Licenses	21.1	24.7
Other intangible assets	0.2	0.2
Intangible assets under development	2.6	5.4
Total	**137.5**	**187.7**
Non-current assets	35.1	55.0
Current assets	102.4	132.7
Total	**137.5**	**187.7**

5.7 Investment liabilities

Structure of investment liabilities

	30/09/2020	31/12/2019
Investment liabilities related to rolling stock	342.1	304.0
Investment liabilities related to real properties	1.2	12.9
Other	4.0	21.6
Total	**347.3**	**338.5**
Long-term liabilities	159.7	157.0
Short-term liabilities	187.6	181.5
Total	**347.3**	**338.5**

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

5.8 Provisions for employee benefits

Movement in provisions for employee benefits

	Retirement and disability severance pays	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2020	**234.6**	**139.7**	**36.9**	**8.8**	**329.4**	**34.8**	**784.2**
Current service cost	6.1	2.3	0.6	0.3	11.0	-	**20.3**
Interest expenses	3.1	2.1	0.6	0.1	4.5	-	**10.4**
Actuarial (profits) / losses recognized in other comprehensive income	7.8	42.1	2.0	0.2	-	-	**52.1**
Actuarial (profits) / losses recognized in the statement of profit or loss	-	-	-	-	9.8	-	**9.8**
Recognition of provisions	-	-	-	-	-	18.3	**18.3**
Reversal of provisions	-	-	-	-	-	(7.8)	**(7.8)**
Benefits paid out	(13.7)	(3.7)	(0.8)	(0.7)	(35.7)	(6.0)	**(60.6)**
FX differences	-	-	-	-	-	(0.1)	**(0.1)**
30/09/2020	**237.9**	**182.5**	**39.3**	**8.7**	**319.0**	**39.2**	**826.6**
Long-term provisions	197.3	177.1	38.2	7.4	273.6	-	**693.6**
Short-term provisions	40.6	5.4	1.1	1.3	45.4	39.2	**133.0**
Total	**237.9**	**182.5**	**39.3**	**8.7**	**319.0**	**39.2**	**826.6**

	Retirement and disability severance pays	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	5.0	1.8	0.5	0.2	9.8	-	**17.3**
Interest expenses	3.8	2.8	0.7	0.1	5.9	-	**13.3**
Actuarial (profits) / losses recognized in other comprehensive income	20.4	(6.9)	0.2	0.7	-	-	**14.4**
Actuarial (profits) / losses recognized in the statement of profit or loss	-	-	-	-	27.1	-	**27.1**
Past service cost	0.3	-	-	-	-	-	**0.3**
Recognition of provisions	-	-	-	-	-	26.8	**26.8**
Reversal of provisions	-	-	-	-	-	(11.4)	**(11.4)**
Benefits paid out	(8.3)	(5.3)	(0.8)	(0.6)	(34.2)	(7.0)	**(56.2)**
FX differences	-	-	-	-	-	0.2	**0.2**
30/09/2019	**217.0**	**122.6**	**33.4**	**8.3**	**312.6**	**44.9**	**738.8**
Long-term provisions	183.5	118.5	32.3	6.9	266.9	-	**608.1**
Short-term provisions	33.5	4.1	1.1	1.4	45.7	44.9	**130.7**
Total	**217.0**	**122.6**	**33.4**	**8.3**	**312.6**	**44.9**	**738.8**

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

5.9 Other provisions

Structure of other provisions

	30/09/2020	31/12/2019
Provision for penalties imposed by anti-monopoly authorities	14.6	14.6
Provision for land reclamation	6.0	5.4
Other provisions	23.3	31.0
Total	**43.9**	**51.0**
Long-term provisions	5.4	5.4
Short-term provisions	38.5	45.6
Total	**43.9**	**51.0**

Provision for penalties imposed by anti-monopoly authorities

As at 30 September 2020, this item included:

- provision of PLN 14.2 million for a penalty imposed by the Office of Competition and Consumer Protection,
- provision of PLN 0.4 million for a penalty, recognized in connection with a pending procedure initiated by the Czech Antimonopoly Office.

On 2 July 2020, the Appellate Court in Warsaw handed down a judgment dismissing the Parent Company's appeal against the judgment of the Regional Court in Warsaw of 15 October 2018 and this way upheld the Decision of the President of the Office of Competition and Consumer Protection imposing a fine of PLN 14.2 million on the Parent Company. The Appellate Court's judgment is final. On 12 October 2020, the Parent Company filed a cassation complaint against the aforementioned judgment with a petition for suspension of enforcement of the Appellate Court's judgment regarding the fine.

Provision for land reclamation

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

Other provisions

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

According to the Parent Company's Management Board, the amount of other provisions as at 30 September 2020 and as at 31 December 2019 constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the Group's estimates may be changed in subsequent reporting periods.

5.10 Other liabilities

Structure of other liabilities

	30/09/2020	31/12/2019
Financial liabilities		
FX forwards	1.7	-
Cash pool	1.5	-
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	50.1	40.5
Public law liabilities	89.2	117.6
Settlements with employees	94.7	97.4
Received grants	2.9	0.3
Other settlements	7.3	4.6
VAT settlements	9.6	4.0
Current income tax liabilities	2.2	-
Total	**259.2**	**264.4**
Long-term liabilities	0.1	-
Short-term liabilities	259.1	264.4
Total	**259.2**	**264.4**

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

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	30/09/2020	31/12/2019
Hedging financial instruments			
Derivatives	*Note 5.6*	-	7.4
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	5.6	6.3
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	581.8	594.3
Receivables on account of sale of non-financial non-current assets		-	0.5
Cash and cash equivalents	*Note 4.3*	378.2	550.4
Financial assets excluded from the scope of IFRS 9		11.9	11.6
Total		**977.5**	**1,170.5**

Financial liabilities by categories and classes	Note	30/09/2020	31/12/2019
Hedging financial instruments			
Derivatives	*Note 5.10*	1.7	-
Bank loans and borrowings	*Note 4.1*	670.9	469.7
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	59.7	-
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	1,039.1	1,156.5
Trade liabilities		310.2	414.9
Investment liabilities	*Note 5.7*	347.3	338.5
Cash pool	*Note 5.10*	1.5	-
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	880.5	996.5
Total		**3,310.9**	**3,376.1**

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

Hedge accounting

In the period from 1 January 2020 to 30 September 2020, the Group applied cash flow hedge accounting. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 30 September 2020, the following hedging instruments had been established by the Group:

- investment loans denominated in EUR. The hedged cash flows will be realized until January 2035. As at 30 September 2020, the nominal amount of the hedging instrument was EUR 148.2 million, which is an equivalent of PLN 670.9 million.
- leases denominated in EUR. The hedged cash flows will be realized until May 2024. As at 30 September 2020, the nominal amount of the hedging instrument was EUR 13.2 million, which is an equivalent of PLN 59.7 million.
- FX forward contracts. The hedged cash flows will be realized until January 2022. As at 30 September 2020, the value of the liabilities from measurement of hedging instruments was PLN 1.7 million.

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

6.1 Financial instruments (cont.)

Fair value hierarchy

As at 30 September 2020 and 31 December 2019, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

	30/09/2020		31/12/2019	
	Level 2	Level 3	Level 2	Level 3
Assets				
Derivatives – FX forward contracts	-	-	7.4	-
Investments in equity instruments - shares in unlisted companies	-	5.6	-	6.3
Liabilities				
Derivatives – FX forward contracts	1.7	-	-	-

Measurement methods for financial instruments carried at fair value

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

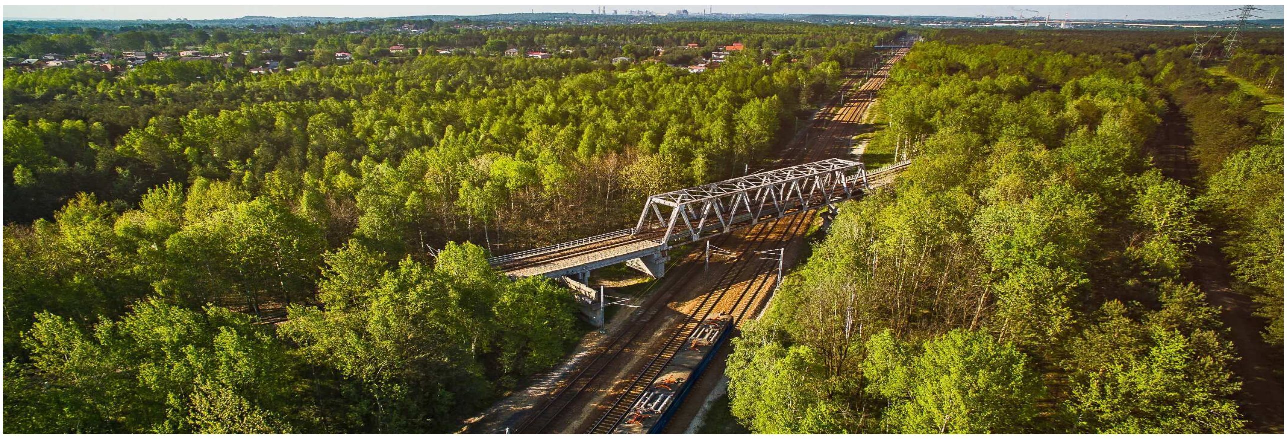
b) Investments in financial instruments
This line item includes predominantly an equity stake in Euroterminal Sławków Sp. z o.o. worth PLN 4.9 million, the value of which was measured by an independent adviser using the modified Swiss method. The Swiss method is a mixed measurement method as it combines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

c) Other financial instruments
For the category of financial instruments which are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because as at 30 September 2020 and 31 December 2019 were not materially different from their values presented in the statement of financial position.

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

	9 months ended 30/09/2020	9 months ended 30/09/2019
As at the beginning of the reporting period	**6.3**	**6.8**
Earnings / (losses) for the period recognized in other comprehensive income	(0.7)	0.7
As at the end of the reporting period	**5.6**	**7.5**

In the period of 9 months ended 30 September 2020 and 30 September 2019, there were no transfers between level 2 and level 3 of the fair value hierarchy.



(in PLN million) (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

9 months ended 30/09/2020	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(2.2)	-	3.8	0.4	(18.0)	(25.3)	**(41.3)**
FX differences	(0.6)	-	10.1	-	(6.7)	(7.9)	**(5.1)**
Impairment losses / revaluation	(0.1)	-	(0.4)	-	-	-	**(0.5)**
Transaction costs related to bank loans	-	-	-	-	(1.3)	-	**(1.3)**
Effect of settlement of cash flow hedge accounting	(1.4)	-	-	-	-	-	**(1.4)**
Profit / (loss) before tax	**(4.3)**	**-**	**13.5**	**0.4**	**(26.0)**	**(33.2)**	**(49.6)**
Revaluation	(43.6)	(0.7)	-	-	-	-	**(44.3)**
Other comprehensive income	**(43.6)**	**(0.7)**	**-**	**-**	**-**	**-**	**(44.3)**

In the period of 9 months ended 30 September 2020, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN (1.4) million. In the period of 9 months ended 30 September 2020, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (9.0) million, bank loans in the amount of PLN (32.4) million and lease liabilities in the amount of PLN (2.2) million, recognized as part of the hedge accounting applied by the Group.

9 months ended 30/09/2019	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)	(2.1)	-	5.4	0.4	(16.2)	(25.8)	**(38.3)**
FX differences	(0.1)	-	1.7	-	(2.8)	(1.6)	**(2.8)**
Impairment losses / revaluation	-	-	(5.2)	-	-	-	**(5.2)**
Transaction costs related to bank loans	-	-	-	-	(1.7)	-	**(1.7)**
(Profit) / loss on the sale of investments	-	0.8	-	-	-	-	**0.8**
Effect of settlement of cash flow hedge accounting	3.4	-	-	-	-	-	**3.4**
Profit / (loss) before tax	**1.2**	**1.1**	**1.9**	**0.4**	**(20.7)**	**(27.4)**	**(43.5)**
Revaluation	(11.7)	0.7	-	-	-	-	**(11.0)**
Other comprehensive income	**(11.7)**	**0.7**	**-**	**-**	**-**	**-**	**(11.0)**

In the period of 9 months ended 30 September 2019, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN 3.4 million. In the period of 9 months ended 30 September 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 (4.5) million and bank loans in the amount of PLN (7.2) million, recognized as part of the hedge accounting applied by the Group.

(in PLN million) (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 period of 9 months ended 30 September 2020 and 30 September 2019, the State Treasury was a higher-level parent entity of 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 Quarterly Condensed Consolidated Financial Statements, the Parent Company's Management Board has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the period of 9 months ended 30 September 2020 and 30 September 2019, there were no individual transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope and amount. In the periods covered by these Quarterly Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: PGE, JSW, ENEA, Azoty, PGG and Tauron. In the period of 9 months ended 30 September 2020, the Group's most important suppliers that were other parties related to the State Treasury were PKN Orlen Group entities.

Transactions with PKP Group related parties

In the periods covered by these Quarterly Condensed Consolidated Financial Statements, the Group entered into the following commercial transactions with PKP Group related parties:

	9 months ended 30/09/2020		30/09/2020	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.3	56.3	0.1	595.4
Subsidiaries/co-subsidiaries – unconsolidated	3.9	9.7	0.4	1.9
Associates	5.3	0.5	0.1	0.2
Other PKP Group related parties	15.0	362.6	4.5	55.5

	9 months ended 30/09/2019		31/12/2019	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	51.2	1.1	590.2
Subsidiaries/co-subsidiaries – unconsolidated	4.4	9.8	0.1	0.7
Associates	0.1	0.3	-	-
Other PKP Group related parties	11.4	437.8	2.6	52.0

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

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

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

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

(in PLN million) (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	
	9 months ended 30/09/2020	9 months ended 30/09/2019	9 months ended 30/09/2020	9 months ended 30/09/2019
Short-term benefits	1.7	2.0	4.3	4.6
Post-employment benefits	0.3	-	0.1	0.9
Termination benefits	0.1	-	0.1	-
Total	**2.1**	**2.0**	**4.5**	**5.5**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	9 months ended 30/09/2020	9 months ended 30/09/2019	9 months ended 30/09/2020	9 months ended 30/09/2019
Short-term benefits	1.0	0.9	0.4	1.2
Total	**1.0**	**0.9**	**0.4**	**1.2**

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	9 months ended 30/09/2020	9 months ended 30/09/2019	9 months ended 30/09/2020	9 months ended 30/09/2019
Short-term benefits	5.2	5.0	13.0	15.1
Post-employment benefits	-	0.1	0.7	0.9
Termination benefits	-	0.1	-	0.3
Total	**5.2**	**5.2**	**13.7**	**16.3**

In the period of 9 months ended 30 September 2020 and 30 September 2019, members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan or 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

	30/09/2020	31/12/2019
Contractual liabilities on account of the acquisition of non-financial non-current assets	920.7	1,208.9
Total	**920.7**	**1,208.9**

As at 30 September 2020, contractual liabilities relating to the purchase of non-financial non-current assets resulted mainly from the performance of agreements concluded in previous periods. The Group was awarded co-financing from aid funds of the European Union for the performance of the contractual liabilities presented as at 30 September 2020 in the amount of approx. PLN 182.1 million.

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

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

7.3 Contingent liabilities

Structure of contingent liabilities

	30/09/2020	31/12/2019
Guarantees issued on the Group's order	95.1	115.1
Other contingent liabilities	115.2	114.0
Total	**210.3**	**229.1**

Guarantees issued on the Group's order

As at 30 September 2020, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, customs guarantees, loan repayment guarantees, excise tax guarantees and tender deposits.

Other contingent liabilities

This line item comprises the claims made against the group in court proceedings in the case of which the probability of outflow of cash is assessed as low, and claims in the case of which it is not possible to make a reliable estimate of the payment amount in the future by the Group. The amounts presented in this note correspond to the value of the full claims reported by external entities.

7.4 Subsequent events

On 2 November 2020, the Supervisory Board of the Parent Company gave its consent to incur a liability by entering into an agreement on successive purchase of diesel fuel for vehicles with PKP Energetyka S.A. The agreement will be signed for the period from 1 January 2021 to 31 December 2030. The Parties have the right to terminate the agreement but no earlier than 5 years from the date of entering into it, with a 12 months' notice period. The expected total net value of the agreement over its term is PLN 718.3 million.

Significant events occurring after the balance sheet date are described in **Note 5.9** to these Quarterly Condensed Consolidated Financial Statements.

7.5 Approval of the financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 19 November 2020.

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Witold Bawor
Management Board Member

Piotr Wasaty
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 19 November 2020

PKPCARGO

Quarterly Financial Information of **PKP CARGO S.A.** for the period of 9 months ended 30 September 2020

PREPARED IN ACCORDANCE WITH IFRS EU (in millions of PLN)

QUARTERLY SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	9 months ended 30/09/2020	3 months ended 30/09/2020	9 months ended 30/09/2019	3 months ended 30/09/2019
Revenues from contracts with customers	2,152.3	738.2	2,710.0	881.8
Consumption of traction electricity and traction fuel	(325.2)	(114.1)	(388.1)	(137.2)
Services of access to infrastructure	(374.6)	(132.1)	(434.5)	(143.7)
Other services	(213.9)	(73.9)	(230.3)	(73.0)
Employee benefits	(940.8)	(286.0)	(991.8)	(308.5)
Other expenses	(108.4)	(33.4)	(134.5)	(43.2)
Other operating revenue and (expenses)	106.3	64.6	0.2	2.6
Operating profit without depreciation (EBITDA)	**295.7**	**163.3**	**531.0**	**178.8**
Depreciation. amortization and impairment losses	(465.5)	(152.7)	(433.3)	(147.5)
Profit / (loss) on operating activities (EBIT)	**(169.8)**	**10.6**	**97.7**	**31.3**
Financial revenue and (expenses)	7.8	(14.6)	(12.7)	(17.1)
Profit / (loss) before tax	**(162.0)**	**(4.0)**	**85.0**	**14.2**
Income tax	35.8	(1.3)	(22.3)	(8.6)
NET PROFIT / (LOSS)	**(126.2)**	**(5.3)**	**62.7**	**5.6**
OTHER COMPREHENSIVE INCOME				
Measurement of hedging instruments	(38.3)	(9.0)	(10.9)	(19.3)
Income tax	7.3	1.7	2.1	3.7
Total other comprehensive income subject to reclassification in the financial result	**(31.0)**	**(7.3)**	**(8.8)**	**(15.6)**
Actuarial profits / (losses) on post-employment benefits	(52.0)	-	(12.4)	-
Income tax	9.9	-	2.4	-
Measurement of equity instruments at fair value	(0.7)	-	0.7	-
Total other comprehensive income not subject to reclassification in the financial result	**(42.8)**	**-**	**(9.3)**	**-**
Total other comprehensive income	**(73.8)**	**(7.3)**	**(18.1)**	**(15.6)**
TOTAL COMPREHENSIVE INCOME	**(200.0)**	**(12.6)**	**44.6**	**(10.0)**
Earnings / (losses) per share (PLN per share)				
Weighted average number of ordinary shares	44.786.917	44.786.917	44.786.917	44.786.917
Basic and diluted earnings / (losses) per share	**(2.82)**	**(0.12)**	**1.40**	**0.13**

PREPARED IN ACCORDANCE WITH IFRS EU (in millions of PLN)

QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION

	30/09/2020	31/12/2019
ASSETS		
Rolling stock	3,883.7	3,892.3
Other property, plant and equipment	473.9	492.9
Rights-of-use assets	658.3	704.0
Investments in related parties	807.0	807.0
Lease receivables	25.1	19.7
Financial assets	4.9	7.4
Other assets	23.6	39.9
Deferred tax assets	118.9	67.3
Total non-current assets	**5,995.4**	**6,030.5**
Inventories	92.9	79.2
Trade receivables	369.4	391.4
Lease receivables	1.6	1.2
Income tax receivables	1.8	50.8
Financial assets	18.2	4.8
Other assets	72.2	82.4
Cash and cash equivalents	267.7	380.0
Total current assets	**823.8**	**989.8**
Non-current assets classified as held for sale	12.3	-
TOTAL ASSETS	**6,831.5**	**7,020.3**
EQUITY AND LIABILITIES		
Share capital	2,239.3	2,239.3
Supplementary capital	744.7	744.7
Other items of equity	(135.6)	(61.8)
Retained earnings	162.0	288.2
Total equity	**3,010.4**	**3,210.4**
Debt liabilities	1,971.5	1,920.0
Investment liabilities	156.9	153.6
Provisions for employee benefits	619.9	585.4
Other financial liabilities	0.1	-
Total long-term liabilities	**2,748.4**	**2,659.0**
Debt liabilities	336.1	336.5
Trade liabilities	202.0	233.5
Investment liabilities	217.5	249.5
Provisions for employee benefits	110.5	100.1
Other provisions	27.4	33.4
Other financial liabilities	1.6	2.2
Other liabilities	177.6	195.7
Total short-term liabilities	**1,072.7**	**1,150.9**
Total liabilities	**3,821.1**	**3,809.9**
TOTAL EQUITY AND LIABILITIES	**6,831.5**	**7,020.3**

PREPARED IN ACCORDANCE WITH IFRS EU (in millions of PLN)

QUARTERLY SEPARATE 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 benefit	Measurement of hedging instruments	Retained earnings	Total
1/01/2020	**2,239.3**	**744.7**	**(12.2)**	**(55.8)**	**6.2**	**288.2**	**3,210.4**
Net result for the period	-	-	-	-	-	(126.2)	**(126.2)**
Other comprehensive income for the period (net)	-	-	(0.7)	(42.1)	(31.0)	-	**(73.8)**
Total comprehensive income	-	-	(0.7)	(42.1)	(31.0)	(126.2)	**(200.0)**
30/09/2020	**2,239.3**	**744.7**	**(12.9)**	**(97.9)**	**(24.8)**	**162.0**	**3,010.4**
1/01/2019 (audited)	**2,239.3**	**596.7**	**(12.9)**	**(18.4)**	**(1.4)**	**511.3**	**3,314.6**
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	0.4	**0.4**
1/01/2019 (restated)	**2,239.3**	**596.7**	**(12.9)**	**(18.4)**	**(1.4)**	**511.7**	**3,315.0**
Net result for the period	-	-	-	-	-	62.7	**62.7**
Other comprehensive income for the period (net)	-	-	0.7	(10.0)	(8.8)	-	**(18.1)**
Total comprehensive income	-	-	0.7	(10.0)	(8.8)	62.7	**44.6**
Dividends						(67.2)	**(67.2)**
Other changes for the period		148.0				(148.0)	**-**
30/09/2019	**2,239.3**	**744.7**	**(12.2)**	**(28.4)**	**(10.2)**	**359.2**	**3,292.4**

PREPARED IN ACCORDANCE WITH IFRS EU (in millions of PLN)

QUARTERLY SEPARATE STATEMENT OF CASH FLOWS

	9 months ended 30/09/2020	9 months ended 30/09/2019
Cash flow from operating activities		
Profit / (loss) before tax	**(162.0)**	**85.0**
Adjustments		
Depreciation, amortization and impairment losses	465.5	433.3
(Profits) / losses on interest, dividends	(22.2)	(1.2)
Received / (paid) interest	0.7	0.8
Received / (paid) income tax	40.9	(28.8)
Movement in working capital	30.1	5.3
Other adjustments	(59.2)	(15.5)
Net cash from operating activities	**293.8**	**478.9**
Cash flow from investing activities		
Expenditures on the acquisition of non-financial non-current assets	(450.5)	(753.3)
Proceeds from the sale of non-financial non-current assets	32.7	12.2
Proceeds from dividends received	58.3	33.2
Inflows / (outflows) on bank deposits over 3 months	-	200.0
Other inflows / (outflows) from investing activities	2.4	4.7
Net cash from investing activities	**(357.1)**	**(503.2)**
Cash flow from financing activities		
Payments on lease liabilities	(60.3)	(51.2)
Proceeds from bank loans and borrowings	285.5	99.3
Repayment of bank loans and borrowings	(225.8)	(169.1)
Interest paid on lease liabilities and bank loans and borrowings	(35.6)	(30.6)
Grants received	11.3	57.1
Dividends paid out to owners	-	(67.2)
Inflows / (outflows) as part of cash pool	(20.4)	(3.0)
Other outflows from financing activities	(3.7)	(4.1)
Net cash from financing activities	**(49.0)**	**(168.8)**
Net increase / (decrease) in cash and cash equivalents	(112.3)	(193.1)
Cash and cash equivalents as at the beginning of the reporting period	380.0	222.4
Cash and cash equivalents as at the end of the reporting period, including:	**267.7**	**29.3**
Restricted cash	*29.8*	*20.7*

Other information to **PKP CARGO** Group's consolidated quarterly report for Q3 2020

ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q3 2020

LIST OF TABLES

LIST OF FIGURES

1. Introduction

Dear Stakeholders,

During the past three quarters of the year, the COVID-19 epidemic exerted a major impact on the rail freight market. It resulted in a decrease in industrial output, thereby significantly suppressing orders for the transport of cargo, thus making transport companies experience a substantial plunge in freight volume and freight turnover. Only in the second half of the year did we start to recover from the losses caused by the coronavirus pandemic. Fortunately, recent months have shown that the transport market is on the rebound. After the first 9 months of 2020, the PKP CARGO Group generated PLN 3.1 billion in revenues, with EBITDA at PLN 433.6 million, EBIT at PLN -145.4 million and a net loss of PLN 176.3 million.

REVENUES FROM CONTRACTS WITH CUSTOMERS	EBITDA	NET RESULT
PLN 2,974 million	PLN 434 million	PLN -176 million

2. Organization of the PKP CARGO Group

2.1 Highlights on the Company and the PKP CARGO Group[1]

The PKP CARGO Group is the biggest rail freight operator in Poland and one of the biggest in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to UTK[2]) and is a leading operator on the Czech market (according to SZDC[3]).

The PKP CARGO Group holds licenses for the provision of rail freight services in the following 9 EU countries: Lithuania, Slovakia, Hungary, Slovenia, Austria, the Czech Republic, Germany, the Netherlands and Poland.

The Group (including the Parent Company, PKP CARGO International a.s., PKP CARGO SERVICE Sp. z o.o.) offers domestic and international transport of cargo as well as comprehensive logistics services for rail freight. In addition, the following services are provided by the Group to support clients and supplement the offering:

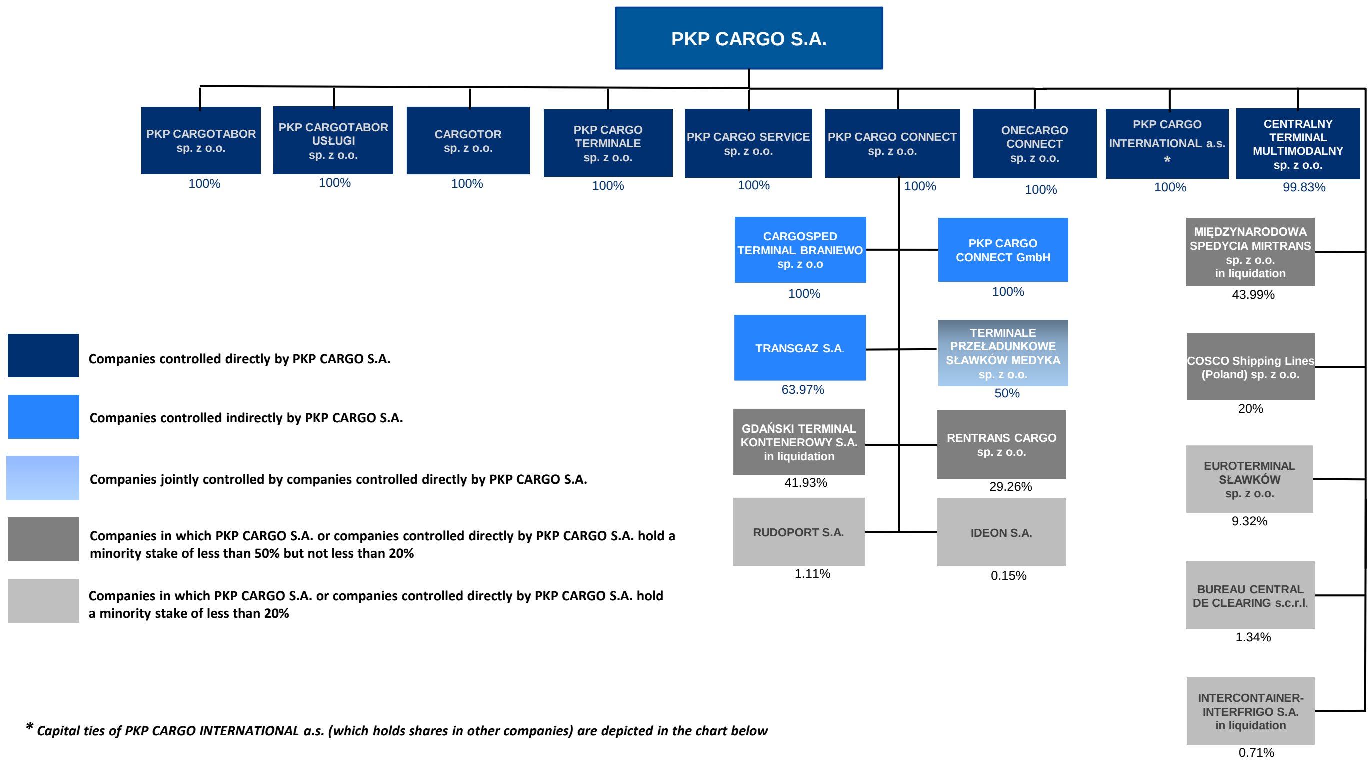
[1] Whenever the Report mentions:
- the Company or the Parent Company, it should be construed to mean PKP CARGO S.A.,
- the PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

[2] Office of Rail Transport

[3] Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)

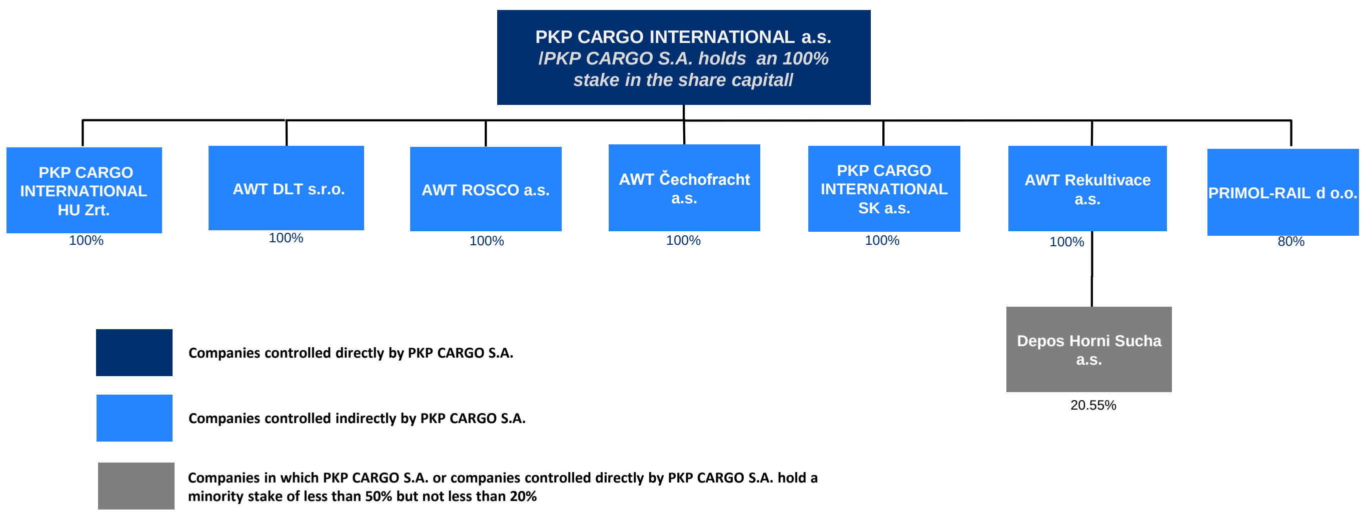
The figure below presents the organizational links between PKP CARGO S.A. and other entities as at 30 September 2020:

Figure 1 Structure of capital links with the companies in which PKP CARGO S.A. or its subsidiaries hold shares – as at 30 September 2020



Source: Proprietary material

Figure 2 Structure of the PKP CARGO INTERNATIONAL Group as at 30 September 2020



Source: Proprietary material

In 9M 2020, the following changes were made to the structure of capital ties:

- Effective as of 1 January 2020, there was a cross-border merger of AWT Rekultivace a.s. with its registered office in Havířov, Czech Republic (as the acquiring company) with its fully owned subsidiary AWT Rekultivace PL sp. z o.o. with its registered office in Cieszyn (as the acquired company). As a consequence, AWT Rekultivace PL sp. z o.o. was dissolved without liquidation (ended its legal existence) and, accordingly, as of 1 January 2020, ceased to be a related party of PKP CARGO.
- On 13 January 2020, an increase in the share capital of Centralny Terminal Multimodalny sp. z o.o. was registered, as a result of which the company's share capital increased to PLN 1,500,000 and, at the same time, the company's ownership structure and the distribution of votes at the Shareholder Meeting changed. Currently, the company's ownership structure is as follows: PKP CARGO S.A. holds a 99.83% stake (meaning that the company has once again become a subsidiary of PKP CARGO) and PKP S.A. holds a 0.17% stake.
- With effect as of 10 February 2020, AWT Rail HU Zrt. (a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s.) changed its business name and currently operates under the name PKP CARGO INTERNATIONAL HU Zrt. with its registered office in Budapest.
- On 13 June 2020, a final non-appealable court ruling was handed down to dissolve P.P.H.U. UKPOL Sp. z o.o. (a fully-owned subsidiary of PKP CARGO CONNECT sp. z o.o.) without conducting liquidation proceedings, as a result of which the company ended its legal existence on 13 June 2020 and ceased to be a related party of PKP CARGO.
- With effect from 24 June 2020, a new name of AWT Rail SK a.s. with its registered office in Bratislava, Slovakia (a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s.) was registered in the business register of the Slovak Republic. Since 24 June 2020, the company has been operating under the business name of PKP CARGO INTERNATIONAL SK a.s. The amount of the company's share capital and the stake in its share capital held by PKP CARGO INTERNATIONAL a.s. have not changed.

2.2 Consolidated entities

The Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group as at 30 September 2020 encompass PKP CARGO S.A. and 12 subsidiaries consolidated by the full method:

Table 1 Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o.	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of the report, the company does not conduct any operating activity.
PKP CARGO TERMINALE Sp. z o.o. **(formerly CL Medyka-Żurawica and CL Małaszewicze)**	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company also has the ability to offer rail gauge switching services and as the only company on the country's eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o.	Transshipment of goods and buying and selling of coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.
CARGOTOR Sp. z o.o.	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o.	Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the Group.
PKP CARGO INTERNATIONAL a.s. **(formerly Advanced World Transport a.s.)**	Comprehensive handling of rail freight transport (the Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile"). Rolling stock management in the PKP CARGO INTERNATIONAL Group.
AWT Rosco a.s.	Cleaning of rail and automobile cisterns.
AWT Čechofracht a.s.	International freight forwarding services.
AWT Rekultivace a.s.	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
PKP CARGO INTERNATIONAL HU Zrt. **(formerly AWT Rail HU Zrt)**	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

Additionally, the list of companies accounted for under the equity method is presented in **Note 5.3** to the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group prepared as at 30 September 2020.

3. Information about the Parent Company

3.1 Composition of the Management Board and Supervisory Board of PKP CARGO S.A.

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates on the basis of the applicable provisions of law, in particular:

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws No. 94 Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 62/VII/2020 of the PKP CARGO S.A. Supervisory Board of 24 August 2020);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 07 February 2018 and Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018;
5. other internal and external regulations.

Management Board's powers

The Management Board manages the Company's day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance. Two Management Board Members acting jointly or a Management Board Member acting with a commercial proxy are authorized to make statements of will on behalf of the Company.

Operation of the Management Board

The procedure of the Management Board's operation is described in detail in the Management Board Bylaws. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. According to the Management Board Bylaws, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting; they may only be adopted if all the Management Board Members have been duly notified about the Management Board meeting. According to the Bylaws, if an equal number of votes is cast "for" and "against" together with abstentions, the President of the Management Board will have the casting vote.

According to the Management Board Bylaws, in the event of conflicting interests of the Company and personal interests of a Management Board member, his/her spouse, relatives and next of kin (up to the second degree), the Management Board member should provide immediate notification of such a conflict to the remaining Management Board members, and in the case of the President of the Management Board also to the Supervisory Board, and refrain from participating in the discussion and voting on the adoption of a resolution in the matter where the conflict of interests has occurred and may request that this fact be recorded in the minutes of the Management Board meeting.

Table 2 Composition of the PKP CARGO S.A. Management Board from 1 January 2020 to the delivery date of the report

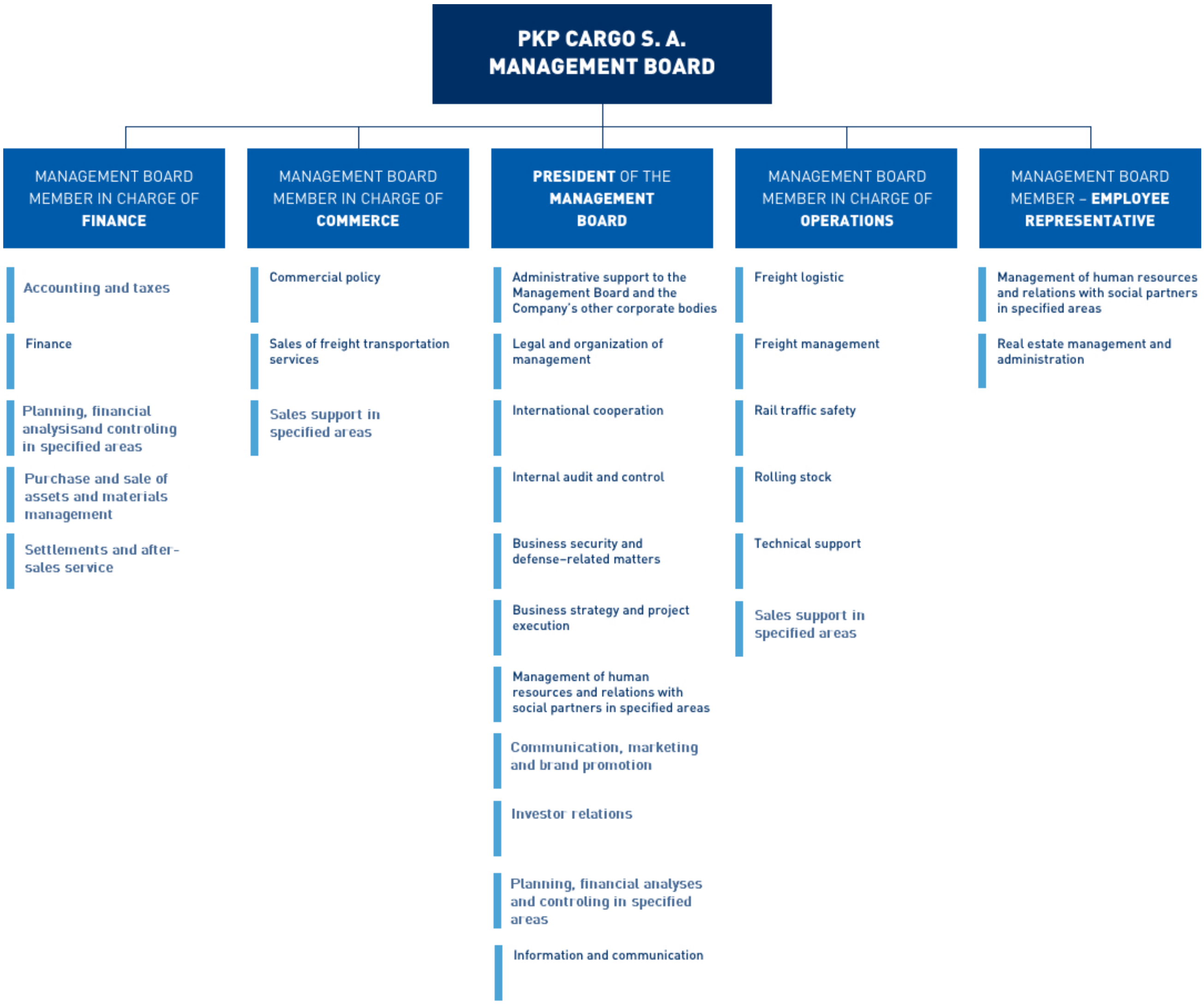
Name	Position	Period in office	
		from	to
Czesław Warsewicz	President of the Management Board	27 March 2018	to date
Leszek Borowiec	Management Board Member responsible for Financial Matters	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	23 March 2020
Piotr Wasaty	Management Board Member in charge of Commerce	1 September 2020	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date

Source: Proprietary material

On 24 August 2020, the Supervisory Board adopted a resolution to appoint, as of 1 September 2020, Mr. Piotr Wasaty to the position of Management Board Member in charge of Commerce for the joint 7th term of office, which started on the date of holding the Ordinary Shareholder Meeting of PKP CARGO S.A., i.e. on 26 June 2019.

The following chart presents the allocation of duties and responsibilities among PKP CARGO S.A. Management Board Members.

Figure 3 Duties and responsibilities of the Parent Company's Management Board Members as at 30 September 2020



Source: Proprietary material

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The number of Supervisory Board members in a specific term of office is set by PKP S.A. (in the 7th term: 11 members). The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

The Supervisory Board conducts constant supervision over the Company's operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Company Code or other statutes, include granting consent for the payment of an interim dividend by the Management Board towards the anticipated end-of-the-year dividend, appointing and dismissing the President and other Members of the Management Board, setting the number of Management Board Members, granting consent for the establishment or liquidation of the Company's branch, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting.

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson or Deputy Chairperson. Resolutions of the Supervisory Board are adopted by a simple majority of votes. If an equal number of votes is cast "for" and "against", the latter including abstentions, the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. Supervisory Board resolutions may also be adopted without holding a meeting.

The Supervisory Board may adopt resolutions by following a written procedure or using means of direct remote communication. The decisions on the written ballot are made by the Supervisory Board Chairperson at his/her own initiative or upon a written motion of the Company's Management Board or Supervisory Board member.

In accordance with the Bylaws of the Supervisory Board, in the event of conflicting interests of the Company and personal interests of a Supervisory Board member, his/her spouse, family or relatives (to the second degree next of kin) and personal relations, the Supervisory Board member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes of the Supervisory Board meeting.

Table 3 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2020 to the delivery date of the report

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	Chairman of the Supervisory Board	26 March 2018 26 June 2019**	26 June 2019** to date
	Supervisory Board Member	06 March 2017 26 June 2019**	26 June 2019** to date
Mirosław Antonowicz	Supervisory Board Member	01 June 2017 26 June 2019**	26 June 2019** 31 August 2020
	Supervisory Board Deputy Chairman	27 June 2017 26 June 2019**	26 June 2019** 31 August 2020
Krzysztof Czarnota	Supervisory Board Member	20 May 2016 26 June 2019**	26 June 2019** to date
Zofia Dzik	Supervisory Board Member	11 May 2016* 26 June 2019**	26 June 2019** to date
Dariusz Górski	Supervisory Board Member	26 June 2019**	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015 11 May 2016* 26 June 2019**	11 May 2016* 26 June 2019** 24 July 2020
Paweł Sosnowski	Supervisory Board Member	07 June 2018 26 June 2019**	26 June 2019** to date
Jerzy Sośnierz	Supervisory Board Member	01 May 2018 26 June 2019**	26 June 2019** to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016 26 June 2019**	26 June 2019** to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017 26 June 2019**	26 June 2019** to date
Izabela Wojtyczka	Supervisory Board Member	16 July 2020	to date
Antoni Duda	Supervisory Board Member	21 August 2020	to date

* date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – beginning of the 6th term of the PKP CARGO S.A. Supervisory Board
** date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – beginning of the 7th term of the PKP CARGO S.A. Supervisory Board
Source: Proprietary material

SUPERVISORY BOARD'S AUDIT COMMITTEE

The PKP CARGO S.A. Supervisory Board's Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Audit Committee members, including its Chairperson, meet the independence criteria and are appointed in the manner specified in § 20 and § 21 of the Company's Articles of Association and in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017 Item 1089, as amended). At least one member of the Audit Committee has qualifications in the area of accounting or audit of financial statements and at least one member of the Audit Committee has knowledge and skills in the specific industry in which the Company operates. The Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the firm authorized to audit financial statements, also when it provides to the Company other services than financial audit and review, assessing the independence of a statutory auditor and giving consent for it to provide permitted financial audit services, recommending a firm authorized to audit financial statements to the Shareholder Meeting to perform financial audit activities in the Company, in compliance with the policies in force in the Company: *Policy and procedure for the selection of an audit firm to audit the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group* and *Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network.*

Table 4 Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 January 2020 to the delivery date of the report

Name	Position	Period in office	
		from	to
Dariusz Górski	Committee Member Committee Chairman	1 July 2019	to date
Zofia Dzik	Committee Member	20 May 2016 1 July 2019	26 June 2019* to date
Małgorzata Kryszkiewicz	Committee Member	20 May 2016 1 July 2019	26 June 2019* 24 July 2020
Władysław Szczepkowski	Committee Member	24 August 2020	to date

** date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – end of the 6th term of the PKP CARGO S.A. Supervisory Board*
Source: Proprietary material

NOMINATION COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints a Nomination Committee. It consists of three Supervisory Board Members, of whom at least one Supervisory Board member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association, to discharge the function of Committee Chairman. The Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company's Management Board members and over the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and remuneration for the Company's employees, including in particular the Company's Management Board Members and senior management.

Table 5 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2020 to the delivery date of the report

Name	Position	Period in office	
		from	to
Zofia Dzik	Chairperson	20 May 2016 1 July 2019	26 June 2019* to date
Mirosław Antonowicz	Committee Member	27 June 2017 1 July 2019	26 June 2019* 31 August 2020
Władysław Szczepkowski	Committee Member	27 November 2017 1 July 2019	26 June 2019* to date
Izabela Wojtyczka	Committee Member	21 September 2020	to date

** date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – end of the 6th term of the PKP CARGO S.A. Supervisory Board*
Source: Proprietary material

STRATEGY COMMITTEE

The Strategy Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. The Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategy Committee supports the Supervisory Board in its supervision over the establishment of the strategy as well as the proper pursuit of the strategy and annual and long-term activity plans for the Company and its Group.

Table 6 Composition of the Strategy Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2020 to the delivery date of this report

Name	Position	Period in office	
		from	to
Mirosław Antonowicz	Committee Member	27 June 2017 1 July 2019	26 June 2019* 31 August 2020
	Committee Chairman	28 May 2018 1 July 2019	26 June 2019* 31 August 2020
Dariusz Górski	Committee Member	1 July 2019	to date
Władysław Szczepkowski	Committee Member	23 April 2018 1 July 2019	26 June 2019* to date
	Committee Chairman	23 September 2020	to date
Paweł Sosnowski	Committee Member	21 September 2020	to date

** date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – end of the 6th term of the PKP CARGO S.A. Supervisory Board*
Source: Proprietary material

3.2 Structure of PKP CARGO S.A.'s share capital

The structure of PKP CARGO S.A.'s share capital as at the delivery date of this report is presented in the table below:

Table 7 Structure of PKP CARGO S.A.'s share capital

Shares	Issue date	Issue registration date	Number of shares
Series A	8 July 2013	2 October 2013	43,338,000
Series B	8 July 2013	2 October 2013	15
Series C	2 October 2013	25 April 2014	1,448,902
Total			**44,786,917**

Source: Proprietary material

3.3 Shareholders holding at least 5% of the total votes

Table 8 Shareholder structure of PKP CARGO S.A. as at 30 September 2020 and as at the delivery date of this report

Shareholder	Number of shares	% of capital	Number of votes	% of the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,832,083	15.25%	6,832,083	15.25%
Aviva OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	20,832,269	46.51%	20,832,269	46.51%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 3 June 2020.
(3) According to a notice sent by the shareholder on 13 August 2014.
Source: Proprietary material

3.4 Listing of shares held by management and supervisory board members

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 20 August 2020, i.e. the delivery date of the H1 2020 report, to the delivery date of this report, were as follows:

Table 9 PKP CARGO S.A. shares held by Management Board members

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Czesław Warsewicz	2,500
Leszek Borowiec	0
Witold Bawor	46
Piotr Wasaty	1,849
Zenon Kozendra	46
as at 20 August 2020	
Czesław Warsewicz	2,500
Leszek Borowiec	0
Witold Bawor	46
Zenon Kozendra	46

Source: Proprietary material

The holdings of the Company's shares or rights to such shares by members of the Company's Supervisory Board from 20 August 2020, i.e. the delivery date of the H1 2020 report, to the delivery date of this report, were as follows:

Table 10 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Krzysztof Mamiński	0
Krzysztof Czarnota	70
Zofia Dzik	0
Dariusz Górski	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0
Izabela Wojtyczka	0
Antoni Duda	0
as at 20 August 2020	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Dariusz Górski	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0
Izabela Wojtyczka	0

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1 Macroeconomic environment

Polish economy

Since the end of Q1 2020, the economic situation in Poland and its macroeconomic environment has been strongly affected by the COVID-19 pandemic and related restrictions of an economic and social nature. According to GUS data, in Q2 2020, Polish GDP shrank by as much as 8.4% yoy compared to an increase by 1.9% yoy in Q1 2020, making it the first quarter with a negative GDP growth since the beginning of 2013.[2] At the same time, the magnitude of the year-on-year decline was the highest across the history of GUS data.[3]

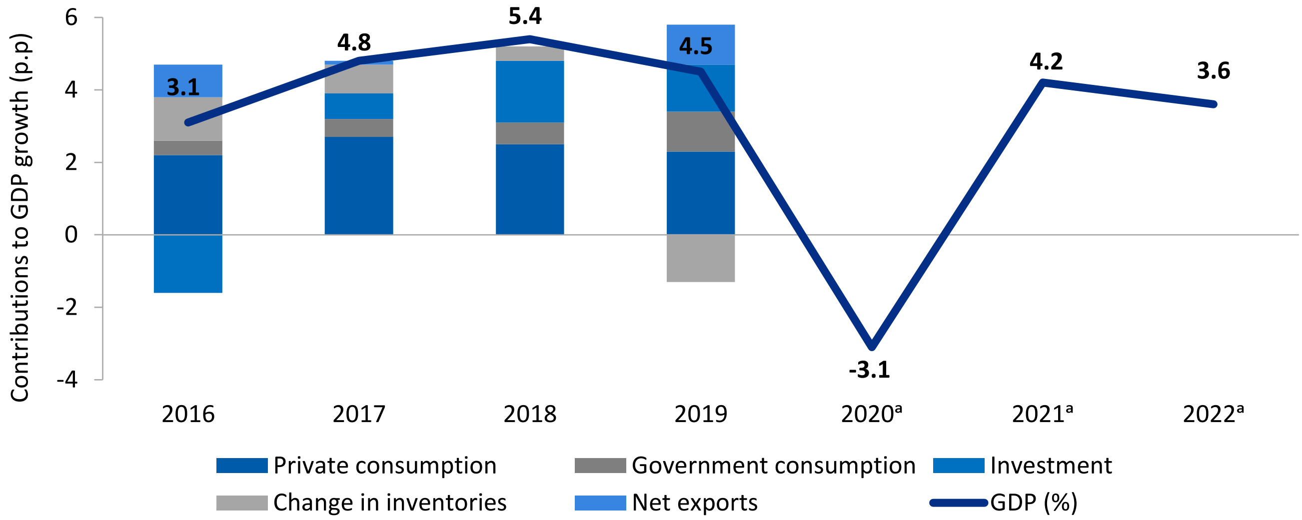
The unprecedented plunge in domestic year-on-year GDP growth in Q2 2020 was a direct result of the accumulation of a host of administrative restrictions imposed on economic and social activity (with a view to counteracting the spread of the COVID-19 epidemic) and the elevated level of uncertainty related to the future economic situation (which suppressed household consumption and corporate investment). In this period, the contraction of Polish GDP in year-on-year terms was predominantly driven down by domestic demand, including individual consumption (-10.8% yoy) and capital expenditures (-10.7% yoy).[4] In Q2 2020, public consumption (+3.4% yoy) had a mitigating effect on the rate of decline in domestic GDP.[5] Net exports also made a favorable contribution to GDP, although this particular impact resulted from a lower rate of decline in exports than that in imports (-18.0% and -14.5% yoy, respectively), which was record-breaking in historical terms.[6]

At the same time, in Q3 2020, clear symptoms of economic recovery were noticeable, driven by the gradual lifting of the previously imposed restrictions and the return of economic life to normal circumstances.[7] Monthly data on economic activity in this period (in particular, industrial output and real retail sales) were also consistent with the improving economic situation. As a result, according to a survey of economic experts, in Q3 2020, the rate of decline in GDP shrank to only approx. -2.0-3.0% yoy.[8]

The recent rapid growth in number of infections and hospitalizations in Poland (already translating into the return of some of the restrictions introduced in the spring), the related changes in the public's economic behaviors and the risk of another lockdown will probably have an adverse impact on the rate of GDP growth in the coming months, preventing the continuation of rapid economic recovery.[9] The key determinant of the rate of GDP growth in Poland in the coming quarters will be the evolution of the COVID-19 pandemic in Poland and the global economy (both in terms of the rate of growth in the number of infected persons and the mitigating measures taken). According to the latest projections published by the International Monetary Fund, in the baseline scenario for 2020, global GDP will decline by as much as 4.4% yoy, followed by a strong rebound in 2021 with an upsurge of 5.2% yoy.[10]

[2] Statistics Poland
[3] Statistics Poland
[4] Statistics Poland
[5] Statistics Poland
[6] Statistics Poland
[7] money.pl
[8] money.pl
[9] Rzeczpospolita
[10] International Monetary Fund

Figure 4 Real GDP growth rate in Poland in 2016-2019, its decomposition and forecasts for 2020-2022 – data not adjusted for seasonality



a – macroeconomic forecasts of the National Bank of Poland – September 2020; data without decomposition
Source: Proprietary material based on data published by Statistics Poland and the National Bank of Poland

The strong rebound in economic activity in Q3 2020 (following the lockdown) translated into an upward revision of GDP growth forecasts for Poland for 2020, although analysts believe it will nevertheless be the first period marked by a year-on-year decrease in GDP since the 1990s. According to the results of a macroeconomic survey conducted by the National Bank of Poland at the end of September 2020, economists expect Polish GDP to decline in 2020 by 3.1% yoy (compared to -3.8% yoy in a corresponding June 2020 survey), followed by an economic rebound and GDP growth at a rate of +4.2% yoy in 2021 (adjustment by +0.4 p.p. compared to the June 2020 survey) and +3.6% yoy in 2022 (adjustment by +0.6 p.p.).[11] In their opinion, the decline in GDP to be recorded in 2020 will be driven chiefly by domestic demand, including household consumption and capital expenditures.[12]
Analysts who participated in the NBP's survey also expect an acceleration of the growth rate of consumer price inflation (CPI) in Poland to an average level of 3.4% yoy in 2020 (revision by +0.1 p.p. compared to the June 2020 survey) and then its decrease to 2.2% in 2021 (adjustment by +0.1 p.p. compared to the June 2020 survey), followed by stabilization around the inflation target (2.5%) in 2022.[13] In their opinion, the decline in the CPI inflation rate in Poland will be driven largely by the observed economic recession, which will translate into weaker demand and wage pressure in the economy.
The forecasts for the NBP's latest macroeconomic survey were collected before the significant increase in the number of infected persons and hospitalizations in Poland observed since the beginning of October 2020 and before the return of certain administrative restrictions. As a result of this continued development of the epidemic, a negative revision of the forecasts is likely to happen in the near future.

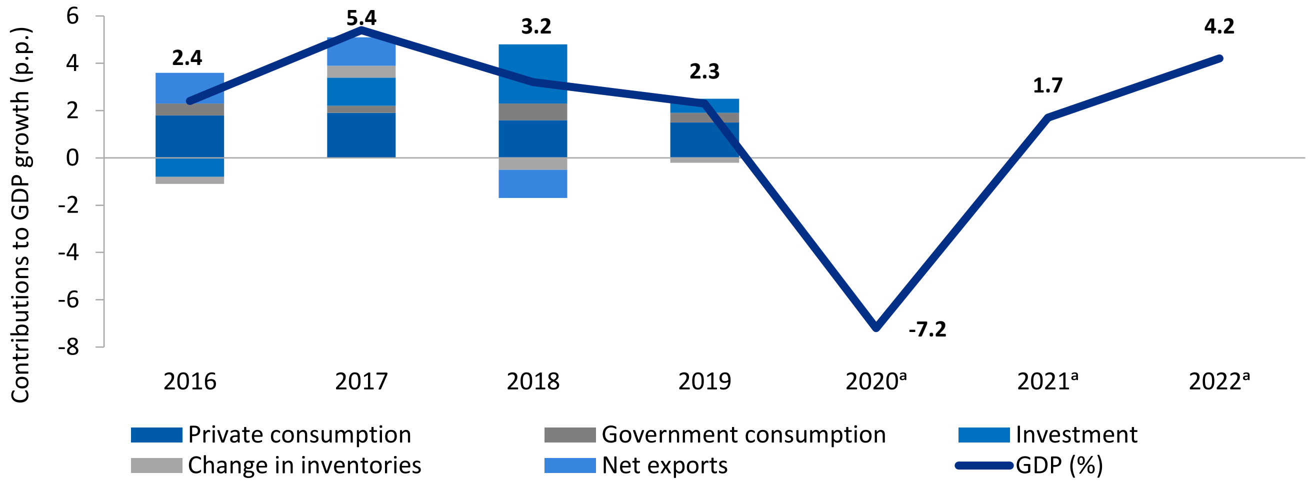
Czech economy

According to preliminary data of the Czech Statistical Office (CZSO), Czech GDP decreased in Q3 2020 by 5.8% yoy (compared to a decrease by 10.9% yoy in Q2 2020).[14] At the same time, in quarterly terms, the Czech GDP experienced a strong rebound, and the rate of growth in this period reached 6.2% qoq compared to -8.7% qoq in Q2 2020.[15] The high rate of quarterly GDP growth was driven chiefly by the gradual easing of the restrictions on economic and social activity imposed previously with a view to combating the COVID-19 pandemic and the resulting normalization of economic life. It was also a result of a low statistical base in Q2 2020 (when a large part of the Czech economy experienced a total shutdown).[16]
Detailed data on the structure of Czech GDP in Q3 2020 will be published at the beginning of December 2020. At the same time, according to a CZSO announcement, the decline in the year-on-year rate of GDP growth in this period was

[11] National Bank of Poland
[12] Money.pl
[13] National Bank of Poland
[14] Czech Statistical Office
[15] Czech Statistical Office
[16] Czech Statistical Office

caused predominantly by weaker domestic demand, in particular by a very low level of capital expenditures (including cost cuts and the growing uncertainty about the scale of future demand) and weaker household consumption (including a decline in employment, lower wage growth, an increase in the savings rate and postponed purchases of durable goods).[17] At the same time, a decrease the year-on-year rate of growth in gross value added was experienced most acutely in the industrial sector (including the automotive segment), trade and transport.[18]

Figure 5 Real GDP growth rate in the Czech Republic in 2016-2019 and forecasts for 2020-2022 – data adjusted for seasonality



a *macroeconomic forecast of the Czech National Bank – November 2020*
Source: Proprietary material based on data from the Czech Statistical Office and the Czech National Bank

The precipitous return of the COVID-19 pandemic and the re-imposition of a significant chunk of economic and social restrictions in the Czech Republic and its macroeconomic environment translated into a downward revision of the economic forecasts published by the Czech Central Bank (CNB) at the beginning of November 2020. According to CNB analysts, the continuation of the COVID-19 pandemic and related changes in the economy will act as key determinants of evolution of the country's GDP and CPI inflation in the coming months.[19] In the baseline scenario, analysts assume an accumulation of the adverse impact of the number of cases and hospitalizations and the restrictions imposed by the government in November 2020, followed by their gradual lifting in line with improvements in the epidemiological situation.[20]

CNB economists predict that in 2020 the rate of Czech GDP growth will be -7.2% yoy, meaning that it will be at its lowest level in the history of CZSO data (since 1995).[21] According to CNB analysts, despite the strong signals of economic recovery in Q3 2020, the resurging pandemic will cause a significant deterioration of economic indicators at the end of 2020.[22] The decline in GDP in 2020 will be driven down by all of its key components: household consumption, capital expenditures and foreign trade balance. At the same time, in the baseline scenario, CNB economists expect to see the economic situation gradually improve in the coming quarters, with GDP growing at a rate of 1.7% yoy in 2021 and 4.2% yoy in 2022.[23] But although the Czech economy, according to CNB analysts, will return to the path of GDP growth in Q2 2021 (driven largely by growing foreign demand), the 2019 GDP level (from before the COVID-19 pandemic) will not yet be achieved even at the end of 2022.[24]

In 2020, the CNB analysts also expect the growth rate of the consumer price index (CPI) to accelerate to the average level of 3.2% compared to 2.8% in 2019, partly due to a strong increase in core inflation and food prices with a simultaneous drop in fuel prices.[25] At the same time, they expect CPI inflation to decline to a level close to the CNB's inflation target (2.0%) in the coming quarters, chiefly as a result of lower demand and weaker wage pressure caused by the economic recession as well as the expected appreciation of the Czech koruna.[26] As a result, the CNB analysts expect the average annual rate of CPI growth to be 2.3% in 2021 and 2.0% yoy in 2022.[27]

[17] Czech Statistical Office
[18] Czech Statistical Office
[19] Czech National Bank
[20] Czech National Bank
[21] Czech National Bank
[22] Czech National Bank
[23] Czech National Bank
[24] Czech National Bank
[25] Czech National Bank
[26] Czech National Bank
[27] Czech National Bank

Industry in Poland

During the first 3 quarters of 2020, total industrial output dwindled -3.2% yoy, compared to a +4.5% yoy growth in the corresponding period of 2019.[28] The severe downturn in the industrial sector was affected mostly by the COVID-19 pandemic and the related restrictions imposed on economic activity in Poland and abroad. The impact of the pandemic on the industrial sector was particularly perceptible in the Q2 2020 data, reflecting a deep slump in industrial output (by -13.6% yoy), following a slight increase in Q1 (by +0.9% yoy) and an increase in Q3 (by +3.2% yoy).[29]

During the first 3 quarters of 2020, sold industrial output was lower in year-on-year terms in most sectors, of which the largest decline, by 9.5%, was recorded in mining and quarrying. Sales also plunged significantly in manufacturing by 3.4% yoy (this sector accounts for approx. 90% of total industrial output, but in this case the weak result generated in the period under analysis was significantly affected by the Q2 figure, despite the increases recorded in Q1 and Q3) and in the production and supply of electricity, gas, steam and hot water by 1.6% yoy. In this period, an increase was recorded only in water supply, sewage and waste management, and land reclamation by 6.0% yoy. In all major industrial groupings, output decreased, of which the largest decline was experienced in the production of capital goods (by 12.3% yoy). The production of energy-related goods plunged by 5.9% and the production of intermediate goods declined by 1.1%.[30]

Among the sectors of key importance from the perspective of potential freight services to be provided by the PKP CARGO Group, a decrease in industrial output yoy in the first 9 months of 2020 was recorded, among others, in the manufacture of vehicles and car parts (-20.3% yoy), hard coal and lignite mining (-20.0% yoy), machinery and equipment (-13.2% yoy), metals (-9.9% yoy), coke and refined petroleum products (-9.5% yoy), furniture (-1.9% yoy), rubber and plastic products (-1.8 % yoy), products made of other non-metallic raw materials (-1.5% yoy) and metal products (-0.3% yoy). Meanwhile, increases were recorded in the production of wood products (+2.6% yoy), paper and paper products (+1.4% yoy) and chemicals and chemical products (+0.5% yoy).[31]

Symptoms of recovery in Polish industrial activity in Q3 2020 should be noted, with a significant improvement in industrial output by 3.2% yoy (including by 5.9% yoy and 15.5% mom in September). In the month of September, an increase in sold output was recorded in 23 out of 34 industrial sectors. The economic situation improved noticeably, chiefly in the strongly export-oriented sectors, such as the automotive industry (where the production of motor vehicles was higher by 2.9% yoy and at the same time increased by as much as 47.3% compared to August of this year), electrical devices (up 26.6% yoy and 33.6% mom), computers (up 22.8% yoy and 26.9% mom) and furniture (up 15.8% yoy and 17.5% mom). The industries that also contributed to the improvement in total industrial output in September included not only foodstuffs (where production increased by 5.8% yoy), but also, among others, rubber and plastic products (+10.7 % yoy), chemicals and chemical products (+7.4% yoy), paper and paper products (+7.9% yoy), metal products (+7.8% yoy), products made of other non-metallic mineral raw materials (+5.9% yoy) or products made of wood, cork, straw and wicker (+14.1% yoy).[32]

However, the situation of the domestic industry remains strongly affected by the consequences of the COVID-19 pandemic and the related economic and social restrictions imposed in order to curb the further spread of the epidemic. Currently, the market is experiencing a general decline in demand, additionally exacerbated by the uncertainty of the future situation and the absence of market predictability. As the number of infections surges, the uncertainty about the future economic situation and the risk of another lockdown increase, translating directly into a reduction in household consumption and corporate investment. These factors will certainly exert an adverse impact on the rate of industrial growth and suppress the rebound in production in the coming quarters, thereby halting the speed of economic recovery. The future evolution of the COVID-19 pandemic in Poland and the global economy will remain a key determinant of the rate of growth of the Polish industry, and the degree of recovery of the industrial output level and its rate of growth will depend on how the epidemic situation develops both domestically and across the world.

The latest values of the Purchasing Managers' Index (PMI) for industrial processing indicate a deterioration of the economic situation in the industrial sector in Poland and also reflect the impact of the COVID-19 pandemic on economic processes. During the first 3 quarters of 2020, the PMI decreased to an average level of 45.8 points (specifically, 46.0 points in Q1, only 39.9 points in Q2 2020 and as much as 51.4 points in Q3) from the average of 48.3 points in the corresponding period of 2019 (values below 50.0 points signify an anticipated economic downturn and recession, while values above this mark are indicators of an anticipated recovery in the industrial processing sector).[33] In each of the months in Q3 2020, the index was above the threshold of 50.0 points. In September 2020, managers' forecasts for the level of output in the next 12 months also improved,

[28] Statistics Poland, enterprises employing more than 9 persons
[29] Statistics Poland
[30] Statistics Poland
[31] Statistics Poland
[32] Statistics Poland
[33] Markit IHS

reaching the highest score since May 2019. At the same time, taking into account the deterioration of the epidemiological situation in Poland and its macroeconomic environment, a decline in the Polish PMI and an economic downturn in the industrial sector are possible in the coming months.

During the first 3 quarters of 2020, the business tendency indicator for industrial processing published by Statistics Poland (GUS) stood at -13.2 points on average compared to +5.4 points in the corresponding period of 2019 (a value below the 0.0 point threshold means that more companies expect a downturn than improvement in the sector).[34] After Q1 2020, the business tendency indicator for industry published by GUS was still positive (+1.2 points), but in Q2 it spiraled down to as much as -33.0 points (in April alone, it plummeted to -44.2 points, which was its lowest value ever). However, Q3 brought much better results, although the trend still remained negative (-7.8 points).[35]

According to information collected by Statistics Poland, industrial processing companies are concerned about the potential adverse effects of the COVID-19 pandemic on their business. Currently, 25% of companies expect the consequences of the epidemic to be severe, and 6% expect consequences of a magnitude that will threaten their stability. Predictions concerning a decrease in orders placed in companies by their customers are approx. 4% on average. 52% of businesses estimate their ability to survive, if the current restrictions related to combating the pandemic are maintained, at more than 6 months. 22% of businesses estimate this ability at 4 to 6 months. Nearly 19% of businesses claim that they would be able to survive for 2-3 months, and just above 7% of businesses estimate their ability to survive to be shorter than one month.[36]

During the first 3 quarters of 2020, other significant factors affecting the economic situation in key industry sectors (from the perspective of potential transport services to be provided by the PKP CARGO Group) included:

Mining industry

- decline in hard coal output during the first 3 quarters of 2020 by 6.0 million tons to 40.1 million tons (-13.0% yoy). After Q1 2020, this difference in year-on-year terms was only -0.3 million tons (-1.8% yoy). After the first 6 months of 2020, the yoy decrease was 4.3 million tons (-14.0%). Accordingly, Q3 brought only a slight decrease in the noticeably negative rate of growth of hard coal output in Poland;[37]
- decrease in hard coal sales in the first 9 months of 2020 by 6.3 million tons yoy (-14.4% yoy) down to 37.2 million tons. The total sales of hard coal in this period turned out to be lower than output by 2.9 million tons, which in turn translated into an increase in inventories;[38]
- persistent very high volume of hard coal inventories in storage yards, which is currently the highest since April 2015. As at the end of September 2020, 7.8 million tons of this commodity were collected in storage yards, up 64.5% yoy from 4.7 million tons of inventories in September 2019.[39] In the distinct months of 2020 (between January and September), monthly coal sales were higher than output only in May and June (when the effects of the pandemic were experienced the hardest and these were the months with the historically lowest volume of coal production and sales in Poland) as well as in September, when hard coal output in Polish mines stood at 4.4 million tons (with sales at 4.5 million tons), which in effect enabled a reduction in the volume of coal inventories kept in storage yards (where, at the end of August, there was still 7.9 million tons of this commodity). The largest volume of coal inventories in storage yards is kept by Poland's largest producer of this commodity, namely Polska Grupa Górnicza (which already in the previous months of the pandemic reported that the decline in energy consumption resulted in a significant decrease in demand for coal in power plants).[40] Moreover, coal inventories at power plants and cogeneration plants still remain above 8 million tons. Already in the middle of the year, the total volume of coal inventories stood at 20.9 million tons (which corresponded to the country's aggregate 4-month demand, of which the inventories of energy commodities were enough to satisfy the aggregate 6-month demand of all power plants and cogeneration plants in Poland);[41]
- very sharp decline in hard coal imports in the first 8 months of 2020, to 7.6 million tons (-30.9% yoy). Since the beginning of 2020, a constant downward trend in imports has been maintained – the largest yoy decreases were recorded in April (-54.5% yoy) and in February (-46.7% yoy), whereas since May the rate of decline has clearly diminished. During this period, the commodity was imported predominantly from Russia (-25.2% yoy to 5.3 million tons, accounting for 69.0% of total imports to Poland), Australia (-57.8% yoy to 0.6 million tons), Kazakhstan (+8.3% yoy to 0.6 million tons) and Colombia (+1.8% yoy to 0.5 million tons);[42]
- downward trend in hard coal prices on the international market. During the first 3 quarters of 2020, the average coal price in the European ARA ports (Amsterdam, Rotterdam, Antwerp) was USD 53.5 per ton, down 23.0% compared to the corresponding period of 2019. In Q1 2020, the average price of ARA coal was USD 56.2 per ton compared to USD 80.6 per ton

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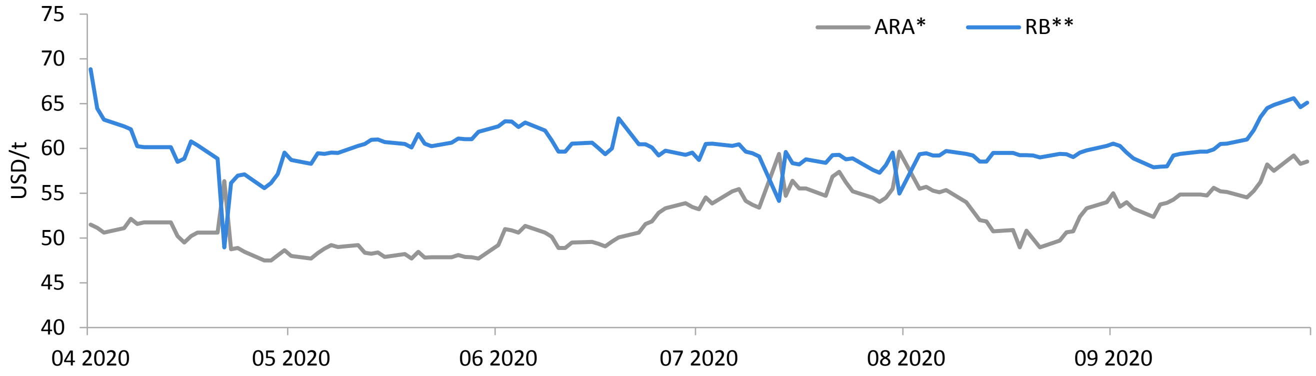
[34] Statistics Poland
[35] Statistics Poland
[36] Statistics Poland
[37] Industrial Development Agency (ARP)
[38] Industrial Development Agency (ARP)
[39] Industrial Development Agency (ARP)
[40] Wirtualny Nowy Przemysł [Virtual New Industry]
[41] Wysokie Napięcie [High Voltage]
[42] Eurostat

in Q1 2019 (-30.3% yoy). In Q2 2020, it plunged to USD 49.8 per ton compared to USD 66.0 per ton in Q2 2019 (-24.6% yoy). The decrease in coal prices in 2020 was driven down, among other factors, by the misalignment of supply and demand combined with an increase in energy generation from renewable sources (chiefly wind farms), low gas prices and unfavorable forecasts as to demand for this commodity. Q3 saw a rebound, and the average ARA coal price reached USD 54.4 per ton (-12.4% yoy). Clear increases in prices on international markets were already observed in June and July, then August brought a slight decline in prices, and September saw a renewed increase in coal prices across the world. September was the first month in 2020 when market participants' sentiments improved significantly, accompanied by a 5.8% increase in coal prices in the European ARA ports compared to August of this year, supported by an improvement in forecasts for the rest of the year;[43]

- stabilization of the domestic coal indices for commercial power plants (PSCMI 1) and heating plants (PSCMI 2) at the highest levels since the beginning of 2013. During the first 3 quarters of 2020, the average value of PSCMI1 was PLN 264.3 per ton (+2.0% yoy), including PLN 264.2 per ton in Q1 2020 (+3.1% yoy), PLN 266.2 per ton in Q2 2020 (+2.2% yoy), and PLN 262.6 per ton (+0.7% yoy) in Q3 2020. The value of PSCMI2 for heating plants during the first 9 months of 2020 was PLN 316.9 per ton (+2.0% yoy), including PLN 314.0 per ton in Q1 2020 (+3.2% yoy), PLN 319.9 per ton in Q2 2020 (+0.9% yoy) and PLN 316.6 per ton in Q3 2020 (+2.0% yoy).[44] However, in Q3 2020, the average value of the coal index for the power sector decreased by 1.4% in quarter-on- quarter terms, as did the average value of the coal index for the heating sector, which in Q3 2020 decreased by 1.0% compared to Q2 2020;[45]
- reduced consumption of electricity in Poland. During the first 3 quarters of 2020, electricity consumption fell by -3.9% yoy to 120.9 TWh (which was particularly severe in Q2 2020, when this rate of decline dropped to as much as -8.5% yoy). This was related to the economic lockdown introduced to counteract the COVID-19 pandemic (causing lower demand for electricity from industrial enterprises). After the sudden slump in electricity demand in Poland in the first half of 2020, demand for electricity normalized in Q3 2020, and the rate of decline in energy consumption significantly decelerated to -2.9% yoy in July and -1.2 % yoy in August. In September 2020, an increase in electricity consumption by +0.3% yoy was recorded;[46]
- in parallel with the sharp decrease in energy consumption in Poland, domestic electricity generation decreased even more – during the first 3 quarters of 2020, electricity generation slid down by 6.55% yoy to 110.6 TWh. Energy generation declined to the largest extent in hard coal-fired power plants (-12.2% yoy) and lignite-fired power plants (-10.0% yoy). In turn, generation increased significantly in this period in gas-fired power plants (+15.9% yoy) and wind power plants (+2.2% yoy);[47]
- changes in the national energy mix unfavorable to hard coal. During the first 3 quarters of 2020, the share of hard coal in total energy generation fell to 46.5% (-3.0 p.p. yoy);[48]
- continuing rapid increase in electricity imports, filling the gap between lower domestic energy output and consumption. Electricity prices in neighboring countries are currently at a significantly lower level than in Poland, which translates into improved profitability of imports. During the first 3 quarters of 2020, net electricity imports stood at 10.3 TWh (+38.2% yoy), accounting for 8.5% of total electricity consumption in Poland (+2.6 p.p. yoy);[49]
- according to a forecast by the Mining Department at the Ministry of State Assets, demand for hard coal by domestic electricity generators in 2020 and 2021 will be 4.5 million tons and 7 million tons lower, respectively;[50]
- signing of an agreement between miners and the government on the principles and timing of transformation of the mining industry. According to the current agreement, no decommissioning activities are planned for 2020, while in 2021 output may be reduced by a total of approx. 2 million tons.[51]
- according to the latest forecast by the International Energy Agency (IEA), the COVID-19 epidemic will accelerate the transition to renewable energy sources. IEA predicts a 5.3% yoy decline in global energy demand in 2020 and a 6.6% yoy reduction in CO2 emissions in the power sector. According to the report, global coal consumption in 2020 will decrease by 6.7%, whereas by 2025 approximately 275 GW of capacity in coal-fired power plants will be decommissioned worldwide (accounting for 13% of the currently installed capacity in this source). Renewable sources are expected to satisfy 80% of the increase in electricity demand over the next 10 years, and by 2025 they are predicted to replace coal as the primary source of electricity generation.[52]
- the plan to shut down the hard coal mining industry in the Czech Republic assumes that hard coal (mainly coking coal) mining operations will cease by the end of 2021 or 2022. Accordingly, a window of opportunity appears for Polish coke producers, especially given that the EU considers it a strategic raw material necessary for steel production. The future situation in the Czech Republic creates prospects for JSW (the largest producer of coking coal in the EU with an annual output of approx. 11 million tons) and Polska Grupa Górnicza (e.g. the Bielszowice and Halemba mines, where coking coal accounts for approx. 40% of total output). OKD, the owner of the Czech mines, forecasts that in 2020 approx. 2.1 million tons of coal will be extracted (-40% yoy).[53]

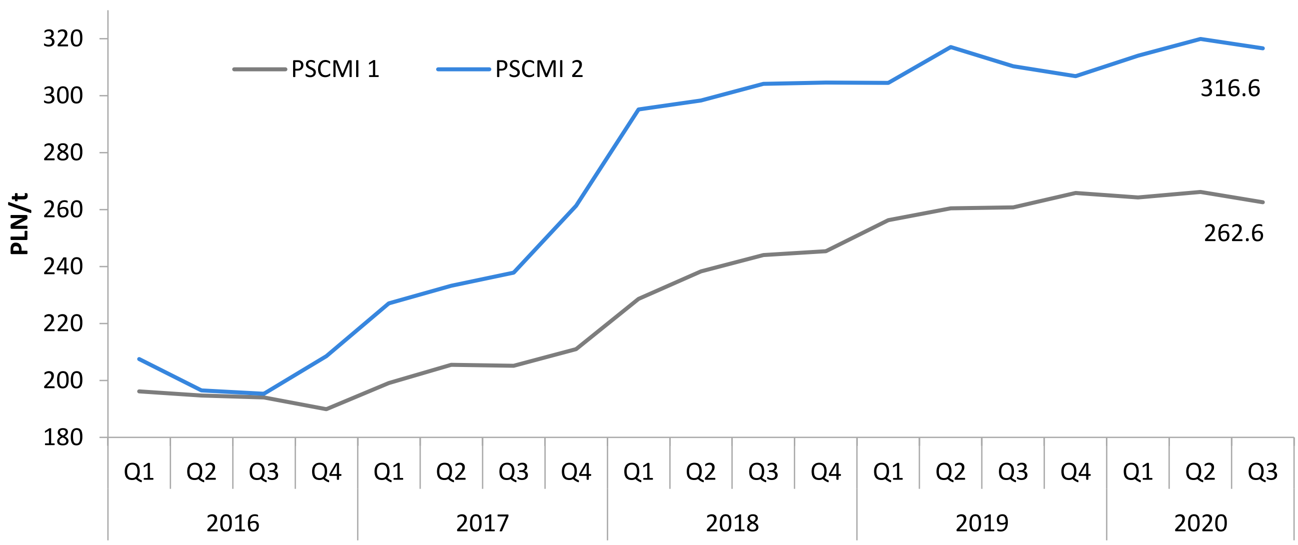
[43] Industrial Development Agency (ARP)
[44] Industrial Development Agency (ARP)
[45] Industrial Development Agency (ARP)
[46] Polskie Sieci Elektroenergetyczne
[47] Polskie Sieci Elektroenergetyczne
[48] Polskie Sieci Elektroenergetyczne
[49] Polskie Sieci Elektroenergetyczne
[50] Ministry of State Assets
[51] wysokienapiecie.pl
[52] International Energy Agency (IEA)
[53] Wirtualny Nowy Przemysł [Virtual New Industry]

Figure 6 Current and historical values of coal price indices on the European ARA* vs. RB** markets



* ARA – Amsterdam, Rotterdam and Antwerp;
** RB – Richards Bay (South Africa)
Source: Proprietary material based on Virtual New Industry data

Figure 7 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



Source: Proprietary material based on the Industrial Development Agency's data

Construction industry

- during the first 3 quarters of 2020, construction and assembly output was 1.6% lower yoy. It was caused by the decline recorded in Q2 and Q3 (following the increase in Q1). [54] A slowdown in the industry can clearly be seen coupled with a weaker overall economic situation. The rate of growth in construction and assembly output has declined significantly in year-on-year terms since July 2020. In September 2020, construction and assembly output was still 9.8% lower yoy (although went up 15.5% mom).
- during the first 3 quarters of 2020, only the volume of output by entities dealing mainly with specialist works was higher than in the corresponding period of 2019 (up 0.6% yoy). In turn, a decline in construction and assembly output was recorded in entities dealing mainly with the construction of civil engineering structures and the construction of buildings (down 1.5% and 3.3% yoy, respectively).[55] A decrease in construction and assembly output compared to the first 3 quarters of 2019 was recorded in all groups of the category of works related to the construction of civil engineering structures. The largest drop in output was posted by units specializing in the construction of other civil engineering structures

[54] Statistics Poland
[55] Statistics Poland, enterprises employing more than 9 persons

(-4.1% yoy), followed by companies specializing in the construction of pipelines and telecommunications and electricity lines (-3.2% yoy) and the construction of roads and railways (-0.6%).[56] During the first 9 months of 2020, sales of renovation works were 4.4% lower than in the corresponding period of 2019 (when such sales increased by 5.6% yoy), whereas sales of investment works were 0.2% yoy higher (compared to an increase of 5.1% the year before).[57]

- by the end of 2020, the General Directorate for National Roads and Motorways intends to announce tenders for a total length of 204 km, including sections with a total length of 136 km under the National Road Construction Program (worth approx. PLN 8.7 billion) and the program of construction of 100 bypasses with a total length of 68 km (worth approx. PLN 1.7 billion). Since January 2020, the General Directorate for National Roads and Motorways has announced tenders for 29 sections of new roads with a total length of 375 km (worth approx. PLN 11.5 billion), including 23 projects under the governmental National Road Construction Program (PBDK) with a total length of 333.7 km and worth approx. PLN 10.5 billion, and 6 tasks for the construction of bypasses from the governmental program for the construction of 100 bypasses in 2020-2030 with a total length of 41.3 km and worth approx. PLN 1 billion. According to the General Directorate for National Roads and Motorways, the COVID-19 pandemic has had no significant impact on the progress of construction works conducted to date.[58]
- the general economic climate indicator in the construction industry dropped below zero as early as in March 2020 (-1.9 points). The values of this indicator in Q2 2020 were alarming (-47.1 points in April, -38.8 points in May and -25.9 points in June). In the following months, these values gradually kept improving but were still disturbingly low (approx. -15 points). This was caused by the threat of the consequences of the COVID-19 pandemic and the ensuing economic slowdown. As a result of the ongoing uncertainty about the development of the epidemiological situation in Poland and beyond its borders, the sentiment in construction companies is gradually deteriorating and the general economic climate, as perceived by players in the construction industry, is evaluated more unfavorably.[59]
- economists estimate that, in the coming months, construction output will remain at a reduced level. According to analysts, due to the second wave of the pandemic, which will delay the economic recovery in Q4 2020 and Q1 2021, construction and assembly output will be limited, partly because of the reduced volume of corporate investment.

Steel industry

- significantly reduced demand for steel and metallurgical products in Poland and in the macroeconomic environment, intensified by the consequences of the global pandemic, translates into a decline in the overall production volume or the shutdown of some production units by domestic producers of coke. This causes a significant decrease in the quantum of products transported for the metallurgical sector and commodities consumed in the steel production process (iron ores, coke);
- decrease in global steel production in during the first 3 quarters of 2020 to 1,347.4 million tons (-3.2% yoy).[60] Steel production in the European Union declined the most (-17.9% yoy to 99.4 million tons). At the same time, steel production in Asia exceeded the threshold of 1.0 billion tons (+0.2% yoy). The metallurgical market is slowly recovering from the spring lockdown – in September 2020, global steel output reached 156.4 million tons, up 2.9% yoy. However, much better results than EU producers (who in September still reported declines of -14.0% yoy in aggregate) were reported by countries from which steel is imported (the increase in steel production in China in September was as much as 10.9% yoy, and during the first 3 quarters of 2020 it increased by 4.5% yoy). The competitiveness of the European steel industry is additionally weakened by the imports of steel products (heavily criticized by European producers), coupled with high energy prices and additional fees imposed on the steel sector;[61]
- The World Steel Association predicts a decrease in the global steel output in 2020 to 1.7 billion tons (-2.4% yoy). Production is expected to increase only in China and Turkey, while the rest of large producers will post double-digit declines (the decrease in EU's steel output will reach -15.2% yoy). In 2021, market demand for steel is expected to reach 1.8 billion tons (+4.1% yoy);[62]
- decline in crude steel output in Poland during the first 3 quarters of 2020 by -15.2% yoy to 6.0 million tons and, among others, in the volume of manufactured hot-rolled products by an average -9.9% yoy to 6.4 million tons, cold-rolled sheets by -9.9% yoy to 1.5 million tons, thin sheets by -10.8% yoy to 0.8 million tons, and bars and flat bars by -5.9% yoy to 2.6 million tons;[63]
- significant decrease in coke production during the first 3 quarters of 2020 by -17.7% yoy to 5.6 million tons. After Q1 2020, the decrease in coke production was still -6.4%, in Q2 it was already -26.9% yoy. Q3 2020 brought only a slight deceleration in the rate of decline to -19.9% yoy, when coke production totaled 1.77 million tons compared to 2.2 million tons in Q3 2019.[64]
- permanent shutdown of the raw material part of the Krakow steelworks (blast furnace and steel plant) by the country's largest supplier of steel products. The reason for the decommissioning of the blast furnace, in addition to the impact of the pandemic,

[56] Statistics Poland, enterprises employing more than 9 persons
[57] Statistics Poland, enterprises employing more than 9 persons
[58] General Directorate for National Roads and Motorways
[59] Statistics Poland
[60] World Steel Association
[61] World Steel Association
[62] World Steel Association
[63] Statistics Poland
[64] Statistics Poland

the unfavorable economic situation on the steel market and very limited demand, was also the troubled macroeconomic situation coupled with the high costs of energy and CO2 emissions. Already in November 2019, ArcelorMittal Poland announced a temporary suspension of the operation of the blast furnace in its steel mill in Kraków, following which, as a result of the pandemic, the project to resume production was postponed, which translated into a decline in steel output coupled with a severe drop in the company's demand for commodities used as input for its production process (including coke and iron ore), resulting in a major decrease in the volume of cargo available for rail transport.[65]

Industry in the Czech Republic

During the first 9 months of 2020, the volume of industrial output in the Czech Republic dwindled 10.9% yoy, compared to a 0.8% yoy growth in the corresponding period of 2019.[66] The volume of industrial output in the Czech Republic has been declining continuously in year-on-year terms since October 2019. At the same time, after the slump in Q2 2020 (caused, among other factors, by the lockdown of the economy and major disturbances in international supply chains), in Q2 2020 the situation in the Czech industrial sector improved, largely as a result of the gradual lifting of the previously introduced economic restrictions and the restoration of normal operation of industrial plants. As a result, in Q3 2020, the rate of decline in industrial output in the Czech Republic was -4.7% yoy compared to -23.5 yoy in Q2 2020, meaning that it was at a similar level to that from before the COVID-19 pandemic.[67]

The major slump in industrial output in the first 3 quarters of 2020 was a reflection of, among other causes, the reduced inflow of new orders, both domestic and foreign. In this period, the volume of new orders decreased 12.2% yoy (domestic orders by 11.9% yoy and export orders by 12.3% yoy).[68] At the same time, in Q3 2020, the rate of decline in new orders decelerated significantly and reached -2.7% yoy, both from domestic customers (-5.1% yoy) and foreign customers (-1.7% yoy).[69]

The severe decline in Czech industrial output during the first 9 months of 2020 was caused by the following main sectors of the country's economy: industrial processing (-11.2% yoy), electricity production and water and gas supply (-7.3% yoy) and, to the greatest extent, mining and quarrying of raw materials (-18.7% yoy).[70]

During the first 3 quarters of 2020, a sharp yoy decrease in output was recorded in the majority of key industrial sectors (from the perspective of potential transportation services to be provided by the PKP CARGO Group). In this period, yoy slumps in output were recorded by the following sectors: mining of hard coal and lignite (-27.0% yoy), manufacture of motor vehicles (-19.2% yoy), production of metals (-12.0% yoy), metal products (-11.6% yoy), production of chemicals and chemical products (-9.1% yoy) and production of goods from other non-metallic commodities (-5.4% yoy).[71] Compared to the corresponding period of 2019, output of wood and wood products improved (+2.8% yoy).[72] At the same time, for most of the sectors mentioned above, the economic situation improved in Q3 2020.

The most recently published PMI values are also consistent with the moderate improvement in the Czech industrial sector. In Q3 2020, the index increased to the average level of 48.9 points, compared to 39.9 points in Q2 2020 and 42.1 points in H1 2020.[73] In September, the PMI for the Czech Republic improved for the fifth consecutive month (after hitting the lowest value in April 2020 since the global financial crisis of 2008-2009) and stood at 50.7 points, meaning that, for the first time since November 2018, it surpassed the threshold of 50.0 points, delineating the conventional border between recovery and recession in the industrial sector.[74] The decrease in the PMI in this period was driven primarily by components related to current output and new orders. The rate of decline in employment also decreased to the lowest level since June 2019. Managers' forecasts for production volumes in the coming 12 months also improved.[75] However, despite the strong increase in the PMI in Q3 2020, in the light of the increasing number of infections and the Czech government's decision to lock down much of the economy, the index is likely to decline again in the coming months, meaning that the whole industrial sector will remain in recession.

Transport activities of the PKP CARGO Group companies on the Czech market are focused primarily on the transport of solid fuels (hard coal and coke), aggregates and other construction materials, liquid fuels and – with a gradually increasing share in the total transported volume – intermodal loads (with a significant chunk of products of the automotive sector). As a result, the economic situation in each of the related sectors of the industry (mining, metallurgy, construction and automotive production, machinery) translates directly into volumes available for transport by the PKP CARGO Group companies offering transportation services in the Czech Republic.

65 Wirtualny Nowy Przemysł [Virtual New Industry]
66 Czech Statistical Office
67 Czech Statistical Office
68 Czech Statistical Office
69 Czech Statistical Office
70 Czech Statistical Office
71 Czech Statistical Office
72 Czech Statistical Office
73 Markit PMI
74 Markit PMI
75 Markit PMI

During the first 9 months of 2020, the following were key factors affecting the economic situation in the industries listed above:

- COVID-19 epidemic and related economic phenomena, directly or indirectly translating into the volume of output in most industries. The Czech economy is an important player in the international supply chain, and the share of exports and imports in the country's generation of GDP is significant. Due to the relatively small domestic market, a large portion of the production of the Czech industrial sector is intended for exports. Also, key branches of the Czech industry are automotive and machine production, which have been strongly affected by the drop in demand associated with the COVID-19 pandemic and the simultaneous adverse impact of supply-side factors (problems with the availability of components, downtime in the operation of manufacturing plants). These factors translated into a clearly lower production volume than in the corresponding period of 2020;
- intensification of the downward trend in hard coal mining, which was triggered, among other factors, by the temporary reduction and then complete suspension of production by all mines owned by OKD (due to new outbreaks of the epidemic and a major overall slump in demand for this commodity). According to data released by the Czech Ministry of Industry and Trade, only in H1 2020 the volume of hard coal mined in the Czech Republic was 1.0 million tons (-34.8% yoy), imports decreased to 1.5 million tons (-23.4% yoy) and exports decreased to 0.4 million tons (-42.6% yoy);[76]
- decline in steel production during the first 9 months of 2020 to 3.3 million tons (-8.2% yoy). At the same time, the Czech Republic and its macroeconomic environment are experiencing a decline in demand for products of the steel sector, which is likely to counteract a stronger rebound in output in the coming months;[77]
- decrease in construction and assembly output by 6.6% yoy (of which the branch involved in the construction of buildings decreased 8.7% yoy, while civil engineering output declined by 0.6%).[78] At the same time, infrastructural investments (co-funded within the framework of EU funds that have either already been allocated or are planned for allocation as new EU reconstruction funds) should contribute to stabilization of the economic situation in the construction sector in the coming quarters;
- strong decline in the volume of production in the automotive sector – a total of 0.8 million motor vehicles of various types (passenger cars, trucks, buses and motorcycles) were manufactured in the first 9 months of 2020, down by as much as 24.2% yoy.[79] In this period, the decline in production resulted not only from the weaker demand generated by the macroeconomic environment, but also from supply-side problems (broken global supply chains, resulting in a temporary suspension of manufacturing operations). Even though Q3 2020 saw a rebound in automotive production in the Czech Republic, in this period the volume of output was still 4.8% lower on average than in the corresponding period of 2019.[80]

4.2 Freight transportation activity

The rail transport market is presented taking into account the transport in the domestic and Czech markets where the transport activity was the most important for the PKP CARGO Group.

4.2.1 Rail transport market in Poland

During the first 3 quarters of 2020, a total of 84 companies were operating on the Polish rail freight market under a license issued by the President of the Office of Rail Transport and providing freight transport services.[81] This means that in Q3 2020 alone, no new operator appeared on the market (after as many as 10 new operators appeared in Q2 2020). Three members of the PKP CARGO Group are active on the rail freight market in Poland: PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International a.s. (formerly AWT a.s).[82]

During the first 9 months of 2020, rail operators transported a total of 162.05 million tons of cargo (-8.8% yoy) and generated a freight turnover of 37.92 billion tkm (-10.1% yoy).[83] The more rapid dynamic market slump in terms of freight turnover was caused by a decrease in the average haul, which in the first 3 quarters of 2020 stood at 234 km, compared to 237 km in the corresponding period of 2019 (-1.5% yoy).[84]

During the first 3 quarters of 2020, the rail freight market in Poland was shrinking in yoy terms (an uninterrupted downward trend since December 2018).[85] The downward trend was exacerbated by the effects of the widespread COVID-19 pandemic, the resulting recession in the industrial sector and the high degree of economic uncertainty, which resulted, among other consequences, in a sharp decline in the consumption of energy and, as a result, in lower demand for energy carriers, reduced

[76] Ministry of Industry and Trade of the Czech Republic
[77] World Steel
[78] Czech Statistical Office
[79] AutoSap
[80] AutoSap
[81] Office of Rail Transport – the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport, while companies operating under an international license are also active on the market.

[82] Office of Rail Transport
[83] Office of Rail Transport
[84] Office of Rail Transport
[85] Office of Rail Transport

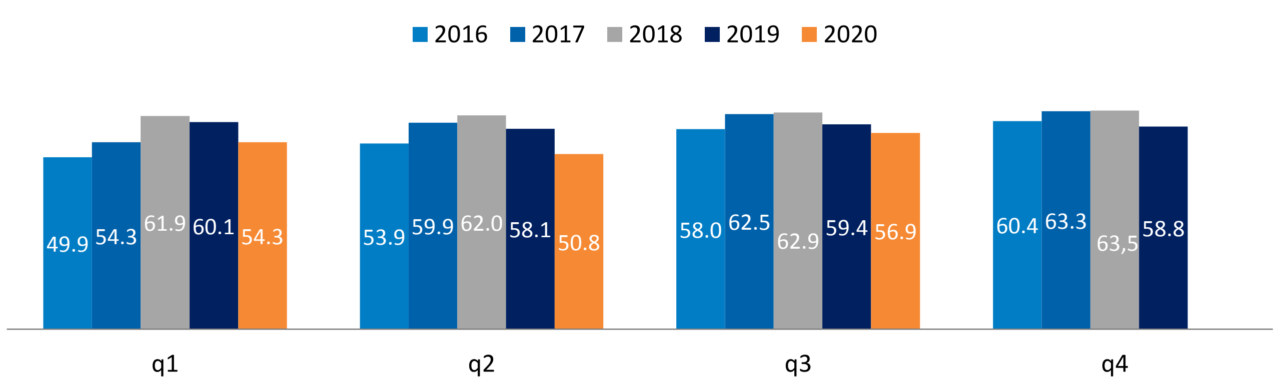
output of the metallurgical sector and persisting weak economic situation in the construction industry and in other industries of major significance for the transport of cargo by rail.[86]However, a gradual improvement is already noticeable: in September 2020, the quantum of freight carried by the whole rail market in Poland increased, on a month-on-month basis, for the fourth consecutive month in terms of freight volume and for the fifth consecutive month in terms of freight turnover. In September 2020, on a year-on-year basis, the rail market remained in a slight downward trend in terms of freight volume, although this volume was almost the same as that transported in September 2019 (-0.2% yoy), with the concurrent first increase in freight turnover achieved this year (+2.3% yoy). In absolute terms, the quantum of freight carried by rail operators in September 2020 was the largest since the beginning of 2020, both in terms of freight volume and freight turnover. This was largely caused by the gradual return of the country's economic life to normal after the lockdown caused by the COVID-19 pandemic (September saw a rebound in industrial output).

In the first 8 months of 2020, a yoy decline in freight volume was recorded in most cargo categories identified by Statistics Poland[87], of which the strongest was in:

- hard coal (down 14.3% yoy to 50.6 million tons). The yoy slump in the quantum of hard coal transport services was caused by a variety of factors, which included a steep decline in electricity consumption in Poland and the resulting lower demand for this commodity generated by power plants, a temporary reduction and the subsequent suspension of mining activity in some Silesian mines (with a view to preventing the spread of the COVID-19 pandemic), a persistently high level of inventories, lower volume of imports than in 2019 and periodic overhauls of generating units in power plants and cogeneration plants;
- aggregates, stone, sand and gravel (down 12.9% yoy to 28.9 million tons). The persisting weak economic situation in the construction industry and the plunge in demand generated by buyers executing large infrastructural investments under the National Road Construction Program and the National Railway Program (partly as a result of excessive inventories, delays caused by attempts to renegotiate the value of their previously signed contracts and difficulties in conducting and completing new tenders) translated into a yoy decrease in the volume of transported aggregates. Moreover, supply-side problems related to the COVID-19 pandemic were observed, manifesting themselves by temporary limitations in the extraction and production of aggregates by producers and lower throughput at loading and unloading sites due to the imposed epidemiological requirements;
- iron ore (down 44.3% yoy to 4.0 million tons), metals and metal products (-7.8% yoy to 6.0 million tons) and coke (-10.4% yoy to 6.2 million tons). The major slump in demand for steel and steel products in Poland and its macroeconomic environment translated into a significant reduction in the overall output volume (due to, for instance, the temporary shutdown of certain production units by domestic producers of coke), which in turn caused a decrease in the quantum of transported steel products and raw materials used in the steel production process (iron ores, coke). Steel-intensive industries (including automotive and machinery production) are among the sectors of the country's economy most severely affected by the COVID-19 pandemic. The major decrease in the volume of ores available for rail transport was caused by ArcelorMittal Poland's suspension of the operation of the blast furnace in its steel mill in Kraków;
- refined petroleum products (down 7.2% yoy to 10.7 million tons). The slump in the transport of liquid fuels was caused chiefly by the decline in demand related to the COVID-19 epidemic.

In aggregate, during the first 3 quarters of 2020, these cargo categories accounted for over 76% of the market's total freight volume.

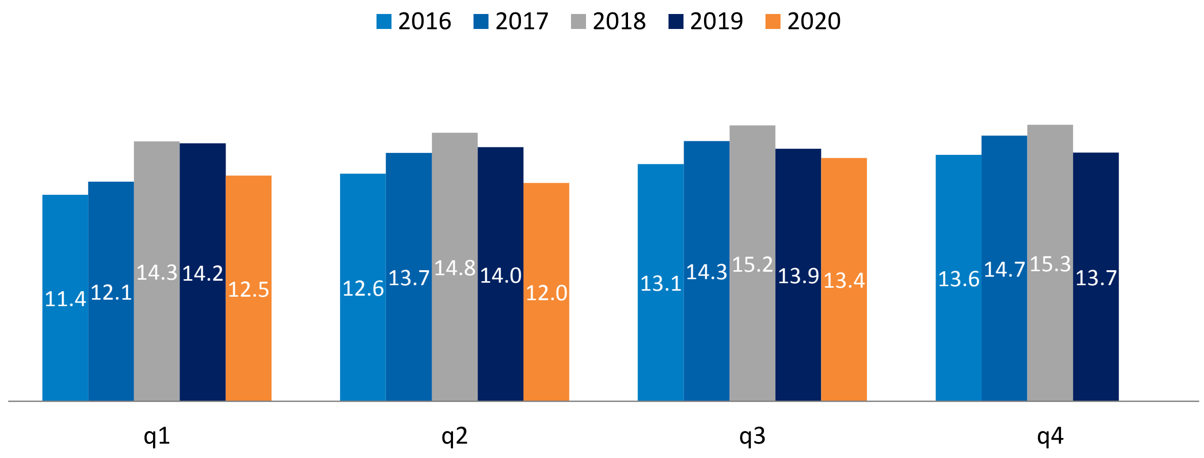
Figure 8 Rail freight volumes in Poland broken down by quarter in 2016-2020 (million tons)



Source: Proprietary material based on the Office of Rail Transport's data

[86] Statistics Poland, Polskie Sieci Elektroenergetyczne
[87] Statistics Poland – data for the first 8 months of 2020. Data for September and the first three full quarters of 2020 will be available at the end of November 2020.

Figure 9 Rail freight turnover in Poland broken down by quarter in 2016-2020 (billion tkm)

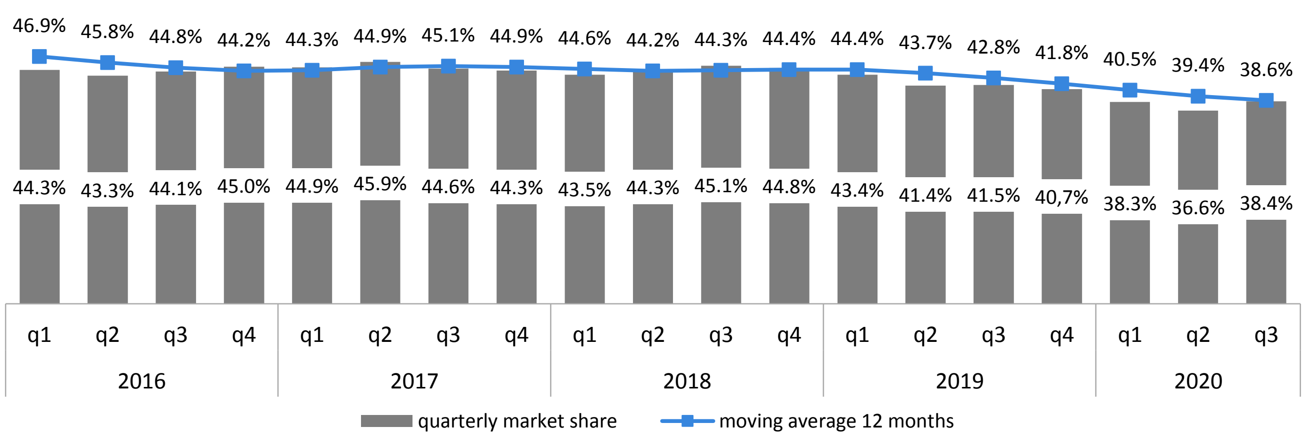


Source: Proprietary material based on the Office of Rail Transport's data

4.2.2 Position of the PKP CARGO Group in the rail transport market in Poland

Despite the decline in yoy market shares, in the first 3 quarters of 2020, the PKP CARGO Group[88] retained its strong leading position on the rail freight transport market in Poland with a 37.8% market share (-4.3 p.p. yoy) in terms of freight volume and a 40.8% market share in terms of freight turnover (-3.75 p.p. yoy). During Q3, the PKP CARGO Group managed to improve its market result in terms of freight volume by +0.3 p.p. (compared to the result attained in H1 2020 of 37.5%, or -5.0 p.p. yoy). The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 36.5% (-4.2 p.p. yoy) and 40.5% (-3.8 p.p. yoy), respectively, in the first 9 months of 2020.[89]

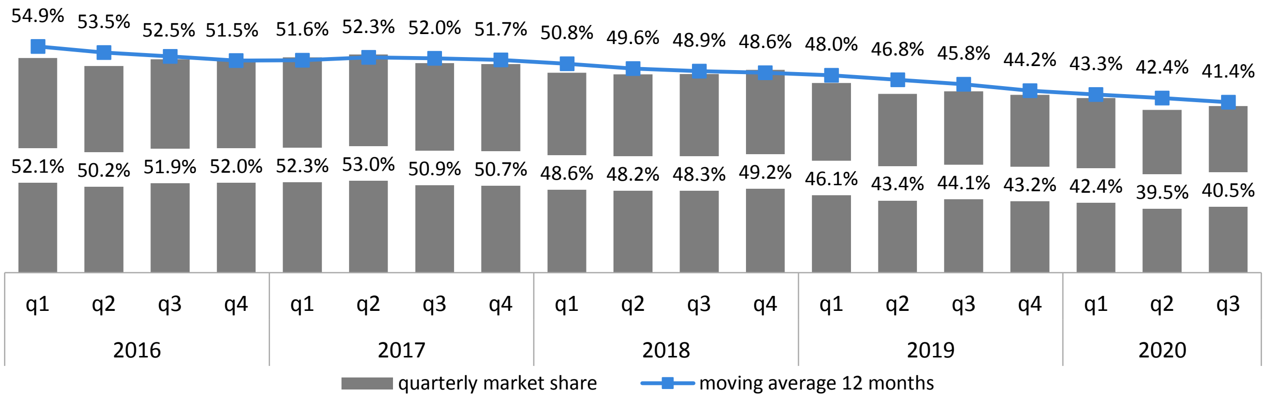
Figure 10 Share of the PKP CARGO Group in total freight volume in Poland in 2016-2020



Source: Proprietary material based on the Office of Rail Transport's data

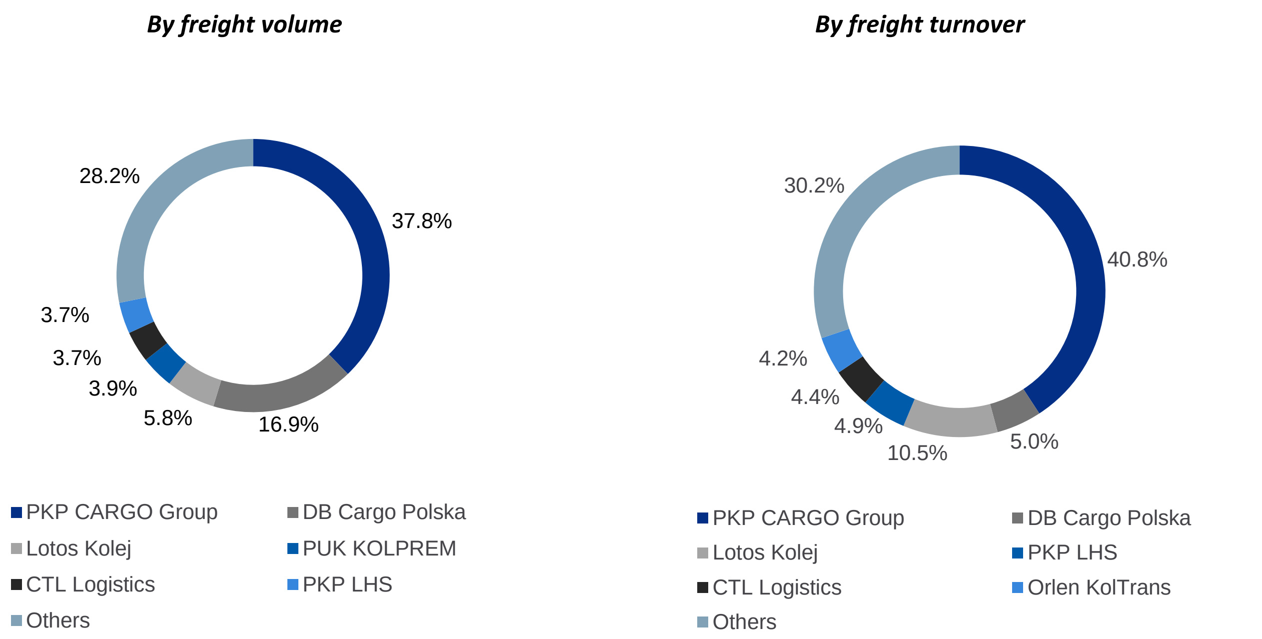
[88] The freight volume of the PKP CARGO Group also takes into account the cargo transported by PKP CARGO International a.s. (formerly AWT a.s.) in Poland.
[89] Office of Rail Transport

Figure 11 Share of the PKP CARGO Group in total freight turnover in Poland in 2016-2020



Source: Proprietary material based on the Office of Rail Transport's data

Figure 12 Market shares of the largest rail operators in Poland in the first 3 quarters of 2020



Source: Proprietary material based on the Office of Rail Transport's data

The following companies are the main competitors of the PKP CARGO Group on the Polish rail freight market: DB Cargo Polska, Lotos Kolej, PKP LHS, PUK Kolprem, CTL Logistics and Orlen KolTrans.

In the first 3 quarters of 2020, the PKP CARGO Group's competitors transported a total of 100.8 million tons of freight (-2.0% yoy). In this period, the largest freight volume was transported by DB Cargo Polska companies (27.4 million tons, down 8.6% yoy), Lotos Kolej (9.3 million tons, down 2.5% yoy) and PUK Kolprem (6.3 million tons, up 6.9% yoy).[90]

At the same time, in the first 3 quarters of 2020, freight turnover generated by operators competing with the PKP CARGO Group shrank 4.0% yoy, down to 22.5 billion tkm. In this period, the largest freight turnover was achieved by the following competitive rail operators: Lotos Kolej (4.0 billion tkm, down 2.5% yoy), DB Cargo Polska (1.9 billion tkm, down 19.7% yoy) and PKP LHS (1.9 billion tkm, down 18.7% yoy).[91]

[90] Proprietary material based on Office of Rail Transport data
[91] Proprietary material based on Office of Rail Transport data

During the first 3 quarters of 2020, the rate of decline in the freight turnover generated by competitive rail operators was double the rate of decline in the freight volume. This resulted from the decrease in the average haul achieved by carriers competing with the PKP CARGO Group in this period. During the first 9 months of 2020, it stood at 223 km, compared to 228 km in the corresponding period of 2019 (-2.1% yoy).[92]

In terms of freight volume, the following competitors of the PKP CARGO Group recorded the largest yoy decreases in market share during the first 3 quarters of 2020: PKP LHS (-0.5 p.p. yoy, freight volume down by 19.5% yoy) and Rail Polska (-0.2 p.p. yoy, freight volume down by 18.1% yoy). In terms of freight turnover, the market shares of the following companies decreased the most in year-on-year terms: DB Cargo Polska (-0.6 p.p. yoy, freight turnover down by 19.7% yoy), PKP LHS (-0.5 p.p. yoy, freight turnover down by 18.7% yoy), Pol Miedź-Trans (-0.4 p.p. yoy, freight turnover down by 31.4% yoy) and Rail Polska (-0.3 p.p. yoy, freight turnover down by 24.4% yoy). Operator of STK S.A. in restructuring has not been providing rail freight services since May of this year when the company filed for bankruptcy and for the initiation of a rehabilitation procedure. Its yoy declines after the first 3 quarters of 2020 were: -74% in terms of freight volume and -88% in terms of freight turnover (corresponding to changes in the market share by -0.3 p.p. yoy and -0.9 p.p. yoy, respectively).[93]

The market shares of small rail operators (with a unit share of less than 2%) increased significantly on a yoy basis. Successful market players were for the most part companies that conducted and expanded the scale of operations in the intermodal segment, such as: Eurasian Rail Carrier, Ecco Rail, PCC Intermodal, Metrans Polonia and LTE Polska. A year-on-year increase in the quantum of transport services and shares was also recorded by the majority of specialized companies (subsidiaries of a large corporate group focused on servicing the freight volume ordered by the parent company), such as PUK Kolprem and JSW Logistics (solid fuels and metallurgical segment), Orlen KolTrans (liquid fuels segment) and Rail Polonia (construction segment).[94]

4.2.3 Rail freight transport market in the Czech Republic

In H1 2020, a total of 252.7 million tons of cargo was transported in the Czech Republic (-11.2% yoy) and freight turnover stood at 32.4 billion tkm (+22.1% yoy).[95] In this period, a yoy decrease in freight volume was recorded in all transport segments, whereas freight turnover increased on a yoy basis only in the road transport segment.[96] The increase in freight turnover for the whole transport sector, coupled with a simultaneous sharp decline in freight volume, resulted from a significant extension of the average haul for most transportation segments (except for the inland waterway and air segments). In H1 2020, the average haul in the Czech Republic increased by as much as 37.5% yoy and reached 128.3 km, as part of which the road transport segment recorded an extension of the average haul by as much as 56.8% yoy to 118.3 km (compared to 75.4 km in the corresponding period of 2019).[97] Despite its strong yoy growth, the average haul in the case of road transport services remains below that for other modes of transport, including rail.[98]

Table 11 Freight transport market in the Czech Republic in H1 2020

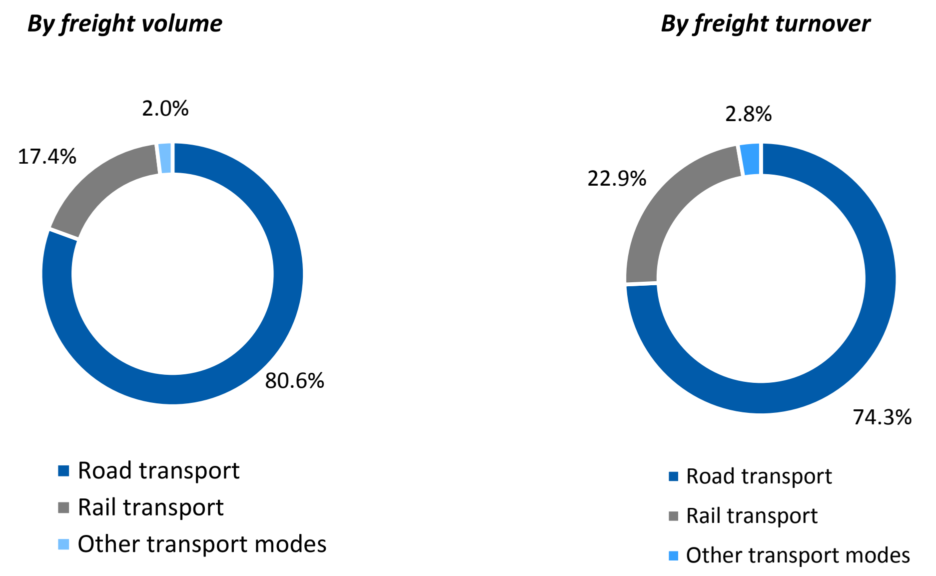
	Freight volume			Freight turnover			Average haul		
	Quantity (million tons)	Change yoy	Change % yoy	Quantity (billion tkm)	Change yoy	Change in % yoy	Haul (km)	Change yoy	Change in % yoy
Total market	252.7	-31.9	-11.2%	32.4	5.9	22.1%	128.3	26.5	37.5%
Road transport	203.6	-22.4	-9.9%	24.1	7.0	41.3%	118.3	34.3	56.8%
Rail transport	44.1	-6.6	-13.1%	7.4	-0.8	-10.0%	168.7	0.7	3.5%
Other transport segments	5.0	-2.9	-36.7%	0.9	-0.3	-27.4%	178.5	22.7	14.6%

Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

In H1 2020, rail transport in the Czech Republic recorded a yoy drop in freight volume to 44.1 million tons (-13.1% yoy) and freight turnover to 7.4 billion tkm (-10.0% yoy).[99] Comparing these values with the performance of the whole market, this translated into a decrease in the share of rail transport in total freight volume (-0.37 p.p. yoy) and freight turnover (-8.2 p.p. yoy).[100]

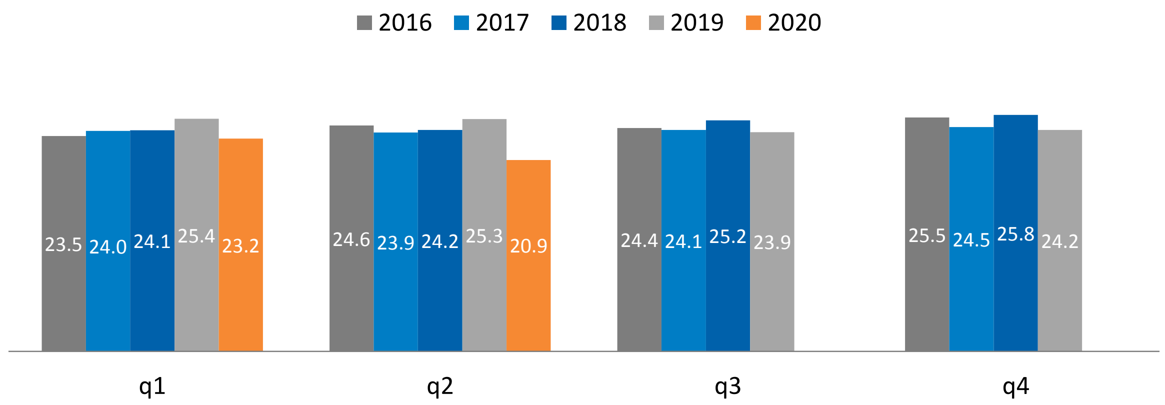
[92] Proprietary material based on Office of Rail Transport data
[93] Proprietary material based on Office of Rail Transport data
[94] Proprietary material based on Office of Rail Transport data
[95] Ministry of Transport of the Czech Republic, data for Q3 2020 will be available at the turn of Q1 2021
[96] Ministry of Transport of the Czech Republic
[97] Ministry of Transport of the Czech Republic
[98] Ministry of Transport of the Czech Republic
[99] Ministry of Transport of the Czech Republic
[100] Ministry of Transport of the Czech Republic

Figure 13 Shares of transport sector branches in the freight transport market in the Czech Republic in H1 2020



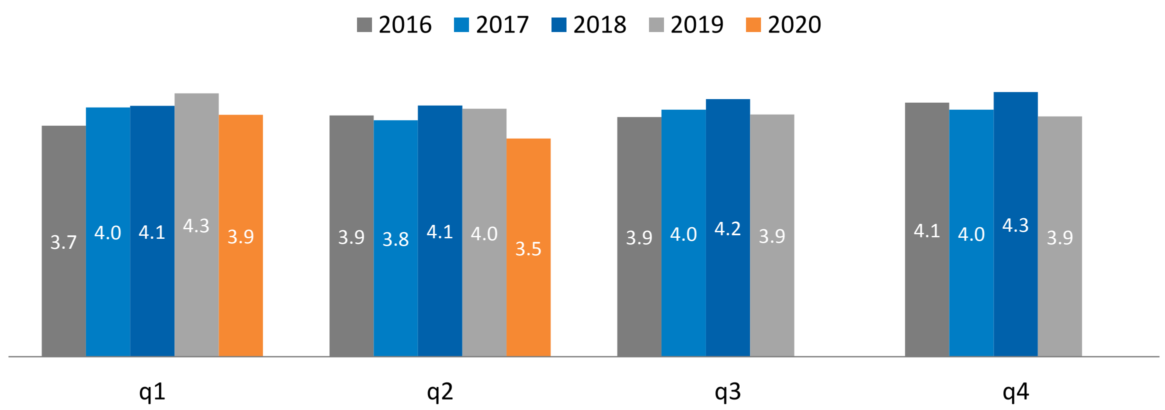
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 14 Rail freight transport in the Czech Republic by freight volume broken down by quarter in 2016-2020 (million tons)



Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 15 Rail freight transport in the Czech Republic by freight turnover broken down by quarter in 2016-2020 (billion tkm)



Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

4.2.4 Position of PKP CARGO Group companies in the rail transport market in the Czech Republic

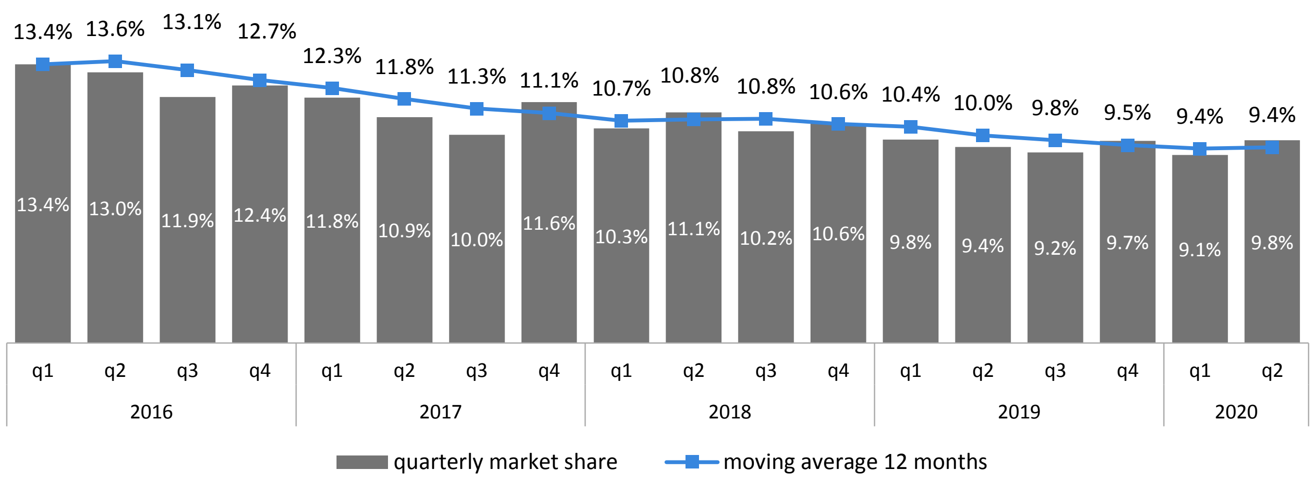
According to data published by the Czech rail infrastructure manager (SŽDC), in the first 3 quarters of 2020, 117 operators were licensed in Q1 2020 to provide rail freight services in this country, including two members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s.[101]

In the first 3 quarters of 2020, PKP CARGO International a.s. transported 6.0 million tons of freight (-15.0% yoy) and achieved freight turnover of 0.8 billion tkm (-5.8% yoy).[102] In the same period, the average haul of PKP CARGO International increased to 133 km (+10.9% yoy).[103] The drivers of the rapid increase in the average haul in this period included the improvement in relative significance of such cargo categories as liquid fuels, wood and wood products and intermodal freight services, characterized by an above-average haul, in the total volume of cargo transported by PKP CARGO International.[104]

According to SŽDC data, despite the yoy decrease in freight turnover in the first 3 quarters of 2020, PKP CARGO International significantly improved its competitive position on the Czech market. In this period, the market share of PKP CARGO International in terms of freight turnover increased by 1.1 p.p. yoy to 7.5%.[105] As a result, the company solidified its position as the third largest carrier on the Czech market.[106]

During the first 3 quarters of 2020, the consequences of the COVID-19 pandemic and the related economic recession in the Czech Republic and its macroeconomic environment exerted a strong adverse impact on the transport performance of PKP CARGO International. In this period, the company reported a yoy decrease in its quantum of transport services, including for such cargo categories as hard coal (-29.3% yoy to 2.1 million tons), chemicals and chemical products (-28.6% yoy to 0.3 million tons), coke and lignite (-13.9% yoy to 1.1 million tons) and stone, gravel and lime (-27.6% yoy to 0.2 million tons).[107] Besides the economic factors reflecting the impact of the pandemic (including a lower energy consumption and a slump in demand for products of the steel sector), the reduction in freight performance for certain cargo categories was also caused by initiatives taken by the company to change the qualitative mix of its transport services (and, as a result, to increase their profitability and efficiency). In the first 3 quarters of 2020, transport services provided by PKP CARGO International grew in year-on-year terms in the segment of crude oil and its derivatives (+72.0% to 0.8 million tons) and the intermodal segment (+3.0% yoy to 1.1 million tons).[108]

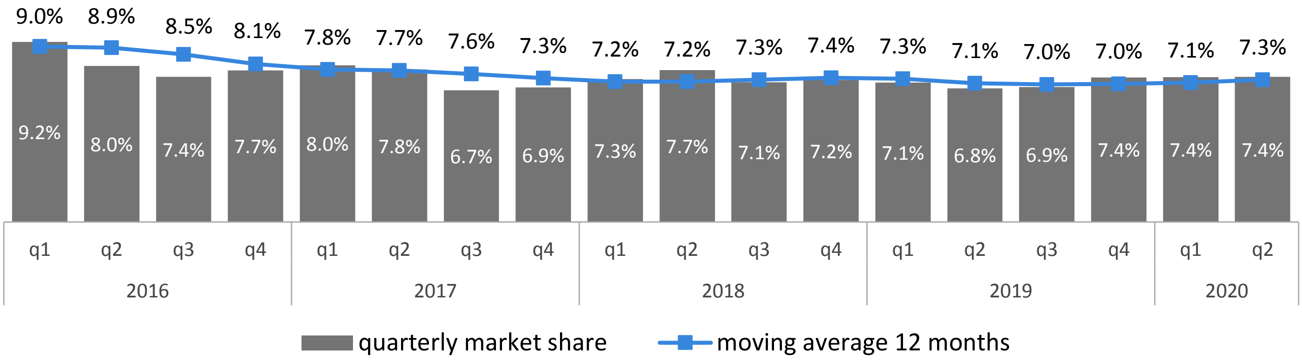
Figure 16 PKP International a.s.'s quarterly market shares in total freight volume in the Czech Republic in 2016-2020*



** data for Q3 2020 will be available at the turn of Q1 2021*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

[101] SŽDC
[102] PKP CARGO International's own statistics
[103] PKP CARGO International's own statistics
[104] PKP CARGO International's own statistics
[105] SŽDC
[106] SŽDC
[107] PKP CARGO International's own statistics
[108] PKP CARGO International's own statistics

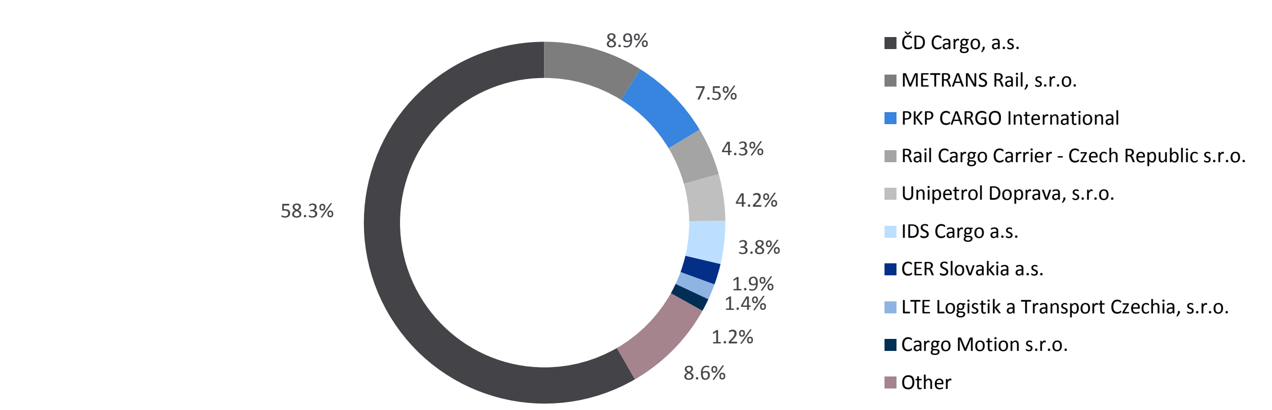
Figure 17 PKP International a.s.'s quarterly market shares in terms of freight turnover in the Czech Republic in 2016-2020*



** data for Q3 2020 will be available at the turn of Q1 2021*

Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

Figure 18 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in the first 3 quarters of 2020 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

In the first 3 quarters of 2020, ČD Cargo a.s. remained the undisputed leader of the Czech rail freight transport market, although in the same period its market share was in a downward yoy trend, having fallen to 58.3% (-2.0 p.p. yoy).[109] Also smaller than in the corresponding period of 2019 were the market shares of Unipetrol Doprava (-0.1 p.p. yoy to 4.2%, the operator focuses its business on the fuel transport segment), IDS Cargo (-0.1 p.p. yoy to 3.8%) and SD – Kolejová doprava. In turn, during the first 3 quarters of 2020, a noticeable yoy increase in market share was posted by PKP CARGO International (+1.1 p.p. yoy to 7.5%).[110] At the same time, increases in the market share were recorded by Rail Cargo Carrier – Czech Republic (+0.8 p.p. yoy to 4.3%) and Metrans Rail (+0.5 p.p. yoy to 8.9%) – the business model of these companies is based on the provision of comprehensive logistics services for container transport in the countries of the Three Seas Initiative. The latter company solidified its position as the second largest rail freight carrier in the Czech Republic.[111]

The list of the largest rail operators on the Czech market in the first 3 quarters of 2020 published by SŽDC does not include PKP CARGO S.A. as a result of a reduction in the volume of cargo transported by the company and its remaining below the adopted statistical threshold. In the first 3 quarters of 2020, yoy decreases were recorded in ore transport services provided by PKP CARGO S.A. in the territory of the Czech Republic (due to lower demand generated by the metallurgical sector and the loss of a portion of transport services to the benefit of competitors), wood in transit from Poland to Slovakia and Romania, metals in transit from Hungary to Poland and imports to the Czech Republic via Gdynia, automotive transit from Italy to Poland and the transit of chemical products between Poland and Slovakia. At the same time, in year-on-year terms, transport of hard coal from Polish ports and Silesia to the Czech Republic and transit from Silesia to Slovakia, coke exports from the Czech

[109] SŽDC
[110] SŽDC
[111] SŽDC

Republic to Gdańsk and transit from Poland to Bosnia and Herzegovina, and sugar transit from Poland to Macedonia and Serbia increased due to the taking over of certain contracts from competitors.[112]

4.2.5 PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group in the first 9 months of 2019 and the first 9 months of 2020 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and PKP CARGO International. Transport services are rendered by 6 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., PKP CARGO International a.s., PKP CARGO International HU Zrt., PKP CARGO International SK a.s. and Primol Rail d.o.o.

In 2019, Primol Rail d.o.o. (an 80% stake in which is held by PKP CARGO International a.s.) received a B certificate, which means that it is licensed to independently render transport services in Slovenia.

The Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge, Azoty, JSW, Węglokoks, Enea, PGE, Tauron, Polska Grupa Górnicza and International Paper.

Table 12 Freight turnover of the PKP CARGO Group in 9M and Q3 2020 and 2019[113]

Item	9 months of 2020	9M 2019	Change 9 months of 2020/9M 2019		9 months of 2020	9M 2019	Q3 2020	Q3 2019	Change Q3 2020/ Q3 2019	
	(million tkm)			%	percentage of total (%)		(million tkm)			%
Solid fuels[1]	6,207	7,497	-1,291	-17.2%	36%	37%	2,082	2,433	-352	-14.4%
of which hard coal	5,114	6,360	-1,245	-19.6%	30%	31%	1,716	2,071	-355	-17.1%
Aggregates and construction materials[2]	3,317	3,995	-678	-17.0%	19%	20%	1,319	1,285	33	2.6%
Metals and ores[3]	1,401	2,323	-922	-39.7%	8%	11%	432	685	-253	-36.9%
Chemicals[4]	1,353	1,577	-224	-14.2%	8%	8%	453	502	-50	-9.9%
Liquid fuels[5]	557	745	-188	-25.3%	3%	4%	140	261	-121	-46.4%
Timber and agricultural produce[6]	728	767	-39	-5.1%	4%	4%	217	231	-14	-6.0%
Intermodal transport	3,086	3,028	57	1.9%	18%	15%	1,160	1,098	62	5.7%
Other[7]	473	467	6	1.3%	3%	2%	188	176	11	6.4%
Total	**17,121**	**20,399**	**-3,278**	**-16.1%**	**100%**	**100%**	**5,989**	**6,671**	**-682**	**-10.2%**

Source: Proprietary material

Table 13 Freight volume of the PKP CARGO Group in 9M and Q3 2020 and 2019[114]

Item	9 months of 2020	9M 2019	Change 9 months of 2020/ 9M 2019		9 months of 2020	9M 2019	Q3 2020	Q3 2019	Change Q3 2020/ Q3 2019	
	(million tons)			%	percentage of total (%)		(million tons)			%
Solid fuels[1]	33.9	39.9	-6.0	-15.1%	50%	49%	11.9	13.1	-1.2	-9.3%
of which hard coal	30.4	35.9	-5.4	-15.1%	45%	44%	10.8	11.7	-1.0	-8.2%
Aggregates and construction materials[2]	13.3	15.5	-2.2	-14.5%	20%	19%	5.2	5.3	-0.1	-2.3%
Metals and ores[3]	4.5	7.6	-3.1	-40.6%	7%	9%	1.4	2.3	-0.9	-39.5%
Chemicals[4]	4.1	4.9	-0.8	-16.1%	6%	6%	1.4	1.5	-0.1	-9.1%
Liquid fuels[5]	1.6	2.6	-1.0	-37.9%	2%	3%	0.4	0.9	-0.5	-58.0%
Timber and agricultural produce[6]	2.0	2.8	-0.8	-28.0%	3%	3%	0.6	0.8	-0.2	-28.3%
Intermodal transport	6.9	7.1	-0.2	-3.1%	10%	9%	2.6	2.5	0.1	4.6%
Other[7]	1.5	1.7	-0.3	-15.5%	2%	2%	0.5	0.6	-0.1	-10.2%
Total	**67.8**	**82.2**	**-14.4**	**-17.5%**	**100%**	**100%**	**23.9**	**27.0**	**-3.1**	**-11.4%**

Source: Proprietary material

[112] PKP CARGO S.A.'s own statistics
[113] To facilitate the reading of this document, some figures have been rounded off, which may cause negligible deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.
[114] To facilitate the reading of this document, some figures have been rounded off, which may cause negligible deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

In 9M 2020, the average haul of freight transported by rail by the PKP CARGO Group was 253 km (+1.8% yoy).

Table 14 Average haul of the PKP CARGO Group in 9M and Q3 2020 and 2019[115]

Item	9 months of 2020	9M 2019	Change 9 months of 2020/ 9M 2019		Q3 2020	Q3 2019	Change Q3 2020/ Q3 2019	
	(km)			%	(km)			%
Solid fuels[1]	183	188	-5	-2.5%	175	186	-11	-5.7%
of which hard coal	168	177	-9	-5.3%	159	176	-17	-9.8%
Aggregates and construction materials[2]	250	257	-8	-2.9%	255	243	12	5.0%
Metals and ores[3]	309	304	5	1.5%	314	301	13	4.3%
Chemicals[4]	332	325	7	2.2%	329	332	-3	-0.9%
Liquid fuels[5]	341	283	58	20.4%	359	281	78	27.6%
Timber and agricultural produce[6]	367	278	88	31.7%	370	282	88	31.1%
Intermodal transport	445	424	22	5.1%	449	445	5	1.0%
Other[7]	325	271	54	19.9%	343	290	54	18.5%
Total	**253**	**248**	**4**	**1.8%**	**250**	**247**	**3**	**1.4%**

Source: Proprietary material

[1] Includes hard coal, coke and lignite.
[2] Includes all kinds of stone, sand, bricks and cement.
[3] Includes ores and pyrites, as well as metals and metal products.
[4] Includes fertilizers and other chemicals.
[5] Includes crude oil and petrochemical products.
[6] Includes grain, potatoes, sugar beets, other produce, wood and wooden products.
[7] Includes other freight

Key factors affecting the volume of transport in various cargo categories in 9M 2020:

SOLID FUELS

- lower sales of hard coal;
- failure by power sector to collect contracted coal volumes, resulting in an increase in coal inventories stored in mine yards;
- decline in electricity production in hard coal-fired commercial power plants (much lower in Q2 2020 due to the pandemic);
- increased significance of gas-fired power plants, renewable fuels and wind farms;
- growing share of electricity imports;
- decrease in sales of coarse coal (thicker and with a higher calorific value) to individual customers and local heating plants;
- diminished hard coal imports passing through seaports,
- overhauls of power plants and delays in the commissioning of new coal-fired units;
- takeover by competitive rail operators of a portion of transport orders;
- impact of anti-smog resolutions on the market for the sale of solid fuels;
- decrease in the volume of coke transport services (suspension or limitation of the operation of steel mills and coking plants in Poland and Europe);
- lower coal output by OKD, reduced demand for coke (PKP CARGO International Group).

AGGREGATES AND CONSTRUCTION MATERIALS

- lower demand generated by customers for construction stone due to the completion of construction projects executed in 2019, a smaller scale of projects currently underway and increasing prices of construction materials and labor;
- deterioration of liquidity among construction companies and lower profitability of investments;
- delays in the execution of road construction projects resulting from the epidemic situation in Poland (restrictions on stone extraction, problems experienced by unloading firms at loading points, staff shortages, changes in the organization of construction sites);
- reduced deliveries of limestone to German power plants caused by strong supply of wind energy and shutdowns of two power units;
- high degree of competition due to the development of transportation capacity by other carriers previously operating on few routes;

[115] To facilitate the reading of this document, some figures have been rounded off, which may cause negligible deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

METALS AND ORES

- declining production of steel in Poland – declining demand for steel, persistently high prices of carbon dioxide emission rights and energy costs;
- reduction in iron ore transport services from Ukraine to Kraków due to a key client's decision to diminish steel production in Poland and the EU (shutdown of the blast furnace in Kraków on 23 November 2019 and the decision to permanently decommission the raw material part of the Krakow steelworks in October 2020);
- lower volume of slag transported from steel mills due to difficulties in obtaining it;
- lower volume of transported metals – weaker demand for finished products, high volume of scrap inventories;
- taking over scrap metal deliveries by road transport operators – strong price competition;
- temporary shutdown of steel mills in Europe, suspension of scrap metal supplies, reduced output due to a decrease in orders for metal products and scrap inventories as well as staff shortages associated with COVID-19;
- reduced orders associated with suspended manufacturing operations in car factories;

INTERMODAL TRANSPORT

- rebound of transport services provided within the framework of the New Silk Road after the decline in H1 2020;
- gradual development of transport services provided on the east-west route, the north-south route and foreign sections with the company's own traction or in cooperation with foreign rail freight operators – national rail companies and private carriers;
- continuation of container transport from/to Romania – pursuit of the expansion strategy in the area of the Three Seas Initiative;
- decrease in the volume of transported woodchips (full storage yards);
- temporary decrease in exports and imports between seaports and terminals located in the country's interior (transport of wood, semi-finished furniture, household appliances);
- increased quantum of transport services by PKP CARGO International a.s. – new transport services from/to the terminal in Paskov.

CHEMICALS

- decline in transport of hydrocarbons in imports from the east caused by a slump in demand, partly due to the coronavirus outbreak;
- decreased sulfur exports (prices below the profitability threshold for sulfur sales);
- some transport services are provided with a carrier that is a member of the client's corporate group (part of the carrier's capacity was available due to the decrease in demand for fuel transport services);
- increased volumes of other chemicals transported in transit from the east to Hungary;
- in Q3 2020, an increase in the transport of artificial fertilizers (chiefly in domestic transport).

LIQUID FUELS

- lower volume of transport orders caused by a significant reduction in fuel imports due to the coverage of demand with domestic production;
- decrease in freight volume and change in the supply logistics at the PKP CARGO Group's largest client in this segment – due to changes resulting from the current demand and supply situation and the provision of transport services by an operator from the client's own group;
- transportation of fuels (petroleum coke) in exports to Slovakia;
- increased volume of transport services provided by PKP CARGO International a.s. from Slovakia to Poland and Germany and inside the Czech Republic;
- longer average haul in the transport of liquid fuels due to a change in the structure of freight routes.

TIMBER AND AGRICULTURAL PRODUCE

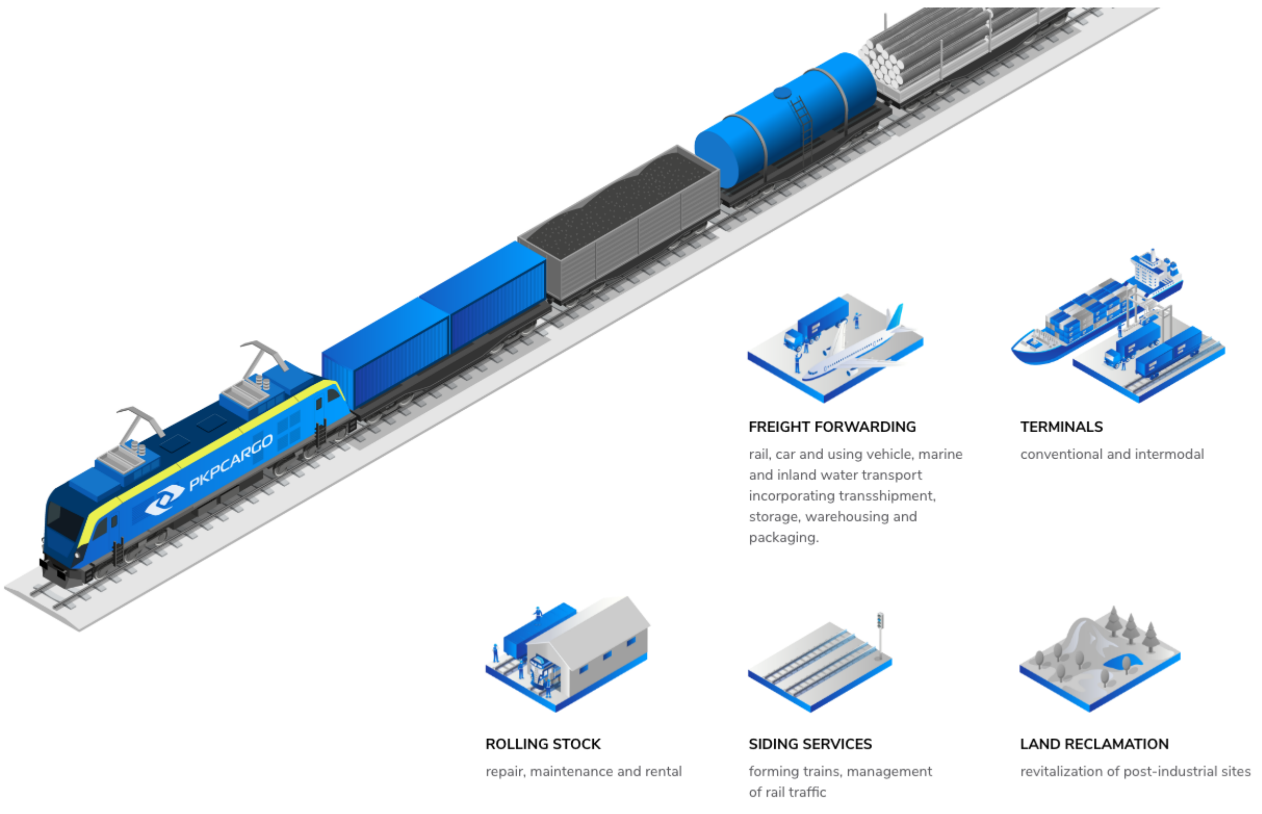
- no exports of timber to the Czech Republic, Romania or Hungary (customers purchase timber in the Czech Republic obtained from felling in forests threatened by the bark beetle);
- temporary shutdown of furniture factories due to the spread of the pandemic (COVID-19);
- suspension of biomass supply in sea imports and replacement with domestic forest chips;
- temporary suspension of timber exports to China due to COVID-19;
- absence of cane sugar imports through sea ports (because renovation of the wharf and the rail line is in progress, the client switched to road transport services);
- decrease in imports of timber and boards from Belarus (lower output due to COVID-19);
- increase in the average haul resulting from a change in the structure of freight routes (replacement of sea imports with overland imports) and acquisition of orders for transport of rapeseed animal feed;

OTHER

- lower quantities of sulfides and salt transported from Belarus (lower demand for the commodity due to COVID-19);
- lower quantities of cars transported due to the suspension of manufacturing operations in the automotive industry as a result of the COVID-19 epidemic;
- increase in the volume of ash transported domestically;
- lower volume of military transport services (restrictions imposed on the transport of freight to military training grounds due to COVID-19);
- increased average haul in transport of other cargo due to a change in the structure of freight routes.

4.3 Other services

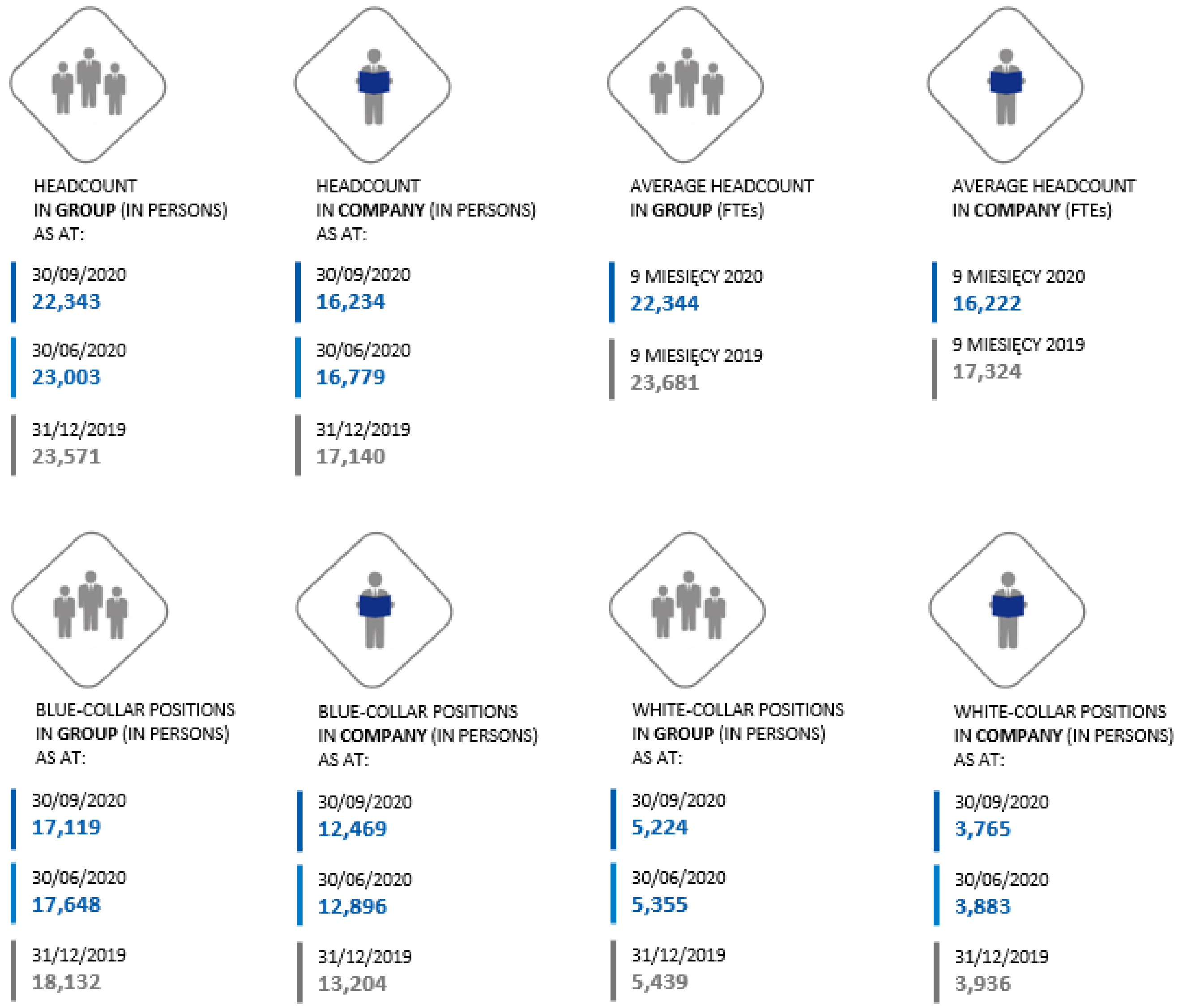
The Group does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Group. The Group conducts its business within one main segment – domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the Quarterly Condensed Consolidated Financial Statements of the Group. The Group additionally provides services related to rolling stock repairs, infrastructure maintenance and land reclamation services, but they are not material for the Group's business and therefore are not treated as separate operating segments.



4.4 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 9M 2020 and 2019 is provided below.

Figure 19 Headcount in the Company and the PKP CARGO Group in 9M and Q3 2020 and 2019



Since the beginning of 2020, the PKP CARGO Group recorded a decrease in headcount by 1,228 persons, of which PKP CARGO S.A. by 906 persons.

4.5 PKP CARGO Group's investments

In the first 9 months of 2020, the PKP CARGO Group incurred capital expenditures of PLN 597.0 million, down 33.1% compared to the corresponding period of 2019. These expenditures were spent on the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and periodic checkups of P3 rolling stock). Moreover, right-of-use assets (mainly related to real estate leases) were recognized due to the entry into force of IFRS 16.

The majority of capital expenditures in the first 9 months of 2020 in the PKP CARGO Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs (P4 and P5) and checkups (P3) of rolling stock and modernization of locomotives and wagons and purchases of locomotives and wagons – in total PLN 490.5 million (i.e. 82.2% of capital expenditures). Moreover, expenditures were incurred on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 6.5 million, investment construction activity in the amount of PLN 26.3 million, purchases of other machinery and other workshop and office equipment for PLN 10.5 million as well as right-of-use assets for PLN 63.2 million, including PLN 39.3 million in real estate, PLN 20.5 million in rolling stock and PLN 3.4 million in other areas.

Table 15 Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in 9M 2020 as compared to 9M 2019 (millions of PLN)

Item	9 months of 2020	9M 2019	Change yoy	Change yoy in %
Investment construction activity	26.3	18.6	7.7	41.4%
Purchases of locomotives	33.0	49.5	-16.5	-33.3%
Modernization of locomotives	118.0	209.0	-91.0	-43.5%
Purchases of wagons	113.4	47.4	66.0	139.2%
Wagon upgrades	3.7	0.0	3.7	-
Workshop machinery and equipment	8.3	13.9	-5.6	-40.3%
ICT development	6.5	4.7	1.8	38.3%
Other	2.2	2.8	-0.6	-21.4%
Components in overhaul, including:	222.4	457.0	-234.6	-51.3%
Repairs and periodic inspections of locomotives	*66.2*	*117.9*	*-51.7*	*-43.9%*
Repairs and periodic inspections of wagons	*156.2*	*339.1*	*-182.9*	*-53.9%*
Right-of-use assets	63.2	88.9	-25.7	-28.9%
Total	**597.0**	**891.8**	**-294.8**	**-33.1%**

Source: Proprietary material

4.6 Key information and events

January

- Signing of a contract with Enea Wytwarzanie sp. z o.o. for the carriage of 1.5 million tons of hard coal from Silesia to the Kozienice power plant. The contract will be performed from January 2020 to March 2021. Its estimated gross value is in excess of PLN 42 million.
- Cross-border merger of AWT Rekultivace a.s. with its registered office in Havířov as the acquiring company (in which PKP INTERNATIONAL a.s. holds a 100% stake) with AWT Rekultivace PL sp. z o.o. with its registered office in Cieszyn.
- AWT Rekultivace received an order for the construction of a sewage system in Olza. The value of the contract is PLN 15.5 million and it has been signed for 24 months.
- Registration of an increase in the share capital of Centralny Terminal Multimodalny to PLN 1.5 million with the concurrent change in the company's ownership structure and distribution of votes at the Shareholder Meeting: 99.83% for PKP CARGO S.A. and 0.17% for PKP S.A.

February

- Change of the name of AWT RAIL HU Zrt. to PKP CARGO INTERNATIONAL HU Zrt.
- Consent of the Supervisory Board to incur liabilities by accepting a proposal and entering into a contract for the sale of electricity and provision of distribution services between PKP CARGO S.A. and PKP Energetyka S.A. The contract was entered into for the period from 1 January 2021 to 31 December 2022. The expected aggregated net value of the contract during its term is PLN 902.5 million (gross value of PLN 1.1 billion).

March

- Tendering of a resignation by Mr. Grzegorz Fingas, Management Board Member in charge of Commerce, effective as of 23 March 2020. In connection with this resignation, the PKP CARGO S.A. Supervisory Board adopted a resolution to initiate a recruitment procedure for the position of PKP CARGO S.A. Management Board Member in charge of Commerce. On 23 March 2020, the PKP CARGO S.A. Management Board adopted a resolution on entrusting the President of the PKP CARGO S.A. Management Board, on a temporary basis, with supervision of matters and organizational units of the Company's Head Office included in the scope of powers of the PKP CARGO S.A. Management Board Member in charge of Commerce until a new Management Board Member in charge of Commerce is appointed.
- On 23 March 2020, the PKP CARGO S.A. Management Board adopted a resolution to cover the loss disclosed in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 prepared in compliance with EU IFRS in the amount of PLN 8,342,986.75 and decided to submit a motion to the PKP CARGO S.A. Ordinary Shareholder Meeting to adopt a resolution to cover this loss with retained earnings. The Supervisory Board issued a positive opinion on the motion submitted by the Management Board.
- On 25 March 2020, the Company's Supervisory Board gave consent to incur a liability by a executing a loan agreement with the European Investment Bank under which an investment loan will be made available to the Company up to a maximum value of

April

- PKP CARGO and LG CARGO (a subsidiary of the Lithuanian Railways – Lietuvos Geležinkeliai) signed a letter of intent regarding the possible establishment of a joint venture to operate intermodal rail connections between Poland and Lithuania. At the same time, the letter of intent constitutes nothing more than an expression of both companies' intent to undertake cooperation and does not give rise to any obligations.
- PKP CARGO CONNECT acquired a permit to transport food by rail from Poland to China in transit via Russia. These transport services will be organized in a manner enabling the enforcement of Russian restrictions resulting from the embargo on food imports from Poland and other EU countries.
- PKP CARGO CONNECT launches regular operator trains under the Connect Operator brand, initially on the following three routes:

May

- On 7 May 2020, the Company signed a framework agreement between PKP CARGO and trade unions operating in the Company. The Parties agreed to reduce the working time of PKP CARGO employees by 10% but no less than 0.5 of the FTE. At the same time, the employees affected by the reduced working time will receive salary reduced pro rata to the reduction of working time, however the salary cannot be lower than the minimum salary set in accordance with the law on minimum wages.
- On 7 May 2020, PKP CARGO S.A. signed an agreement with the European Investment Bank to grant an investment loan up to a maximum amount of EUR 200 million.
- On 14 May 2020, the PKP CARGO Management Board announced the signing of separate agreements between Employers (the Company's Head Office and 7 Company Units) and representative trade union organizations The signing of these agreements will enable the Company to apply for support from the Guaranteed Employee Benefits Fund.
- Temporary closure of two PGG mines, Murcki-Staszic and Jankowice, due to the coronavirus epidemic.
- On 25 May 2020, the PKP CARGO S.A. Supervisory Board adopted a resolution to complete of the recruitment procedure for the position of Management Board Member in charge of Commerce without a decision and then a resolution on the initiation to initiate a recruitment procedure for the position of PKP CARGO S.A. Management Board Member in charge of Commerce.

June

- In PKP CARGO CONNECT Sp. z o.o., by the power of the agreement signed on 9 June 2020, in the period from 1 July to 30 September 2020, the working time of all employees was reduced by 5% and their salary was reduced proportionately.
- On 13 June 2020, a final non-appealable court ruling was handed down to dissolve P.P.H.U. UKPOL Sp. z o.o. (a fully-owned subsidiary of PKP CARGO CONNECT sp. z o.o.) without conducting liquidation proceedings, as a result of which the company ended its legal existence on 13 June 2020 and ceased to be a related party of PKP CARGO.
- With effect from 24 June 2020, a new name of AWT Rail SK a.s. with its registered office in Bratislava, Slovakia (a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s.) was registered in the business register of the Slovak Republic. Since 24 June 2020, the company has been operating under the business name of PKP CARGO INTERNATIONAL SK a.s.
- On 29 June 2020, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted, among others, a resolution to cover the loss carried in the Standalone Financial Statements of PKP CARGO S.A. with retained earnings, a resolution to adopt the "Compensation Policy for Members of the PKP CARGO S.A. Management Board and Supervisory Board" and resolutions to amend the Articles of Association of PKP CARGO S.A.
- In Małaszewicze, agreements were signed for the modernization and expansion of the intermodal terminal, including the purchase of equipment. The expected total net cost of the project is over PLN 30.6 million. This task received EU funding in the amount of over PLN 12.8 million under the Operational Program Infrastructure and Environment 2014-2020, measure 3.2 Development of Maritime Transport, Inland Waterways and Multimodal Connections.
- Receipt by PKP CARGO S.A. from the Voivodship Labor Office in Warsaw, on 26 June 2020, the first tranche of co-funding for employee salaries from the Guaranteed Employee Benefits Fund, in the amount of PLN 34.14 million.

July

- In PKP CARGOTABOR Sp. z o.o., by the power of the agreement signed on 2 July 2020, in the period from 1 July to 30 September 2020, the working time of all employees was reduced by 10% and their salary was reduced proportionately. Receipt by PKP CARGO S.A. of the second tranche of co-funding for employee salaries from the Guaranteed Employee Benefits Fund, in the amount of PLN 34.14 million. Provision, by the Voivodship Labor Office in Warsaw, of a signed agreement on payment of benefits towards protection of jobs from the Guaranteed Employee Benefits Fund to subsidize the salaries of employees covered by downtime due to economic reasons or reduced work time as a result of COVID-19.
- Receipt by PKP CARGO S.A. of the second tranche of co-funding for employee salaries from the Guaranteed Employee Benefits Fund, in the amount of PLN 34.14 million.
- On 15 July 2020, the PKP CARGO S.A. Management Board received from its shareholder PKP S.A. a letter on the appointment of Ms. Izabela Maria Wojtyczka to the Supervisory Board as of 16 July 2020.
- On 24 July 2020, the PKP CARGO S.A. Management Board received from PKP S.A. a letter on the dismissal of Ms. Małgorzata Kryszkiewicz from the Supervisory Board as of 24 July 2020.
- PKP CARGO S.A. won a tender for the provision of transport services to the ENEA Group. Over a period of 15 months, the Company will transport approx. 6 million tons of hard coal for the estimated gross value of the contracts of approx. PLN 72 million. The freight will be transported from LW Bogdanka to Enea Wytwarzanie in Świerże Górne.

August

- Receipt by PKP CARGO S.A. of the third tranche of co-funding for employee salaries from the Guaranteed Employee Benefits Fund, in the amount of PLN 34.14 million.
- Appointment of Mr. Antoni Duda to the Supervisory Board as of 21 August 2020.
- Consent of the Supervisory Board to sign annexes regarding the execution and financing of the construction of the multimodal terminal in Karsznice.
- As a result of the recruitment procedure, on 24 August 2020 the PKP CARGO S.A. Supervisory Board adopted a Resolution to appoint Mr. Piotr Wasaty to the position of Management Board Member in charge of Commerce.
- On 24 August 2020, the PKP CARGO S.A. Supervisory Board adopted the consolidated text of the Articles of Association of PKP CARGO S.A.
- Tendering of a resignation with effect from 31 August 2020 from the Company's Supervisory Board by Mr. Mirosław Antonowicz.

September

- Registration of amendments to the Company's Articles of Association.
- On 17 September 2020, PKP CARGO S.A. and LTG Cargo Polska Sp. z o.o. entered into a shareholder agreement aimed at the pursuit of a joint venture involving the establishment of a special purpose vehicle to serve as an intermodal operator dedicated to the development of international transport between Lithuania and Western Europe.
- On 30 September 2020, commercial agreements were signed between PKP CARGO a ArcelorMittal Poland S.A. ("AMP") and ArcelorMittal Warszawa Sp. z o. o. ("AMW"). The agreements pertain to the provision of freight rail transport services by the Company to the counterparties. The agreements will be in effect from 1 July 2020 to 30 June 2023 (3 years). The estimated revenues under the AMP Agreement are PLN 750 million net (PLN 922 million gross), while the estimated revenues under the AMW Agreement are PLN 54 million net (PLN 67 million gross).

October

- The Company's Management Board made a decision to abandon the project involving the acquisition of shares in P.U. Hatrans Sp. z o.o. by PKP CARGO.
- Execution of 2-year agreements with PGNiG TERMIKA for the transport of hard coal. The estimated value of the agreements is approx. PLN 101.3 million. The coal will be transported, among others, from Silesian mines (PGG, JSW, Węglokoks Kraj and PG Silesia) and from LW Bogdanka to the Siekierki Cogeneration Plant, the Żerań Cogeneration Plant, the Kawęczyn Cogeneration Plant and the Pruszków Cogeneration Plant.
- Convocation of the Extraordinary Shareholder Meeting of PKP CARGO S.A.
- Signing of a letter of intent between PKP CARGO and PKP Energetyka, in which the companies confirmed the establishment of cooperation in creating the most effective and innovative solutions that will enable PKP CARGO to use electricity generated from renewable energy sources.

November

- Consent of the PKP CARGO S.A. Supervisory Board to incur liabilities by entering into a contract for the regular purchase of diesel fuel for traction vehicles between PKP CARGO S.A. and PKP Energetyka S.A. The contract will be entered into for the period from 1 January 2021 to 31 December 2030. The expected aggregated net value of the contract during its term is PLN 718.2 million (gross value of PLN 883.4 billion).
- PKP CARGO CONNECT and Krajowa Spółka Cukrowa ("KSC") entered into a 10-year contract for the transport of sugar from KSC branches to the Sugar Terminal in the Gdańsk seaport. The contract will be performed in 2021-2030. The estimated volume of sugar to be transported is approx. 2 million tons.
- 16 November 2020, the Extraordinary General Meeting of PKP CARGO S.A. adopted a resolution on the selection of an audit firm (Grant Thornton Frąckowiak) and a resolution on the principles and amounts of remuneration for members of the Supervisory Board of PKP CARGO S.A.

5. Analysis of the financial situation and assets of the PKP CARGO Group

5.1 Key economic and financial figures of PKP CARGO Group

5.1.1. Financial highlights of the PKP CARGO Group and PKP CARGO S.A.

Table 16 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million[116]		EUR million	
	9 months of 2020	9M 2019	9 months of 2020	9M 2019
Exchange rates (PLN/EUR)			**4.4420**	**4.3086**
Operating revenue	3,125.5	3,671.6	703.6	852.2
Operating profit / loss	-145.4	182.8	-32.7	42.4
Profit / loss before tax	-208.4	129.0	-46.9	29.9
Net profit / loss	-176.3	98.7	-39.7	22.9
Total comprehensive income attributable to the owners of the parent company	-260.9	85.7	-58.7	19.9
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share (PLN)	-3.94	2.20	-0.89	0.51
Diluted earnings / losses per share (PLN)	-3.94	2.20	-0.89	0.51
Net cash flow from operating activities	381.1	563.3	85.8	130.7
Net cash flow from investing activities	-459.2	-588.0	-103.4	-136.5
Net cash flow from financing activities	-93.8	-236.3	-21.1	-54.8
Movement in cash and cash equivalents	-171.9	-261.0	-38.7	-60.6
	30 Sep 2020	**31 Dec 2019**	**30 Sep 2020**	**31 Dec 2019**
Exchange rates (PLN/EUR)			**4.5268**	**4.2585**
Non-current assets	6,453.3	6,503.8	1,425.6	1,527.3
Current assets	1,219.7	1,487.5	269.4	349.3
Non-current assets classified as held for sale	12.3	-	2.7	-
Share capital	2,239.3	2,239.3	494.7	525.8
Equity attributable to the owners of the parent company	3,162.4	3,423.3	698.6	803.9
Non-current liabilities	3,125.8	3,115.9	690.5	731.7
Current liabilities	1,397.1	1,452.1	308.6	341.0

Source: Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2020 prepared according to EU IFRS

[116] To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

Table 17 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million		EUR million	
	9 months of 2020	9 months of 2019	9 months of 2020	9M 2019
Exchange rates (PLN/EUR)			**4.4420**	**4.3086**
Operating revenue	2,273.4	2,728.0	511.8	633.2
Operating profit / loss	-169.8	97.7	-38.2	22.7
Profit / loss before tax	-162.0	85.0	-36.5	19.7
Net profit / loss	-126.2	62.7	-28.4	14.6
Comprehensive income	-200.0	44.6	-45.0	10.4
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares taken into account to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share (PLN)	-2.82	1.40	-0.63	0.32
Diluted earnings / losses per share (PLN)	-2.82	1.40	-0.63	0.32
Net cash flow from operating activities	293.8	478.9	66.1	111.1
Net cash flow from investing activities	-357.1	-503.2	-80.4	-116.8
Net cash flow from financing activities	-49.0	-168.8	-11.0	-39.2
Movement in cash and cash equivalents	-112.3	-193.1	-25.3	-44.8
	30 Sep 2020	**31 Dec 2019**	**30 Sep 2020**	**31 Dec 2019**
Exchange rates (PLN/EUR)			**4.5268**	**4.2585**
Non-current assets	5,995.4	6,030.5	1,324.4	1,416.1
Current assets	823.8	989.8	182.0	232.4
Non-current assets classified as held for sale	12.3	-	2.7	-
Share capital	2,239.3	2,239.3	494.7	525.8
Equity	3,010.4	3,210.4	665.0	753.9
Non-current liabilities	2,748.4	2,659.0	607.1	624.4
Current liabilities	1,072.7	1,150.9	237.0	270.2

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2020 prepared according to EU IFRS.

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group and the Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2020:

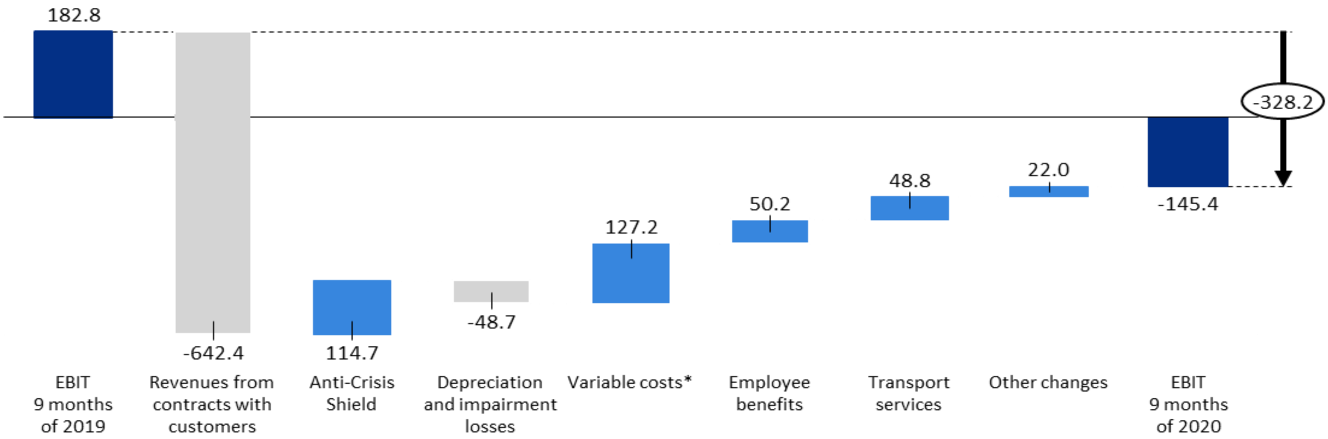
- exchange rate in force on the last day of the reporting period: 30 September 2020: EUR 1 = PLN 4.5268; 31 December 2019: EUR 1 = PLN 4.2585,
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in the respective period: 1 January – 30 September 2020: EUR 1 = PLN 4.4420, 1 January – 30 September 2019: EUR 1 = PLN 4.3086.

5.1.2. Analysis of selected financial highlights of the PKP CARGO Group

Statement of profit or loss of the PKP CARGO Group

In the period of the first 9 months of 2020, EBIT reached PLN -145.4 million, having gone down by PLN 328.2 million compared to the corresponding period of 2019.

Figure 20 EBIT in 9M 2020 as compared to the corresponding period in 2019 (PLN million)



Source: Proprietary material

* Variable costs are the costs of: traction fuel, traction energy and access to infrastructure.

The following is the explanation of the most significant changes affecting EBIT in the first 9 months of 2020 as compared to the first 9 months of 2019:

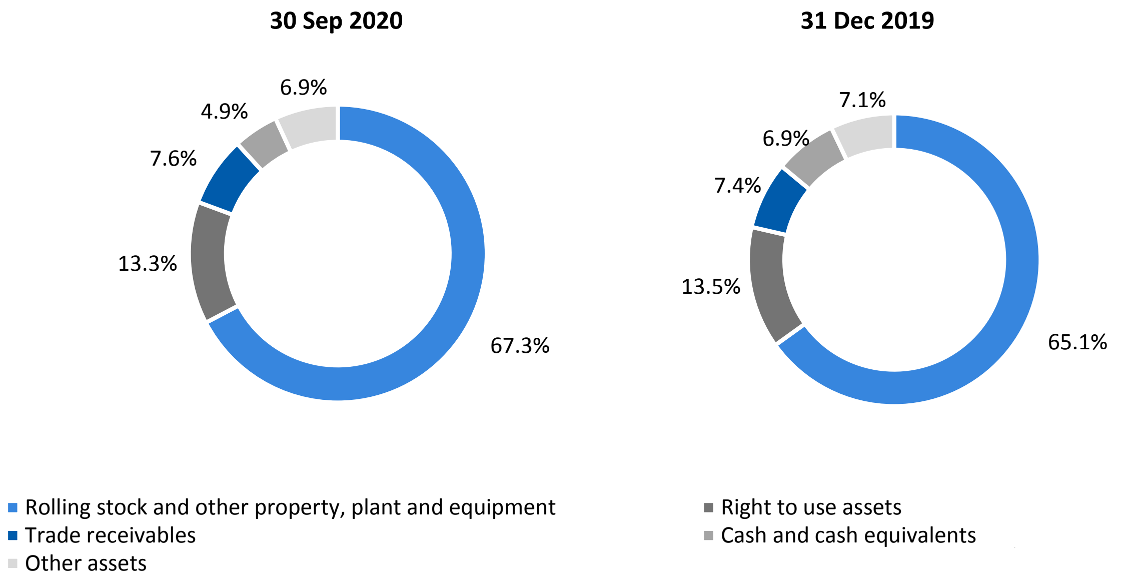
- decrease in revenues from contracts with customers (chiefly revenue from transportation services and freight forwarding services) which resulted directly from lower transport performance (decrease in freight turnover by 16.1%). The details pertaining to the PKP CARGO Group's transport services are described in section **4.2.5 "PKP CARGO Group's rail transport business"**;
- within the framework of the anti-crisis shield, funds were obtained for the co-funding of payroll expenditures from the Guaranteed Employee Benefits Fund in the total amount of PLN 114.7 million (classified as other operating revenue);
- increase in depreciation costs and impairment losses in connection with an increase in capital expenditures (including capital expenditures on rolling stock) in 2019 and an update of the residual value of rolling stock as at 31 December 2019;
- decrease in variable costs (consumption of electricity and traction fuel and infrastructure access services) by 14.8% as a result of a 16.1% decrease in freight turnover;
- decrease in the costs of employee benefits due to a decline in headcount and a temporary reduction in working time at PKP CARGO S.A., PKP CARGO CONNECT Sp. z o.o. and PKP CARGOTABOR Sp. z o.o. These measures resulted in job cuts by 1,337 FTEs yoy. Detailed information on the reduction in working time is presented in section **6.1 "Impact of the COVID-19 pandemic on the Group's business"**, and detailed information on the changes in headcount is presented in section **4.4 "Headcount"**;
- decrease in the value of transport services by 17.0% as a result of the lower quantum of transported freight (freight turnover down by 16.1%);
- the line item "other changes" had a favorable impact on EBIT, partly due to the decrease in the costs of rents and fees for the use of real properties and rolling stock by PLN 18.5 million (partly due to a decrease in the costs of short-term rental of wagons resulting from the decrease in freight turnover, coupled with a decrease in the costs of fees for wagon parking charges also due to the decrease in freight turnover), consumption of non-traction fuel by PLN 5.1 million (partly due to a decrease in unit fuel prices) and business trips by PLN 4.0 million (reduced volume of travel during the COVID-19 pandemic).

Statement of financial position of the PKP CARGO Group

ASSETS

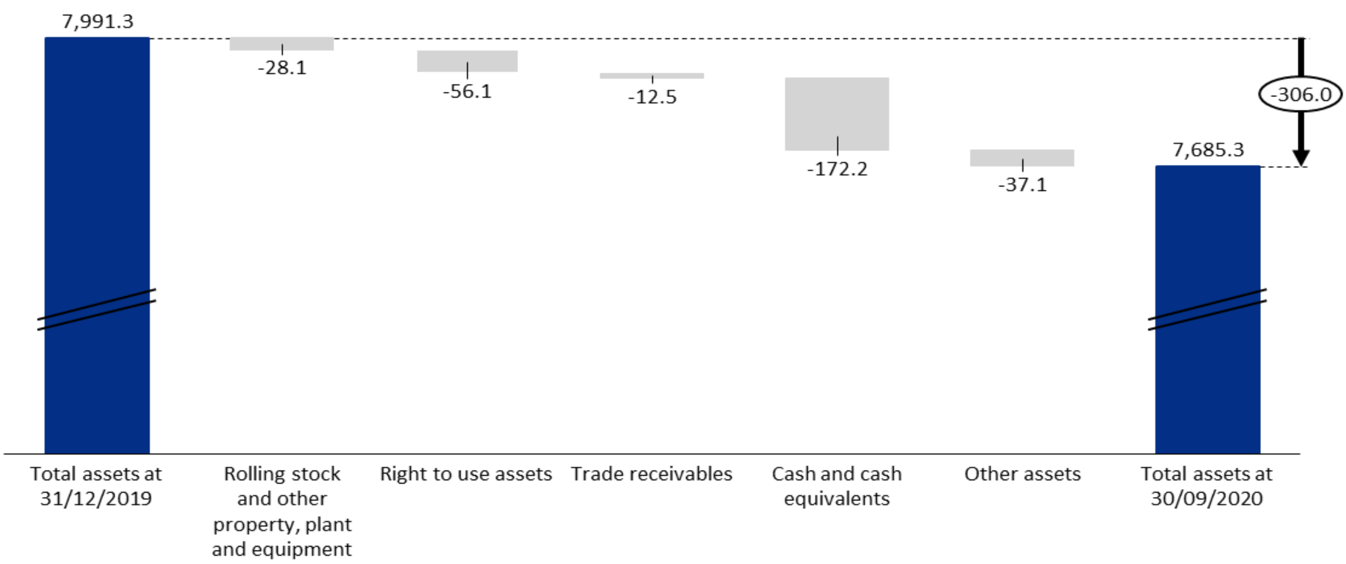
As at 30 September 2020, rolling stock and other property, plant and equipment had the largest share in the structure of assets, accounting for 67.3% of total assets, compared to 65.1% as at 31 December 2019. The largest share in the structure of current assets as at 30 September 2020 in relation to total assets was attributable to trade receivables, which represented 7.6% of total assets.

Figure 21 Structure of assets – as at 30 September 2020 and 31 December 2019



Source: Proprietary material

Figure 22 Movement in the Group's assets in the first 9 months of 2020 (PLN million)



Source: Proprietary material

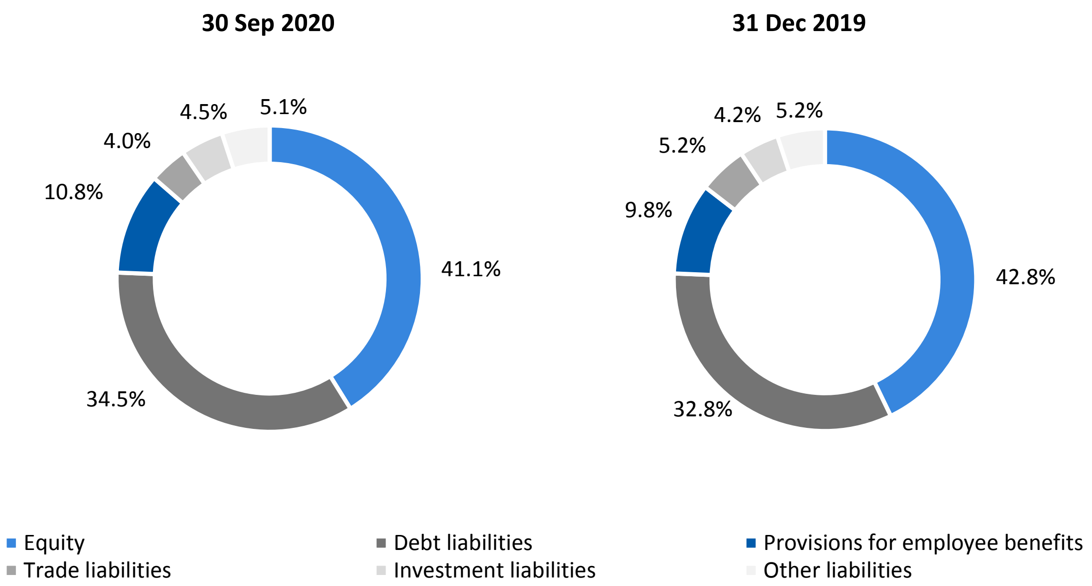
The following is the explanation of the most significant changes affecting the value of assets as at 30 September 2020 as compared to 31 December 2019:

- the decrease in the value of rolling stock and other property, plant and equipment resulted chiefly from the reclassification of certain assets to non-current assets classified as held for sale and the liquidation and sale of fixed assets unnecessary for the conduct of effective operating activity;
- the decrease in right-of-use assets resulted from the higher cost of depreciation under IFRS 16 than capital expenditures of IFRS 16;
- the increase in the value of trade receivables resulted chiefly from decrease in freight turnover coupled with the extension of payment due dates for some counterparties as part of commercial concessions;
- the decrease in cash and cash equivalents resulted predominantly from the acquisition of non-financial non-current assets in the amount of PLN 498.1 million with the concurrent proceeds from obtained loans and borrowings in the amount of PLN 289.3 million and proceeds from the sale of non-financial non-current assets in the amount of PLN 35.9 million;
- the decrease in the value of other assets resulted chiefly from a decrease in VAT settlements by PLN 39.9 million and a decrease in income tax receivables by PLN 48.7 million due to the refund by the Tax Office of advances for corporate income tax paid by the Tax Group for 2019 with a simultaneous increase in deferred tax assets by PLN 50.2 million resulting mainly from the current tax loss, currency valuation of loan liabilities and an increase in the valuation of provisions for employee benefits.

EQUITY AND LIABILITIES

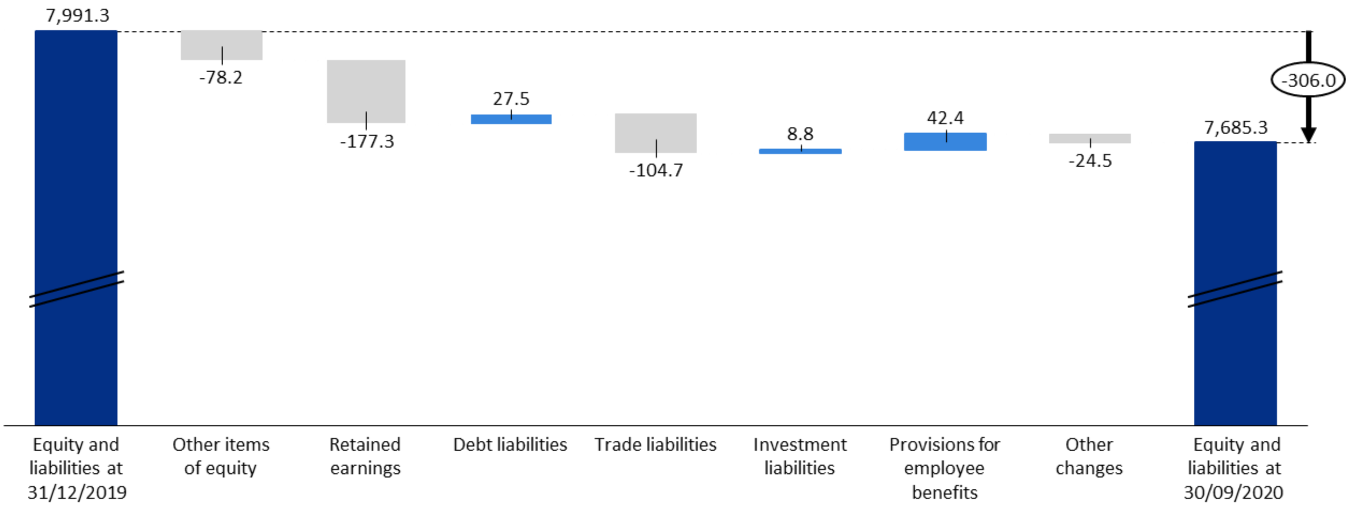
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 30 September 2020 was attributable to equity, which accounted for 41.1% of the sum of equity and liabilities, compared to 42.8% as at 31 December 2019. Debt liabilities accounted for 34.5% of total equity and liabilities, compared to 32.8% as at 31 December 2019.

Figure 23 Structure of the Group's equity and liabilities as at 30 September 2020 and 31 December 2019



Source: Proprietary material

Figure 24 Movement in the Group's equity and liabilities in the first 9 months of 2020 (PLN million)



Source: Proprietary material

The following is the explanation of the most significant changes affecting the value of equity and liabilities as at 30 September 2020 as compared to 31 December 2019:

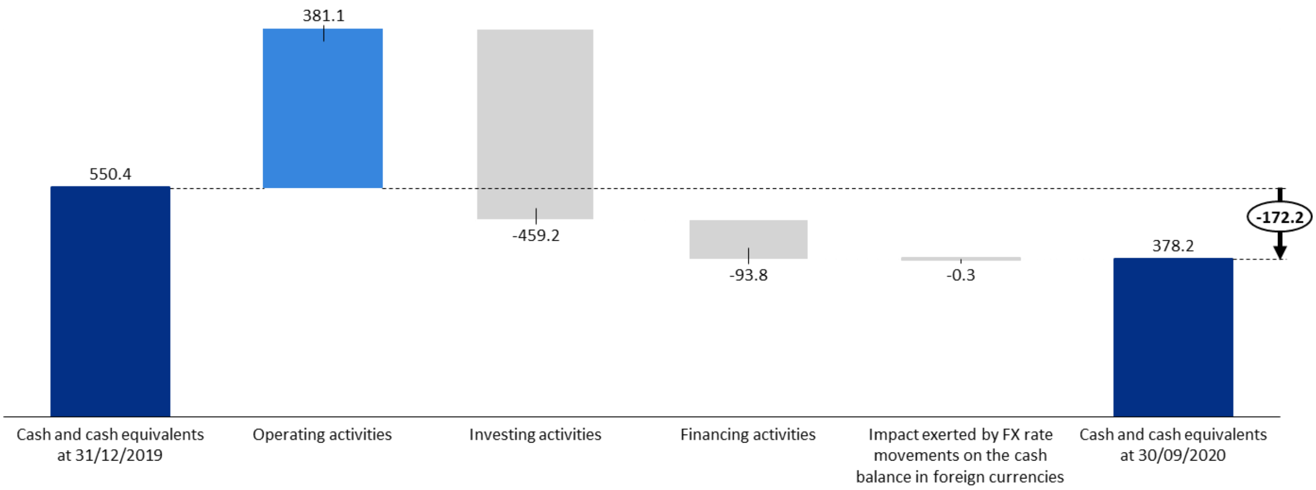
- decrease in the value of other items of equity related predominantly to actuarial losses associated with employee benefits in the amount of PLN 42.2 million (as a result of an increase in employee provisions) and a negative valuation of hedging instruments of PLN 35.3 million;
- decrease in retained earnings as a result of the negative financial result generated by the PKP CARGO Group;
- increase in debt liabilities, chiefly as a result of the taking out of new bank loans, non-bank loans and leases, with the simultaneous repayment of the principal on bank loans, non-bank loans and leases. Additionally, the increase in debt liabilities was affected by changes in exchange rates. Detailed information on debt liabilities is presented in **Note 4.1. to the Consolidated Financial Statements**[117];
- decrease in trade payables, mainly as a result of a decrease in freight turnover and a decrease in liabilities in PKP CARGOTABOR Sp. z o.o. caused by a reduction in repairs of wagons and locomotives;
- increase in investment liabilities, chiefly due to an increase in liabilities on account of the purchase of rolling stock in the amount of PLN 38.1 million, with a simultaneous decrease in investment liabilities related to real properties by PLN 11.7 million (repairs of real properties intensified at the end of 2019) and a decrease in other investment liabilities by PLN 17.6 million (mainly a decrease in liabilities related to IT and machinery and equipment indirectly related to the transportation process);
- increase in provisions for employee benefits, mainly in connection with a change in the discount rate and a change in the basis for calculating provisions for the Company Social Benefits Fund for old-age and disability pensioners (provisions for the Company Social Benefits Fund);
- decrease in the value of other changes, resulting chiefly from a decrease in other provisions by PLN 7.1 million (including provisions for disputable claims, litigation and contractual penalties), a decrease in deferred tax liabilities by PLN 6.8 million and a decrease in exchange differences resulting from conversion of financial statements of foreign operations by PLN 6.4 million.

[117] Any reference herein to a Note should be construed as a Note to the Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the period of 9 months ended 30 September 2020 prepared according to EU IFRS, unless indicated otherwise.

Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 30 September 2020 decreased by PLN 172.2 million compared to 31 December 2019.

Figure 25 Cash flows of the PKP CARGO Group in the first 9 months of 2020 (PLN million)



Source: Proprietary material

- Net cash flow from operating activities were generated on the loss before tax of PLN 208.4 million and depreciation and impairment losses of PLN 579.0 million. Moreover, increased cash flows from operating activities were posted as a result of an income tax settlement with the Tax Office in the amount of PLN 45.4 million;
- the cash flows from investing activities resulted predominantly from capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 498.1 million, with proceeds from the sale of non-financial non-current assets of PLN 35.9 million as a result of a decision to sell assets unnecessary for the efficient conduct of operating activities;
- the cash flow on financial activities resulted chiefly from PLN 289.3 million in proceeds from new loans and obtained grants in the amount of PLN 17.4 million, offset by the repayment of loans and borrowings and lease expenses along with interest on leases, loans and borrowings in the amount of PLN 398.1 million.

5.1.3 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the PKP CARGO Group's key financial and operating ratios in the first 9 months of 2020 compared to the corresponding period of the previous year.

Table 18 Key financial and operating ratios of the PKP CARGO Group in 9M 2020 as compared to the corresponding period of 2019

Item	9 months of 2020	9 months of 2019	Change	Rate of change
			2020 - 2019	2020/2019
EBITDA margin[1]	13.9%	19.4%	-5.5	-28.6%
Net profit margin[2]	-5.6%	2.7%	-8.3	-
ROA[3]	-3.1%	1.2%	-4.3	-
ROE[4]	-7.6%	2.5%	-10.1	-
Average distance covered per locomotive (km per day)[5]	216.3	223.3	-7.0	-3.1%
Average gross train tonnage per operating locomotive (tons)[6]	1,430.0	1,454.0	-24.0	-1.7%
Average running time of train locomotives (hours per day)[7]	14.1	14.7	-0.6	-4.1%
Freight turnover per employee (thousands tkm/employee)[8]	766.3	861.4	-95.2	-11.0%

Source: Proprietary material

1. Calculated as the ratio of the operating result plus depreciation and amortization (EBITDA) to total operating revenue.
2. Calculated as the ratio of net result to total operating revenue.
3. Calculated as the ratio of net profit/loss for the last 12 months to total assets.
4. Calculated as the ratio of net profit for the last 12 months to equity.
5. Calculated as the ratio of vehicle-kilometers (i.e. the distance covered by the Group's vehicles in the given period) to vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
6. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
7. Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of the Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
8. Calculated as the ratio of freight turnover to the average headcount (in FTEs) in the Group in the given period.

To assess the performance of the PKP CARGO Group, the following basic financial indicators may be applied: EBITDA margin, net profit margin, ROA, ROE, and the following basic operational indicators: average daily mileage, average daily running time of locomotives and average train weight per locomotive, which reflect the freight volume and the degree of utilization of traction vehicles.

- The key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were lower on a yoy basis for the reasons described in section **5.1. Key economic and financial figures of PKP CARGO Group;**
- the lower average daily haul of locomotives resulted from a decrease in freight volume and was caused by copious track closures and operational difficulties on the PKP PLK network;
- the lower average gross train tonnage per operating locomotive also resulted from the decrease in freight volume and was caused by copious track closures and operational difficulties on the PKP PLK network;
- the decrease in the average daily operating time of locomotives was caused by the reasons described above;
- the decrease in the freight turnover per employee ratio was caused predominantly by a fall in freight turnover by 16.1% yoy coupled with a decrease in FTEs by 5.6% yoy.

5.2 Factors that will affect financial performance in the next quarter

Situation related to COVID-19

- The closure of certain mines will result in lower output, while the decrease in demand for coal will result in lower transport volumes of this commodity.
- Delays in the execution of road construction projects resulting from the epidemic situation affected the demand for the transportation of aggregates.
- Decision to shut down the blast furnace in Kraków by ArcelorMittal Poland. The shutdown process of the blast furnace and steel plant was commenced in October and will take several weeks. In turn, AMP intends to increase production in Dąbrowa Górnicza.
- Increase in additional costs caused by the implementation of solutions that affect changes in the organization and efficiency of work.
- Amendments to the generally applicable laws and internal regulations adopted by PKP CARGO S.A. due to the spread of the SARS-CoV-2 virus.
- The growing number of infections, the imposition of restrictions and the risk of another lockdown are likely to adversely affect the rate of economic growth in the coming months, halting the recovery observed in Q3.

Situation on the energy fuel market

- The decrease in electricity consumption in the Polish economy translates into lower demand for coal transport services. However, due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy.

Situation on the aggregates market

- Lower demand generated by customers for construction stones due to a smaller scale of investment projects and higher prices.
- Deterioration of liquidity among construction companies and lower profitability of investments.

Situation on the intermodal transport market

- Return to the previous transport volumes between China and Western Europe via Małaszewicze following the suspension of imports from China by sea and land.

Condition of rail infrastructure

- Hindrances and the necessity to route railway traffic using detours.
- Railway track closures affecting the throughput of the lines and stations used.

Rail infrastructure access charges

- The costs of access to infrastructure will continue to constitute a significant item of operating expenses.
- As regards domestic and foreign infrastructure, no significant changes are expected to take place in the coming quarter.
- Proposed Regulation of the European Parliament and of the Council establishing measures for a sustainable rail market in view of the COVID-19 pandemic – where applicable, Member States may apply a derogation concerning track access charges depending on market segments such as passenger or freight transport, in a transparent, objective and non-discriminatory manner. It is up to each Member State to decide whether to implement any such derogations.

5.3 Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

PKP CARGO S.A. S.A. has not published any financial forecasts for 2020.

5.4 Information about production assets

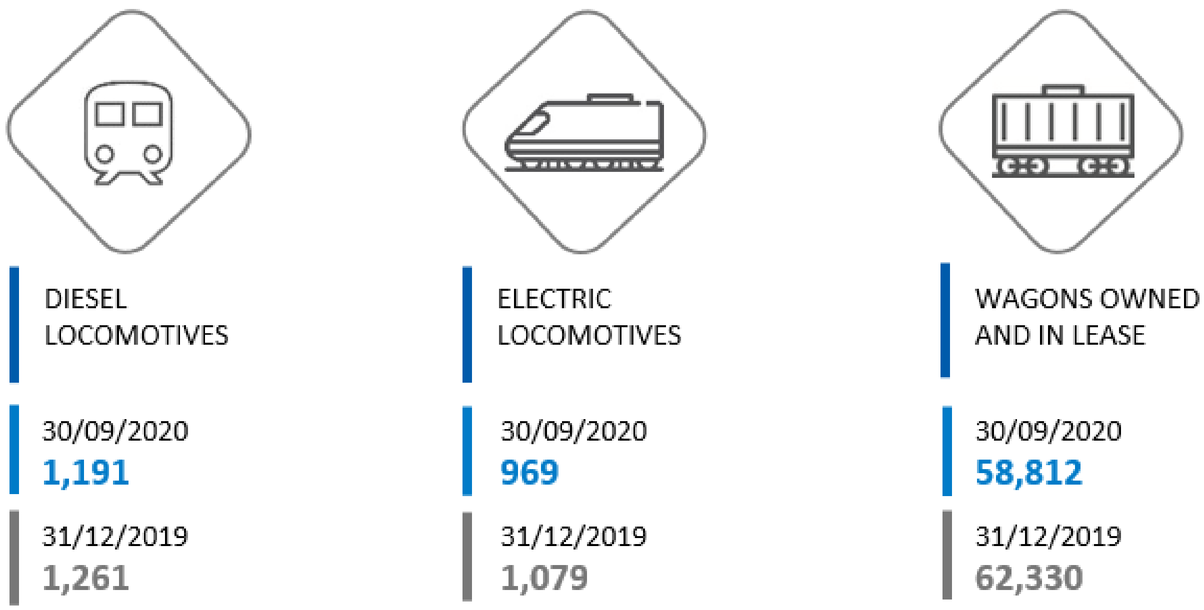
5.4.1 Rolling stock

PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5 and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and sub-assemblies for other owners.

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. Additionally, locomotive modernizations are carried out, which do not affect the overall size of the rolling stock but they do change its age structure and in some cases change the quantities in individual series when a locomotive after a modernization changes its series and purpose.

In 9M 2020, the number of wagons owned by the Group decreased significantly. This decrease is directly related to the sale by PKP CARGO S.A. of some of its type G, T and U freight wagons. The wagons slated for sale, due to their technical condition, construction, intended use and type of the applied loading/unloading technologies are no longer used by the Company.

Figure 26 Structure of rolling stock used by the PKP CARGO Group as at 30 September 2020 and 31 December 2019



5.4.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. The majority of real estate held by the Group is used on the basis of lease and rental agreements.

The table below presents changes in real estate owned and used by the PKP CARGO Group during the first 9 months of 2020.

Table 19 Real estate owned and used by PKP CARGO Group as at 30 September 2020 as compared to 31 December 2019

Item	30 Sep 2020	31 Dec 2019	Change 2020/2019
Land – owned, in perpetual usufruct and leased from other entities [ha]	1,420	1,449	29
Buildings - owned, leased and rented from other entities [sqm]	689,464	723,962	34,498

Source: Proprietary material

The change in the size of the land and buildings used (owned, leased and rented from other entities) results from the ongoing verification of the quantum of assets necessary for the Parent Company and its subsidiaries and adjusting it to the scale and profile of conducted activity. In the period under analysis, the greatest impact was exerted by the sale of a building in Rychvald and the termination of a lease of a portion of space by PKP CARGO International (chiefly in Prague).

6. Other key information and events

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

During the past three quarters of the year, the COVID-19 epidemic exerted a major impact on the rail freight market. Its adverse impact on the PKP CARGO Group's business manifested itself in the slowdown in industrial output, decisions of the state administration regarding restrictions or suspension of the activity of certain sectors of the economy and restrictions in the social sphere related to the imposed lockdown. The tangible outcome of these restrictions was a significant decrease in the number of orders for the transport of cargo, thus making transport companies experience a substantial plunge in freight volume and freight turnover.

The pandemic caused a decline in electricity generation in hard coal-fired commercial power plants (especially in Q2), which translated directly into a slump in the freight volume of energy resources. A downward trend was also recorded in the transport of aggregates – restrictions on stone extraction, problems experienced by unloading firms at loading points, staff shortages and changes in the organization of construction sites exerted a significant impact on delays in the execution of infrastructural investments. The problems experienced by the steel industry, especially by the key customer, i.e. ArcelorMittal Poland, also exerted an impact on the volume of transport services. The epidemic was among the reasons for making the decision to permanently shut down the raw material part of the blast furnace in Kraków in October 2020 – the consequences of this decision will be reflected in the volume of transport services in the coming months.

These factors largely contributed to a significant decrease in freight volume transported by the PKP CARGO Group, which translated into a decrease in revenues. It was precisely the decline in economic activity in H1 2020 that served as the basis for PKP CARGO S.A., PKP CARGO Connect and PKP CARGOTABOR to apply for aid from the Guaranteed Employee Benefits Fund under the Anti-Crisis Act. The total amount of the received aid was PLN 114.7 million. Earlier, these companies signed agreements with trade union organizations on reducing the working hours of employees. The agreement signed by PKP CARGO applied to the period from 1 June 2020 to 31 August 2020 and the agreements signed by the subsidiaries pertained to the period from 1 July 2020 to 30 September 2020. The reduced working time of the Group's employees caused a decrease in employee benefit expenses in the total amount of PLN 33.8 million.

The COVID-19 epidemic also exerted an impact in the context of the responsibility of companies for the work safety of thousands of employees. Due to the announcement of a state of epidemic (from 20 March 2020 until further notice) in connection with the dissemination of the SARS-CoV-2 virus, PKP CARGO S.A., bearing in mind the employer's duty to ensure safety for its employees and comply with the provisions of law and recommendations of the relevant public authorities, has taken the steps necessary in the labor area to counteract the epidemic. To the widest possible extent, preventive solutions have been implemented, involving, in particular, remote work of employees, greater flexibility of working time and reduction of direct meetings and business trips to the necessary minimum. The implemented solutions had a significant effect on changes in the organization of work and its efficiency and generated additional costs.

6.2 Amendments to legal regulations

On 12 May 2020, an amendment to the Rail Transport Act came into force, affecting the relationship between the rail carrier (PKP CARGO S.A.) and the infrastructure manager, i.e. CARGOTOR sp. z o.o., a member of the PKP CARGO Group. The Act has introduced restrictions on the manager's ability to disburse dividends to a shareholder acting as a rail carrier, in respect of one of the manager's income streams, namely the income of CARGOTOR sp. z o.o. derived from performing the tasks referred to in Article 5(1) of the Rail Transport Act and public funds (if any) granted for the performance of such tasks. Conversely, any income derived by CARGOTOR from other activities may still be earmarked for the disbursement of dividends to PKP CARGO.

The line of business from which CARGOTOR sp. z o.o. derives profit intended for the disbursement of dividends is of key significance for the assessment of the permissibility of such disbursement to PKP CARGO. This is because CARGOTOR sp. z o.o. may run a business other than that of an infrastructure manager, as provided for in Article 5(1) of the Rail Transport Act, and derive income from such other business. The carrier has been deprived of the right to appoint and dismiss members of the management board or members of the supervisory board of an infrastructure manager which is a member of the same vertically integrated enterprise. At the same time, it should be recognized that under the transitional provision of Article 11(2) of the Act of 13 February 2020 Amending the Rail Transport Act and Certain Other Acts (Journal of Laws, item 400, "Act") in the period until 12 August of this year (3 months from the date of entry of the said act into force), the members of the CARGOTOR sp. z o.o. Supervisory Board appointed by PKP CARGO S.A. before 12 May 2020 continued to discharge their functions in accordance with the previous rules.

6.3 Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO S.A. and its subsidiaries did not participate in any major proceedings pending before courts, arbitration bodies or public administration authorities in cases concerning liabilities or receivables of PKP CARGO S.A. or its subsidiaries, except for those disclosed in the consolidated financial statements, in other provisions **(Note 5.9 to the CFS)** and contingent liabilities **(Note 7.3 to the CFS)**.

6.4 Information on transactions with related parties

No entity from the PKP CARGO Group entered in any transactions with related parties on non-market terms in Q3 2020. Also after the balance sheet date no such transactions were concluded.

Detailed information on transactions with related parties is presented in **Note 7.1 to the CFS**.

6.5 Information on extended guarantees and sureties for loans or borrowings

PKP CARGO S.A. and its subsidiaries did not extend any sureties for loans or borrowings and did not grant guarantees to a single entity or subsidiary of such entity whose total amount would be material.

6.6 Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts

Other than the information presented in this Report, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial performance, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

This Additional Information to the Consolidated Quarterly Report has been prepared by the PKP CARGO S.A. Management Board.

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Warsaw, 19 November 2020

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