

# SEMI-ANNUAL REPORT FOR H1 2019



**PKP CARGO GROUP'S**  
Consolidated semi-annual  
report for H1 2019



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

tel.: +48 22 543 16 00  
fax: +48 22 543 16 01  
e-mail: [office@bdo.pl](mailto:office@bdo.pl)  
[www.bdo.pl](http://www.bdo.pl)

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

**INDEPENDENT AUDITOR'S REVIEW REPORT**  
**ON THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS**  
**FOR THE SHAREHOLDERS AND SUPERVISORY BOARD OF PKP CARGO SA**

### Introduction

We have reviewed the accompanying interim condensed separate financial statements of PKP CARGO SA with its registered office in Warszawa, at ul. Grójecka 17, comprising the interim separate statement of financial position prepared as at 30 June 2019, the interim separate statement of profit or loss and other comprehensive income for the period from 1 January 2019 to 30 June 2019, the interim separate statement of changes in equity for the period from 1 January 2019 to 30 June 2019, the interim separate cash flow statement for the period from 1 January 2019 to 30 June 2019, and other explanatory notes ("interim condensed separate financial statements").

The company's Management is responsible for the preparation and presentation of the interim condensed separate financial statements in accordance with the requirements of International Accounting Standards 34 *Interim Financial Reporting*, announced in the form of European Commission regulations.

Our responsibility is to form a conclusion on the interim condensed separate financial statements based on our review.

### Scope of Review

We performed the review in accordance with National Standard on Review Engagements 2410 in the wording of International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, adopted in a resolution passed by the National Council of Certified Auditors.

A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in the wording of International Standards on Auditing. In consequence, a review is not sufficient to obtain assurance that all significant matters that might be identified in an audit, have been identified. Accordingly, we do not express an audit opinion on the accompanying interim condensed financial statements.

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

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed separate financial statements have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting*, announced in the form of European Commission regulations.

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

on behalf of which the review of financial statements was performed by



Signed by /  
Podpisano przez:

Marcin Krupa

Date / Data: 2019-  
08-21 15:16

**Marcin Krupa**  
Certified Auditor No. 11142



Signed by /  
Podpisano przez:

André Helin

Date / Data:  
2019-08-21 15:26

**Dr. André Helin**  
Managing Partner  
Certified Auditor No. 90004

Warszawa, 21 August 2019



Interim condensed separate  
financial statements of the  
**PKP CARGO S.A.** for the period  
of 6 months ended 30 June 2019

Prepared in accordance with IFRS  
as endorsed by the European Union





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## INTERIM STANDALONE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |                          |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|--------------------------|
| Revenues from contracts with customers  | 1,828.2                         | 868.5                           | 1,874.6                         | 962.5                           | <a href="#">Note 2.1</a> |
| Consumption of traction electricity and traction fuel   | (250.9)                         | (106.9)                         | (262.9)                         | (135.5)                         | <a href="#">Note 2.2</a> |
| Services of access to infrastructure  | (290.8)                         | (143.3)                         | (354.0)                         | (183.0)                         |                          |
| Other services  | (157.3)                         | (76.3)                          | (192.4)                         | (98.2)                          | <a href="#">Note 2.2</a> |
| Employee benefits   | (683.3)                         | (354.7)                         | (624.7)                         | (319.2)                         | <a href="#">Note 2.2</a> |
| Other expenses  | (91.3)                          | (46.4)                          | (82.0)                          | (38.8)                          | <a href="#">Note 2.2</a> |
| Other operating revenue and (expenses)  | (2.4)                           | 1.0                             | 5.5                             | 2.4                             | <a href="#">Note 2.3</a> |
| <b>Operating profit without depreciation (EBITDA)</b>   | <b>352.2</b>                    | <b>141.9</b>                    | <b>364.1</b>                    | <b>190.2</b>                    |                          |
| Depreciation, amortization and impairment losses  | (285.8)                         | (144.5)                         | (219.8)                         | (110.1)                         | <a href="#">Note 2.2</a> |
| <b>Profit on operating activities (EBIT)</b>  | <b>66.4</b>                     | <b>(2.6)</b>                    | <b>144.3</b>                    | <b>80.1</b>                     |                          |
| Financial revenue and (expenses)  | 4.4                             | 19.2                            | 12.8                            | 21.0                            | <a href="#">Note 2.4</a> |
| <b>Profit before tax</b>  | <b>70.8</b>                     | <b>16.6</b>                     | <b>157.1</b>                    | <b>101.1</b>                    |                          |
| Income tax  | (13.7)                          | (1.2)                           | (27.9)                          | (15.7)                          | <a href="#">Note 3.1</a> |
| <b>NET PROFIT</b>   | <b>57.1</b>                     | <b>15.4</b>                     | <b>129.2</b>                    | <b>85.4</b>                     |                          |
| <b>OTHER COMPREHENSIVE INCOME</b>   |                                 |                                 |                                 |                                 |                          |
| Measurement of hedging instruments  | 8.4                             | 8.3                             | (32.5)                          | (25.3)                          | <a href="#">Note 6.1</a> |
| Income tax  | (1.6)                           | (1.6)                           | 6.2                             | 4.8                             |                          |
| <b>Total other comprehensive income subject to reclassification in the financial result</b>     | <b>6.8</b>                      | <b>6.7</b>                      | <b>(26.3)</b>                   | <b>(20.5)</b>                   |                          |
| Actuarial profits / (losses) on post-employment benefits  | (12.4)                          | (12.4)                          | (1.5)                           | (1.5)                           |                          |
| Income tax  | 2.4                             | 2.4                             | 0.3                             | 0.3                             |                          |
| Measurement of equity instruments at fair value   | 0.7                             | 0.7                             | -                               | -                               |                          |
| <b>Total other comprehensive income not subject to reclassification in the financial result</b> | <b>(9.3)</b>                    | <b>(9.3)</b>                    | <b>(1.2)</b>                    | <b>(1.2)</b>                    |                          |
| <b>Total other comprehensive income</b>   | <b>(2.5)</b>                    | <b>(2.6)</b>                    | <b>(27.5)</b>                   | <b>(21.7)</b>                   |                          |
| <b>TOTAL COMPREHENSIVE INCOME</b>   | <b>54.6</b>                     | <b>12.8</b>                     | <b>101.7</b>                    | <b>63.7</b>                     |                          |
| <b>Earnings per share (PLN per share)</b>   |                                 |                                 |                                 |                                 |                          |
| Weighted average number of ordinary shares  | 44,786,917                      | 44,786,917                      | 44,786,917                      | 44,786,917                      |                          |
| Basic and diluted earnings per share  | <b>1.27</b>                     | <b>0.34</b>                     | <b>2.88</b>                     | <b>1.91</b>                     |                          |

The data for the period of 6 months ended 30 June 2018 have been restated as described in [Note 1.4](#) to these Interim Condensed Standalone Financial Statements.



## INTERIM STANDALONE STATEMENT OF FINANCIAL POSITION

|   | 30/06/2019     | 31/12/2018     | 30/06/2018     |                           |
|---|----------------|----------------|----------------|---------------------------|
| <b>ASSETS</b>                                     |                |                |                |                           |
| Rolling stock                                     | 3,662.6        | 3,425.7        | 3,121.2        | <a href="#">Note 5.1</a>  |
| Other property, plant and equipment               | 492.4          | 543.1          | 539.5          | <a href="#">Note 5.1</a>  |
| Right-of-use assets                               | 596.3          | -              | -              | <a href="#">Note 5.2</a>  |
| Investments in related parties                    | 805.5          | 805.5          | 807.3          | <a href="#">Note 5.3</a>  |
| Lease receivables                                 | 21.4           | -              | -              |                           |
| Financial assets                                  | 7.5            | 5.7            | 4.9            | <a href="#">Note 5.6</a>  |
| Other assets                                      | 46.4           | 35.3           | 37.2           | <a href="#">Note 5.7</a>  |
| Deferred tax assets                               | 75.0           | 87.2           | 102.1          | <a href="#">Note 3.1</a>  |
| <b>Total non-current assets</b>                   | <b>5,707.1</b> | <b>4,902.5</b> | <b>4,612.2</b> |                           |
| Inventories                                       | 80.8           | 84.2           | 87.2           | <a href="#">Note 5.4</a>  |
| Trade receivables                                 | 450.5          | 479.4          | 465.7          | <a href="#">Note 5.5</a>  |
| Lease receivables                                 | 1.3            | -              | -              |                           |
| Financial assets                                  | 24.1           | 203.4          | 429.4          | <a href="#">Note 5.6</a>  |
| Other assets                                      | 145.8          | 90.4           | 101.1          | <a href="#">Note 5.7</a>  |
| Cash and cash equivalents                         | 133.7          | 222.4          | 49.3           | <a href="#">Note 4.3</a>  |
| <b>Total current assets</b>                       | <b>836.2</b>   | <b>1,079.8</b> | <b>1,132.7</b> |                           |
| Non-current assets<br>classified as held for sale | 4.7            | -              | 18.3           |                           |
| <b>TOTAL ASSETS</b>                               | <b>6,548.0</b> | <b>5,982.3</b> | <b>5,763.2</b> |                           |
| <b>EQUITY AND LIABILITIES</b>                     |                |                |                |                           |
| Share capital                                     | 2,239.3        | 2,239.3        | 2,239.3        | <a href="#">Note 4.2</a>  |
| Supplementary capital                             | 744.7          | 596.7          | 596.7          |                           |
| Other items of equity                             | (35.2)         | (32.7)         | (34.4)         |                           |
| Retained earnings                                 | 353.6          | 511.3          | 386.5          |                           |
| <b>Total equity</b>                               | <b>3,302.4</b> | <b>3,314.6</b> | <b>3,188.1</b> |                           |
| Debt liabilities                                  | 1,414.7        | 999.9          | 1,119.3        | <a href="#">Note 4.1</a>  |
| Investment liabilities                            | 176.3          | 109.7          | -              | <a href="#">Note 5.8</a>  |
| Provisions for employee benefits                  | 559.1          | 528.8          | 529.1          | <a href="#">Note 5.9</a>  |
| Other provisions                                  | 14.2           | 14.2           | 14.2           | <a href="#">Note 5.10</a> |
| Other financial liabilities                       | -              | -              | 1.4            | <a href="#">Note 5.11</a> |
| <b>Total long-term liabilities</b>                | <b>2,164.3</b> | <b>1,652.6</b> | <b>1,664.0</b> |                           |
| Debt liabilities                                  | 295.1          | 231.3          | 238.8          | <a href="#">Note 4.1</a>  |
| Trade payables                                    | 212.6          | 292.6          | 260.0          |                           |
| Investment liabilities                            | 192.3          | 225.5          | 116.6          | <a href="#">Note 5.8</a>  |
| Provisions for employee benefits                  | 118.4          | 92.6           | 112.0          | <a href="#">Note 5.9</a>  |
| Other provisions                                  | 19.6           | 19.4           | 12.4           | <a href="#">Note 5.10</a> |
| Other financial liabilities                       | -              | 1.7            | 0.7            | <a href="#">Note 5.11</a> |
| Other liabilities                                 | 243.3          | 152.0          | 170.6          | <a href="#">Note 5.12</a> |
| <b>Total short-term liabilities</b>               | <b>1,081.3</b> | <b>1,015.1</b> | <b>911.1</b>   |                           |
| <b>Total liabilities</b>                          | <b>3,245.6</b> | <b>2,667.7</b> | <b>2,575.1</b> |                           |
| <b>TOTAL EQUITY AND LIABILITIES</b>               | <b>6,548.0</b> | <b>5,982.3</b> | <b>5,763.2</b> |                           |

The data as at 30 June 2018 have been restated as described in [Note 1.4](#) to these Interim Condensed Standalone Financial Statements.



## INTERIM STANDALONE STATEMENT OF CHANGES IN EQUITY

|  | Share capital  | Supplementary capital | Other items of equity                           |  |                                    | Retained earnings | Total equity   |
|--|----------------|-----------------------|---|--|------------------------------------|-------------------|----------------|
|  |                |                       | Measurement of equity instruments at fair value | Actuarial profits / (losses) on post-employment benefits | Measurement of hedging instruments |                   |                |
| <b>31/12/2018</b>                                    | <b>2,239.3</b> | <b>596.7</b>          | <b>(12.9)</b>                                   | <b>(18.4)</b>  | <b>(1.4)</b>                       | <b>511.3</b>      | <b>3,314.6</b> |
| Changes resulting from the implementation of IFRS 16 | -              | -                     | -   | -  | -                                  | 0.4               | 0.4            |
| <b>1/01/2019</b>                                     | <b>2,239.3</b> | <b>596.7</b>          | <b>(12.9)</b>                                   | <b>(18.4)</b>  | <b>(1.4)</b>                       | <b>511.7</b>      | <b>3,315.0</b> |
| Net result for the period                            | -              | -                     | -   | -  | -                                  | 57.1              | 57.1           |
| Other comprehensive income for the period (net)      | -              | -                     | 0.7   | (10.0)   | 6.8                                | -                 | (2.5)          |
| <b>Total comprehensive income</b>                    | -              | -                     | 0.7   | (10.0)   | 6.8                                | 57.1              | 54.6           |
| Dividends  | -              | -                     | -   | -  | -                                  | (67.2)            | (67.2)         |
| Other changes for the period                         | -              | 148.0                 | -   | -  | -                                  | (148.0)           | -              |
| <b>30/06/2019</b>                                    | <b>2,239.3</b> | <b>744.7</b>          | <b>(12.2)</b>                                   | <b>(28.4)</b>  | <b>5.4</b>                         | <b>353.6</b>      | <b>3,302.4</b> |
| <b>1/01/2018</b>                                     | <b>2,239.3</b> | <b>589.2</b>          | <b>(12.9)</b>                                   | <b>(10.8)</b>  | <b>16.8</b>                        | <b>264.8</b>      | <b>3,086.4</b> |
| Net result for the period                            | -              | -                     | -   | -  | -                                  | 129.2             | 129.2          |
| Other comprehensive income for the period (net)      | -              | -                     | -   | (1.2)  | (26.3)                             | -                 | (27.5)         |
| <b>Total comprehensive income</b>                    | -              | -                     | -   | (1.2)  | (26.3)                             | 129.2             | 101.7          |
| Other changes for the period                         | -              | 7.5                   | -   | -  | -                                  | (7.5)             | -              |
| <b>30/06/2018 (restated)</b>                         | <b>2,239.3</b> | <b>596.7</b>          | <b>(12.9)</b>                                   | <b>(12.0)</b>  | <b>(9.5)</b>                       | <b>386.5</b>      | <b>3,188.1</b> |

Note 1.3

Restatement of comparable data is described in [Note 1.3](#) and [1.4](#) to these Interim Condensed Standalone Financial Statements.

# INTERIM STANDALONE CASH FLOW STATEMENT

|  | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 |                 |
|--|------------------------------|------------------------------|-----------------|
| <b>Cash flow from operating activities</b>   |                              |                              |                 |
| <b>Profit before tax</b>   | <b>70.8</b>                  | <b>157.1</b>                 |                 |
| <b>Adjustments</b>   |                              |                              |                 |
| Depreciation, amortization and impairment losses                                   | 285.8                        | 219.8                        | <i>Note 2.2</i> |
| (Profits) / losses on interest, dividends  | (12.0)                       | (23.3)                       |                 |
| Received / (paid) interest   | 0.5                          | 2.1                          |                 |
| Received / (paid) income tax   | (17.5)                       | (24.3)                       |                 |
| Movement in working capital  | 9.0                          | 28.3                         |                 |
| Other adjustments  | (11.0)                       | (10.8)                       |                 |
| <b>Net cash from operating activities</b>  | <b>325.6</b>                 | <b>348.9</b>                 |                 |
| <b>Cash flow from investing activities</b>   |                              |                              |                 |
| Expenditures on the acquisition of non-financial non-current assets                | (481.2)                      | (302.9)                      |                 |
| Proceeds from the sale of non-financial non-current assets                         | 10.3                         | 0.1                          |                 |
| Inflows / (outflows) on bank deposits over 3 months                                | 200.0                        | (150.2)                      |                 |
| Other inflows / (outflows) from investing activities                               | 4.1                          | 3.7                          |                 |
| <b>Net cash from investing activities</b>  | <b>(266.8)</b>               | <b>(449.3)</b>               |                 |
| <b>Cash flow from financing activities</b>   |                              |                              |                 |
| Payments on financial lease liabilities  | (35.4)                       | (19.6)                       | <i>Note 4.1</i> |
| Repayment of bank loans and borrowings   | (112.7)                      | (110.1)                      | <i>Note 4.1</i> |
| Interest paid on finance leases and bank loans and borrowings                      | (20.5)                       | (12.5)                       | <i>Note 4.1</i> |
| Grants received  | 45.5                         | -                            |                 |
| Inflow / (outflow) as part of cash pool  | (21.2)                       | (2.4)                        |                 |
| Other outflows from financing activities   | (3.2)                        | (1.6)                        |                 |
| <b>Net cash from financing activities</b>  | <b>(147.5)</b>               | <b>(146.2)</b>               |                 |
| Net increase / (decrease) in cash and cash equivalents                             | (88.7)                       | (246.6)                      |                 |
| Cash and cash equivalents at the beginning of the reporting period                 | 222.4                        | 295.9                        |                 |
| <b>Cash and cash equivalents as at the end of the reporting period, including:</b> | <b>133.7</b>                 | <b>49.3</b>                  |                 |
| <i>restricted cash</i>   | <i>16.6</i>                  | <i>13.4</i>                  |                 |



## EXPLANATORY NOTES TO THE INTERIM CONDENSED STANDALONE FINANCIAL STATEMENTS

### 1. General information

#### 1.1 Key information about the Company's business

##### Information about the Company

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

The Company's financial year is the calendar year.

The composition of the Company's management and supervisory bodies and the Company's shareholding structure as at 30 June 2019 are presented in the Management Board Report on the Activity of the PKP CARGO Group for H1 2019, in [Chapters 3.1](#) and [3.2](#), respectively.

The Company core business is rail transport of cargo. In addition to rail freight transport services, the Company also provides additional services:



##### Information about the Group

PKP CARGO S.A. is the parent company of the PKP CARGO Group and prepares consolidated financial statements pursuant to International Financial Reporting Standards approved by the European Union ("EU IFRS").

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

Additional information about subsidiaries, associates and interests in joint ventures is presented in [Note 5.3](#) to these Interim Condensed Standalone Financial Statements.

The duration of individual Group companies is unlimited.



## 1.2 Basis for the preparation of the Interim Condensed Standalone Financial Statements

These Interim Condensed Standalone 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 Standalone 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 Interim Condensed Standalone Financial Statements should be read together with the audited Standalone Financial Statements of PKP CARGO S.A. for the year ended 31 December 2018 prepared according to EU IFRS.

These Interim Condensed Standalone Financial Statements have been prepared based on the assumption of the Company's being a going concern in the foreseeable future. As at the preparation date of these financial statements, there are no circumstances indicating any substantial doubt about the Company's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

The Company's business does not show any material seasonal or cyclical trends.

These Interim Condensed Standalone Financial Statements have been prepared in Polish zloty (PLN). Polish zloty is the Company's functional and reporting currency. The data in the financial statements are presented in millions of PLN.

These Interim Condensed Standalone Financial Statements consist of the standalone statement of profit or loss and other comprehensive income, standalone statement of financial position, standalone statement of changes in equity, standalone cash flow statement and selected explanatory notes.

These Interim Condensed Standalone Financial Statements have been reviewed by a statutory auditor. The line items of the standalone statement of financial position as at 31 December 2018 were audited by a statutory auditor during the audit of the Standalone Financial Statements of PKP CARGO S.A. for the year ended 31 December 2018 prepared according to EU IFRS.

In these Interim Condensed Standalone Financial Statements, certain items of the statement of financial position as at 1 January 2019 have been restated in connection with the implementation of IFRS 16. Data as at 31 December 2018 are presented based on IAS 17 "Leases".

In these Interim Condensed Standalone Financial Statements certain line items of the statement of profit or loss and comprehensive income for the period of 6 months ended 30 June 2018 have been restated due to a correction of a prior period error.

The effects of restatement in connection with the implementation of IFRS 16 and the correction of a prior period error are described in [Notes 1.3](#) and [1.4](#) to these Interim Condensed Standalone Financial Statements, respectively.

These Interim Condensed Standalone Financial Statements were approved for publication by the Management Board on 21 August 2019.

## 1.3 Applied accounting policies and improvements to International Financial Reporting Standards

### Statement on accounting policies

The accounting policies and calculation methods adopted for the preparation of these Interim Condensed Standalone Financial Statements are consistent with the policies described in the Standalone Financial Statements of PKP CARGO S.A. for the year ended 31 December 2018 prepared in accordance with EU IFRS, taking into account the changes resulting from the entry into force of IFRS 16, as described in this note.

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

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

### 1.3 Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

#### Key accounting policies

##### Company as a lessee

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

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

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

The Company presents its right-of-use assets in a separate line item of the statement of financial position. This line item is also used by the Company to present assets used under contracts classified as finance leases in accordance with IAS 17 and the perpetual usufruct right to land, used by the Company in exchange for consideration.

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

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

For each lease contract, the Company defines the lease period as: the non-cancellable period for which a lessee has the right to use an underlying asset, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lease period in contracts for the perpetual usufruct right to land is defined by the Company as the period remaining until the date to which these rights have been granted unless the circumstances require the adoption of a longer or shorter period. Perpetual usufruct rights to land for which the Company does not pay any fees due to the exemption applicable to it by operation of law do not fulfill the definition of a lease and thus are presented by the Company as part of other property, plant and equipment.

The current value of future lease payments is calculated using the interest rate applicable to the lease. If the interest rate applicable to a lease is unknown, the Company applies the lessee's marginal interest rate for the lease contract.

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

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

The Company applies an exemption and does not apply the requirements for measurement of lease liabilities and right-of-use assets in respect of:

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option;
- leases for which the underlying asset is of low value. The Company defines assets of low value as those whose value, when new, does not exceed PLN 25,000.

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

##### Company as a lessor

The Company classifies each of its leases as either a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. All other lease agreements are treated as operating leases.

### 1.3 Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

Assets subject a finance lease are recognized in the statement of financial position as lease receivables at an amount equal to the net investment in the lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

Financial revenue from finance leases is recognized in subsequent periods at a fixed rate of return on the net investment in the lease.

Assets subject to operating leases are recognized in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the profit or loss of the current period on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which benefit from the use of the leased asset is diminished.

#### Effect of application of the new standard

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

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

- application of a single discount rate to the measurement of the portfolio of leases with relatively similar characteristics,
- exclusion of initial direct costs from the measurement of assets on account of rights to use assets as at 1 January 2019,
- the use of post-factual knowledge and experience in determining the term of the lease if the contract contains options extend or termination,
- not recognizing the right-of-use assets and liabilities for contracts for which the remaining lease term as at 1 January 2019 is shorter than 12 months.

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

Recognized contracts are concluded for a definite or indefinite term with a specified notice period. The lease periods applied for the purposes of estimation of the value of lease liabilities were as follows:

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

The lessee's marginal rates applied for the purposes of estimation of the value of lease liabilities ranged from 1.31% to 4.29%.

The diversification of the rates was a result of the following factors having been taken into account:

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

The weighted average lease rate accepted for the measurement of liabilities was 3.93%.



### 1.3 Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

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

#### Standalone statement of financial position

|                                     | 31/12/2018     | Impact of the changes | 1/01/2019      |
|-------------------------------------|----------------|-----------------------|----------------|
| <b>ASSETS</b>                       |                |                       |                |
| Rolling stock                       | 3,425.7        | (20.9)                | 3,404.8        |
| Other property, plant and equipment | 543.1          | (31.6)                | 511.5          |
| Right-of-use assets                 | -              | 616.0                 | 616.0          |
| Lease receivables                   | -              | 22.2                  | 22.2           |
| Deferred tax assets                 | 87.2           | (0.1)                 | 87.1           |
| <b>Total non-current assets</b>     | <b>4,902.5</b> | <b>585.6</b>          | <b>5,488.1</b> |
| Lease receivables                   | -              | 1.0                   | 1.0            |
| Other assets                        | 90.4           | (0.5)                 | 89.9           |
| <b>Total current assets</b>         | <b>1,079.8</b> | <b>0.5</b>            | <b>1,080.3</b> |
| <b>TOTAL ASSETS</b>                 | <b>5,982.3</b> | <b>586.1</b>          | <b>6,568.4</b> |
| <b>EQUITY AND LIABILITIES</b>       |                |                       |                |
| Retained earnings                   | 511.3          | 0.4                   | 511.7          |
| <b>Total equity</b>                 | <b>3,314.6</b> | <b>0.4</b>            | <b>3,315.0</b> |
| Debt liabilities                    | 999.9          | 533.5                 | 1,533.4        |
| <b>Total long-term liabilities</b>  | <b>1,652.6</b> | <b>533.5</b>          | <b>2,186.1</b> |
| Debt liabilities                    | 231.3          | 61.7                  | 293.0          |
| Trade payables                      | 292.6          | (9.5)                 | 283.1          |
| <b>Total short-term liabilities</b> | <b>1,015.1</b> | <b>52.2</b>           | <b>1,067.3</b> |
| <b>Total liabilities</b>            | <b>2,667.7</b> | <b>585.7</b>          | <b>3,253.4</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b> | <b>5,982.3</b> | <b>586.1</b>          | <b>6,568.4</b> |

#### Standalone statement of profit or loss and other comprehensive income

The implementation of IFRS 16 has also affected the structure of the statement of profit or loss and other comprehensive income. In the period of 6 months 2019, due to the implementation of the new standard, depreciation increased by PLN 33.7 million, the operating result increased by PLN 5.7 million and the profit before tax fell by PLN 4.9 million. Implementation of the new standard caused that EBITDA is higher by approximately PLN 39.4 million.

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

|  |              |
|--|--------------|
| <b>Amount of future minimum lease payments under non-cancellable operating leases</b>  | <b>126.9</b> |
| <b>Operating lease liabilities recognized as at 31 December 2018 as trade payables</b> | <b>6.4</b>   |
| <b>Finance lease liabilities recognized as at 31 December 2018</b>                     | <b>5.3</b>   |
| <b>Adjustments</b>   | <b>656.1</b> |
| Extension and termination options which the Company is highly likely to exercise       | 617.6        |
| Exemptions for short-term leases and leases of assets with a low initial value         | (12.5)       |
| Perpetual usufruct right to land   | 49.1         |
| Other  | 1.9          |
| <b>Lease liabilities recognized as at 31 December 2018, adjusted</b>                   | <b>794.7</b> |
| Discount   | (194.2)      |
| <b>Lease liabilities as at 1 January 2019</b>  | <b>600.5</b> |
| including the effect of recognition under IFRS 16                                      | 595.2        |

### 1.3 Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

The main differences are due to the fact that the period of adopted lease payment projections in accordance with IAS 17 applies only to irrevocable lease periods, which the Company considers the termination notice periods. In accordance with IFRS 16, the lease period in which lease liabilities are recognized also includes any periods resulting from an extension or early termination of the contract if any aforementioned scenario is sufficiently certain in the Company's opinion.

In the case of contracts with an extension option and contracts concluded for an indefinite term for which the Company has estimated the lease period, the lease liability is correspondingly higher.

In order to calculate the amount of lease liabilities recognized in accordance with IFRS 16, the total amounts of future minimum fees arising from the operating lease contracts as at 31 December 2018 have been adjusted to the current value by applying the pertinent discount rate.

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

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

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

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 June 2019 were not yet endorsed by the EU and did not enter into effect. In the Company's Management Board's opinion, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Company:

| Standard / Interpretation  | Effective date |
|--|----------------|
| Amendments to references to the IFRS Conceptual Framework  | 1 January 2020 |
| Amendments to IFRS 3 "Business combinations" – Definition of a business  | 1 January 2020 |
| Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" | 1 January 2020 |
| IFRS 17 "Insurance contracts"  | 1 January 2021 |

### 1.4 Corrections of prior period errors

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

In order to ensure comparability of the data presented in these Interim Condensed Standalone Financial Statements, the Company has restated data for the 6 months ended 30 June 2018. The effect of restatement of the statement of financial position and the statement of profit or loss and other comprehensive income is described below. The above correction of prior period errors has not affected the cash flow statement. Information disclosed in additional notes to these Interim Condensed Standalone Financial Statements has also been restated accordingly.

#### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|   | 6 months ended<br>30/06/2018<br>(published) | Corrections<br>of prior<br>period errors | 6 months ended<br>30/06/2018<br>(restated) |
|---|---|--|--|
| Employee benefits                                     | (623.9)                                     | (0.8)                                    | (624.7)                                    |
| <b>Operating profit without depreciation (EBITDA)</b> | <b>364.9</b>                                | <b>(0.8)</b>                             | <b>364.1</b>                               |
| <b>Profit on operating activities (EBIT)</b>          | <b>145.1</b>                                | <b>(0.8)</b>                             | <b>144.3</b>                               |
| Financial revenue and (expenses)                      | 12.0  | 0.8                                      | 12.8                                       |
| <b>Profit before tax</b>                              | <b>157.1</b>                                | -  | <b>157.1</b>                               |
| <b>NET PROFIT</b>                                     | <b>129.2</b>                                | -  | <b>129.2</b>                               |
| <b>TOTAL COMPREHENSIVE INCOME</b>                     | <b>101.7</b>                                | -  | <b>101.7</b>                               |

## 1.4 Corrections of prior period errors (cont.)

### STATEMENT OF FINANCIAL POSITION

|                                     | 30/06/2018<br>(published) | Corrections<br>of prior<br>period errors | 30/06/2018<br>(restated) |
|-------------------------------------|---------------------------|--|--------------------------|
| <b>ASSETS</b>                       |                           |  |                          |
| Deferred tax assets                 | 98.0                      | 4.1                                      | 102.1                    |
| <b>Total non-current assets</b>     | <b>4,608.1</b>            | <b>4.1</b>                               | <b>4,612.2</b>           |
| <b>TOTAL ASSETS</b>                 | <b>5,759.1</b>            | <b>4.1</b>                               | <b>5,763.2</b>           |
| <b>EQUITY AND LIABILITIES</b>       |                           |  |                          |
| Other items of equity               | (28.0)                    | (6.4)                                    | (34.4)                   |
| Retained earnings                   | 397.6                     | (11.1)                                   | 386.5                    |
| <b>Total equity</b>                 | <b>3,205.6</b>            | <b>(17.5)</b>                            | <b>3,188.1</b>           |
| Provisions for employee benefits    | 512.0                     | 17.1                                     | 529.1                    |
| <b>Total long-term liabilities</b>  | <b>1,646.9</b>            | <b>17.1</b>                              | <b>1,664.0</b>           |
| Provisions for employee benefits    | 107.5                     | 4.5                                      | 112.0                    |
| <b>Total short-term liabilities</b> | <b>906.6</b>              | <b>4.5</b>                               | <b>911.1</b>             |
| <b>Total liabilities</b>            | <b>2,553.5</b>            | <b>21.6</b>                              | <b>2,575.1</b>           |
| <b>TOTAL EQUITY AND LIABILITIES</b> | <b>5,759.1</b>            | <b>4.1</b>                               | <b>5,763.2</b>           |

## 1.5 Material estimates based on professional judgment and estimation

In the period of 6 months ended 30 June 2019, changes to material values based on professional judgment and estimation related to:

- provisions for employee benefits - as at 30 June 2019, the Company performed an actuarial valuation of its provisions for employee benefits in connection with the change of the discount rate and agreement concluded with the trade unions regarding a wage increase for employees coming into effect in August 2019. The discount rate adopted for the valuation of provisions for employee benefits as at 30 June 2019 amounted to 2.7%. The recognition of wage increases in the valuation of provisions for employee benefits contributed to an increase in employee costs by PLN 22.9 million,
- trade liabilities - as at 30 June 2019 the Company estimated the adjustment of the costs of electricity for the first half of 2019 in connection with the entry into force of the act of 13 June 2019 amending the act on amendment of the excise tax act and certain other acts, the act on energy efficiency and the act on biocomponents and liquid biofuels (Journal of Laws 2019, Item 1210) equalizing the electricity prices for businesses for the first half of 2019 with the prices prevailing in the first half of 2018. As a result of the adjustment, the costs of traction energy decreased by PLN 34.9 million, the cost of non-traction energy by PLN 1.3 million and trade liabilities by PLN 36.2 million. The Company expects to make the financial settlements with the electricity suppliers in the second half of 2019,
- valuation of the right-of-use asset and lease liabilities in accordance with IFRS 16 - key assumptions adopted for measurement pertain to the interest rate calculation model and the period of lease and depreciation of the right-of-use assets.

As regards the discount rate, due to the limited scope of available data necessary to determine it, the Company has set the current value of the lease liability based on the marginal interest rate of the lessee. The marginal interest rate is calculated on the basis of the following two components:

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

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

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

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



## 1.5 Material estimates based on professional judgment and estimation (cont.)

The principles of depreciation of the right-of-use assets are consistent with the depreciation rules adopted for similar assets and the Company applies IAS 16 to such assets.

During the 6 months ended 30 June 2019, no other changes were made to the assumptions adopted by the Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

## 2. Explanatory 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 Company 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 Company's Management Board does not evaluate the Company'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 Company's operating segments. The Company's Management Board analyzes financial data in the layout in which they have been presented in these Interim Condensed Standalone Financial Statements.

| 6 months ended 30/06/2019   | 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 | 176.7  | 214.1                     | 532.0                                | 840.9        | <b>1,763.7</b> |
| Revenue from siding and traction services                                 | -  | 19.0                      | 0.4                                  | 4.4          | <b>23.8</b>    |
| Revenue from sales of goods and raw materials                             | -  | 5.1                       | 0.1                                  | 12.1         | <b>17.3</b>    |
| Other revenues  | -  | 15.0                      | 2.1                                  | 6.3          | <b>23.4</b>    |
| <b>Total</b>  | <b>176.7</b>   | <b>253.2</b>              | <b>534.6</b>                         | <b>863.7</b> | <b>1,828.2</b> |
| <b>Revenue recognition date</b>   |  |                           |                                      |              |                |
| At a point of time  | -  | 5.1                       | -                                    | 12.2         | <b>17.3</b>    |
| Over a period   | 176.7  | 248.1                     | 534.6                                | 851.5        | <b>1,810.9</b> |
| <b>Total</b>  | <b>176.7</b>   | <b>253.2</b>              | <b>534.6</b>                         | <b>863.7</b> | <b>1,828.2</b> |

| 3 months ended 30/06/2019   | 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 | 78.4   | 97.3                      | 252.7                                | 406.0        | <b>834.4</b> |
| Revenue from siding and traction services                                 | -  | 9.7                       | 0.2                                  | 2.4          | <b>12.3</b>  |
| Revenue from sales of goods and raw materials                             | -  | 5.0                       | -                                    | 5.4          | <b>10.4</b>  |
| Other revenues  | -  | 7.3                       | 1.2                                  | 2.9          | <b>11.4</b>  |
| <b>Total</b>  | <b>78.4</b>  | <b>119.3</b>              | <b>254.1</b>                         | <b>416.7</b> | <b>868.5</b> |
| <b>Revenue recognition date</b>   |  |                           |                                      |              |              |
| At a point of time  | -  | 5.0                       | -                                    | 5.4          | <b>10.4</b>  |
| Over a period   | 78.4   | 114.3                     | 254.1                                | 411.3        | <b>858.1</b> |
| <b>Total</b>  | <b>78.4</b>  | <b>119.3</b>              | <b>254.1</b>                         | <b>416.7</b> | <b>868.5</b> |

## 2.1 Revenues from contracts with customers (cont.)

| 6 months ended 30/06/2018   | 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 | 195.8  | 269.6                     | 453.2                                | 904.4        | <b>1,823.0</b> |
| Revenue from siding and traction services                                 | -  | 16.3                      | 0.2                                  | 4.4          | <b>20.9</b>    |
| Revenue from sales of goods and raw materials                             | -  | 3.6                       | -                                    | 11.3         | <b>14.9</b>    |
| Other revenues  | -  | 9.6                       | 1.7                                  | 4.5          | <b>15.8</b>    |
| <b>Total</b>  | <b>195.8</b>   | <b>299.1</b>              | <b>455.1</b>                         | <b>924.6</b> | <b>1,874.6</b> |
| <b>Revenue recognition date</b>   |  |                           |                                      |              |                |
| At a point of time  | -  | 3.6                       | -                                    | 11.3         | <b>14.9</b>    |
| Over a period   | 195.8  | 295.5                     | 455.1                                | 913.3        | <b>1,859.7</b> |
| <b>Total</b>  | <b>195.8</b>   | <b>299.1</b>              | <b>455.1</b>                         | <b>924.6</b> | <b>1,874.6</b> |

| 3 months ended 30/06/2018   | 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 | 75.1   | 141.8                     | 233.5                                | 487.2        | <b>937.6</b> |
| Revenue from siding and traction services                                 | -  | 8.1                       | 0.1                                  | 2.5          | <b>10.7</b>  |
| Revenue from sales of goods and raw materials                             | -  | -                         | -                                    | 6.2          | <b>6.2</b>   |
| Other revenues  | -  | 4.2                       | 0.9                                  | 2.9          | <b>8.0</b>   |
| <b>Total</b>  | <b>75.1</b>  | <b>154.1</b>              | <b>234.5</b>                         | <b>498.8</b> | <b>962.5</b> |
| <b>Revenue recognition date</b>   |  |                           |                                      |              |              |
| At a point of time  | -  | -                         | -                                    | 6.2          | <b>6.2</b>   |
| Over a period   | 75.1   | 154.1                     | 234.5                                | 492.6        | <b>956.3</b> |
| <b>Total</b>  | <b>75.1</b>  | <b>154.1</b>              | <b>234.5</b>                         | <b>498.8</b> | <b>962.5</b> |



## 2.1 Revenues from contracts with customers (cont.)

### Geography

The Company defines the geographical territory of business as the location of the registered seat of the service recipient, and not as the country of the service provision.

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the period of 6 months ended 30 June 2019 and 30 June 2018 did not exceed 12% of total revenue from contracts with customers. There is no single geographic area (outside of Poland) which generates more than 5% of revenues from contracts with customers.

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

|                 | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|-----------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Poland          | 1,641.8                         | 785.4                           | 1,655.2                         | 853.1                           |
| Germany         | 79.7                            | 33.5                            | 72.1                            | 35.5                            |
| Czech Republic  | 42.1                            | 19.7                            | 49.2                            | 22.6                            |
| Slovakia        | 30.6                            | 13.3                            | 52.0                            | 27.3                            |
| Other countries | 34.0                            | 16.6                            | 46.1                            | 24.0                            |
| <b>Total</b>    | <b>1,828.2</b>                  | <b>868.5</b>                    | <b>1,874.6</b>                  | <b>962.5</b>                    |

### Information on key customers

In the period of 6 months ended 30 June 2019, sales of services to one group exceeded 10% and accounted for 11.4% of the total revenue from contracts with customers. In the period of 6 months ended 30 June 2018, sales of services to two groups exceeded 10% and accounted for 13.7% and 11.8% of the total revenue from contracts with customers.

### Assets from contracts with customers

|  | 30/06/2019  | 30/06/2018  |
|--|-------------|-------------|
| <b>As at the beginning of the reporting period</b> | <b>43.9</b> | <b>51.5</b> |
| Recognition of revenue before the payment date     | 47.1        | 51.8        |
| Reclassification to receivables                    | (43.9)      | (51.5)      |
| <b>As at the end of the reporting period</b>       | <b>47.1</b> | <b>51.8</b> |

### Liabilities from contracts with customers

|   | 30/06/2019 | 30/06/2018 |
|---|------------|------------|
| <b>As at the beginning of the reporting period</b>                          | <b>1.6</b> | <b>0.8</b> |
| Recognition of revenues:  |            |            |
| From the opening balance of liabilities from contracts with customers       | (1.6)      | (0.8)      |
| From liabilities from contracts with customers recognized during the period | 3.4        | 1.0        |
| <b>As at the end of the reporting period</b>                                | <b>3.4</b> | <b>1.0</b> |





## 2.2 Operating expenses

### Consumption of traction electricity and traction fuel

|                                     | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|-------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Consumption of traction fuel        | (71.8)                          | (33.5)                          | (75.2)                          | (38.7)                          |
| Consumption of traction electricity | (179.1)                         | (73.4)                          | (187.7)                         | (96.8)                          |
| <b>Total</b>                        | <b>(250.9)</b>                  | <b>(106.9)</b>                  | <b>(262.9)</b>                  | <b>(135.5)</b>                  |

### Other services

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Repair services   | (28.8)                          | (15.2)                          | (27.7)                          | (14.4)                          |
| Rent and fees for the use of real properties and rolling stock        | (30.6)                          | (12.1)                          | (65.7)                          | (34.7)                          |
| Transport services  | (34.4)                          | (16.9)                          | (40.2)                          | (19.5)                          |
| Telecommunications services   | (2.0)                           | (1.2)                           | (1.9)                           | (1.0)                           |
| Legal, consulting and similar services                                | (3.7)                           | (2.2)                           | (2.6)                           | (1.5)                           |
| IT services   | (20.7)                          | (10.2)                          | (20.0)                          | (10.3)                          |
| Maintenance and operation services<br>for facilities and fixed assets | (18.0)                          | (9.1)                           | (13.0)                          | (7.3)                           |
| Transshipment services  | (6.1)                           | (2.5)                           | (9.7)                           | (4.5)                           |
| Other services  | (13.0)                          | (6.9)                           | (11.6)                          | (5.0)                           |
| <b>Total</b>  | <b>(157.3)</b>                  | <b>(76.3)</b>                   | <b>(192.4)</b>                  | <b>(98.2)</b>                   |

### Employee benefits

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Payroll  | (502.2)                         | (255.0)                         | (462.2)                         | (233.5)                         |
| Social security expenses                                       | (99.3)                          | (50.5)                          | (91.9)                          | (46.6)                          |
| Expenses for contributions to the Company Social Benefits Fund | (12.2)                          | (6.1)                           | (11.7)                          | (5.9)                           |
| Other employee benefits during employment                      | (16.6)                          | (7.9)                           | (14.2)                          | (7.1)                           |
| Post-employment benefits                                       | (1.4)                           | (0.7)                           | (2.4)                           | (1.0)                           |
| Movement in provisions for employee benefits                   | (51.6)                          | (34.5)                          | (42.3)                          | (25.1)                          |
| <b>Total</b>   | <b>(683.3)</b>                  | <b>(354.7)</b>                  | <b>(624.7)</b>                  | <b>(319.2)</b>                  |

### Other expenses

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Consumption of non-traction fuel          | (4.0)                           | (1.6)                           | (3.8)                           | (1.7)                           |
| Consumption of electricity, gas and water | (13.3)                          | (3.7)                           | (12.5)                          | (4.2)                           |
| Consumption of materials                  | (24.9)                          | (12.4)                          | (23.8)                          | (11.7)                          |
| Taxes and charges                         | (13.2)                          | (7.5)                           | (11.0)                          | (7.1)                           |
| Cost of goods and raw materials sold      | (11.6)                          | (8.3)                           | (8.8)                           | (2.6)                           |
| Business trips                            | (13.5)                          | (6.8)                           | (13.4)                          | (6.8)                           |
| Other                                     | (10.8)                          | (6.1)                           | (8.7)                           | (4.7)                           |
| <b>Total</b>                              | <b>(91.3)</b>                   | <b>(46.4)</b>                   | <b>(82.0)</b>                   | <b>(38.8)</b>                   |

### Depreciation, amortization and impairment losses

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Depreciation of rolling stock                       | (224.8)                         | (114.5)                         | (192.6)                         | (97.2)                          |
| Depreciation of other property, plant and equipment | (20.6)                          | (9.5)                           | (18.7)                          | (8.6)                           |
| Depreciation of the right-of-use assets             | (34.2)                          | (17.5)                          | -                               | -                               |
| Amortization of intangible assets                   | (6.2)                           | (3.0)                           | (8.5)                           | (4.3)                           |
| <b>Total</b>  | <b>(285.8)</b>                  | <b>(144.5)</b>                  | <b>(219.8)</b>                  | <b>(110.1)</b>                  |

## 2.3 Other operating revenue and (expenses)

### Other operating revenue and (expenses)

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| <b>Profit on disposal</b>                              |                                 |                                 |                                 |                                 |
| Profit on sales of non-financial non-current assets    | 1.0                             | 0.8                             | -                               | -                               |
| <b>Reversed impairment losses</b>                      |                                 |                                 |                                 |                                 |
| Trade receivables                                      | 1.5                             | 0.6                             | 4.2                             | 0.6                             |
| <b>Other</b>   |                                 |                                 |                                 |                                 |
| Penalties and compensations                            | 6.5                             | 3.2                             | 5.4                             | 2.7                             |
| Interest on trade and other receivables                | 1.0                             | 0.7                             | 1.8                             | 0.5                             |
| Other  | 0.9                             | 0.6                             | 2.8                             | 2.1                             |
| <b>Total other operating revenue</b>                   | <b>10.9</b>                     | <b>5.9</b>                      | <b>14.2</b>                     | <b>5.9</b>                      |
| <b>Recognized impairment losses</b>                    |                                 |                                 |                                 |                                 |
| Trade receivables                                      | (2.5)                           | (0.8)                           | (1.7)                           | (0.3)                           |
| <b>Other</b>   |                                 |                                 |                                 |                                 |
| Penalties and compensations                            | (4.2)                           | (1.7)                           | (3.8)                           | (1.9)                           |
| Costs of liquidation of non-current and current assets | (1.6)                           | (0.9)                           | (1.2)                           | (0.6)                           |
| Other provisions                                       | (2.5)                           | -                               | (0.4)                           | 0.2                             |
| Other  | (2.5)                           | (1.5)                           | (1.6)                           | (0.9)                           |
| <b>Total other operating expenses</b>                  | <b>(13.3)</b>                   | <b>(4.9)</b>                    | <b>(8.7)</b>                    | <b>(3.5)</b>                    |
| <b>Other operating revenue and (expenses)</b>          | <b>(2.4)</b>                    | <b>1.0</b>                      | <b>5.5</b>                      | <b>2.4</b>                      |

## 2.4 Financial revenue and (expenses)

### Financial revenue and (expenses)

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Interest income  | 2.7                             | 1.1                             | 4.6                             | 2.3                             |
| Dividend income on shares and stocks                           | 33.2                            | 33.2                            | 30.4                            | 30.4                            |
| Other  | 0.8                             | 0.7                             | -                               | -                               |
| <b>Total financial revenue</b>                                 | <b>36.7</b>                     | <b>35.0</b>                     | <b>35.0</b>                     | <b>32.7</b>                     |
| Interest expenses <sup>(1)</sup>                               | (23.2)                          | (11.3)                          | (12.4)                          | (6.1)                           |
| Settlement of the discount on provisions for employee benefits | (7.9)                           | (4.0)                           | (8.4)                           | (4.4)                           |
| Other  | (1.2)                           | (0.5)                           | (1.4)                           | (1.2)                           |
| <b>Total financial expenses</b>                                | <b>(32.3)</b>                   | <b>(15.8)</b>                   | <b>(22.2)</b>                   | <b>(11.7)</b>                   |
| <b>Financial revenue and (expenses)</b>                        | <b>4.4</b>                      | <b>19.2</b>                     | <b>12.8</b>                     | <b>21.0</b>                     |

<sup>(1)</sup> The increase in interest expense during the period of 6 month ended 30 June 2019 was caused chiefly by the recognition of interest expense on leases in the amount of PLN 12.1 million resulting from the entry into force of IFRS 16.

The data for the period of 6 months ended 30 June 2018 have been restated due to the correction of prior period errors, as described in [Note 1.4](#) to these Interim Condensed Standalone Financial Statements.



### 3. Explanatory notes on taxation

#### 3.1 Income tax

Income tax recognized in profit / loss

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| <b>Current income tax</b>   |                                 |                                 |                                 |                                 |
| Current tax liability   | (0.1)                           | 10.3                            | (28.1)                          | (9.5)                           |
| Adjustments recognized in the current year<br>relating to tax from previous years | (0.7)                           | (0.3)                           | (1.1)                           | (0.5)                           |
| <b>Deferred tax</b>   |                                 |                                 |                                 |                                 |
| Deferred income tax of the reporting period                                       | (12.9)                          | (11.2)                          | 1.3                             | (5.7)                           |
| <b>Income tax recognized in profit / loss</b>                                     | <b>(13.7)</b>                   | <b>(1.2)</b>                    | <b>(27.9)</b>                   | <b>(15.7)</b>                   |

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

Deferred income tax recognized in other comprehensive income

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Deferred tax on the measurement of hedging instruments                      | (1.6)                           | (1.6)                           | 6.2                             | 4.8                             |
| Deferred tax on actuarial profits / (losses)<br>on post-employment benefits | 2.4                             | 2.4                             | 0.3                             | 0.3                             |
| <b>Deferred income tax recognized in other comprehensive income</b>         | <b>0.8</b>                      | <b>0.8</b>                      | <b>6.5</b>                      | <b>5.1</b>                      |

Table of movements in deferred tax before the set-off

| 6 months<br>ended<br>30/06/2019              | 31/12/2018  | Effect of the<br>implementation<br>of IFRS 16 | 1/01/2019   | Recognized<br>in profit<br>or loss | Recognized<br>in other<br>comprehensive<br>income | 30/06/2019    |
|--|-------------|---|-------------|------------------------------------|---|---------------|
| Non-financial<br>non-current assets          | (54.9)      | 3.2   | (51.7)      | (23.9)                             | -   | <b>(75.6)</b> |
| Right-of-use assets<br>and lease liabilities | -           | 1.8   | 1.8         | 3.8                                | -   | <b>5.6</b>    |
| Other provisions<br>and liabilities          | 5.5         | (0.7)   | 4.8         | (2.5)                              | -   | <b>2.3</b>    |
| Inventories                                  | (4.5)       | -   | (4.5)       | 0.4                                | -   | <b>(4.1)</b>  |
| Receivables                                  | (3.9)       | (4.4)   | (8.3)       | 1.8                                | -   | <b>(6.5)</b>  |
| Provisions for<br>employee benefits          | 118.0       | -   | 118.0       | 8.3                                | 2.4   | <b>128.7</b>  |
| Other  | 0.4         | -   | 0.4         | (1.9)                              | (1.6)   | <b>(3.1)</b>  |
| Unused tax losses                            | 26.6        | -   | 26.6        | 1.1                                | -   | <b>27.7</b>   |
| <b>Total</b>                                 | <b>87.2</b> | <b>(0.1)</b>                                  | <b>87.1</b> | <b>(12.9)</b>                      | <b>0.8</b>  | <b>75.0</b>   |

As at 30 June 2019, the Company disclosed deferred tax assets on the tax loss incurred in the period from 1 January to 30 June 2019 and from 1 April to 31 December 2016. This loss incurred in 2016 will be deductible over a period of five tax years following the end of operation of the Tax Group. According to the Company's Management Board, there is low risk as at 30 June 2019 that it will be impossible to realize the above assets.

### 3.1 Income tax (cont.)

| 6 months ended<br>30/06/2018     | 1/01/2018   | Recognized in profit or loss | Recognized in other comprehensive income | 30/06/2018    |
|----------------------------------|-------------|------------------------------|--|---------------|
| Non-financial non-current assets | (41.8)      | (8.4)                        | -  | <b>(50.2)</b> |
| Other provisions and liabilities | 5.1         | 5.6                          | -  | <b>10.7</b>   |
| Inventories                      | (3.0)       | (1.7)                        | -  | <b>(4.7)</b>  |
| Trade receivables                | (4.0)       | 1.2                          | -  | <b>(2.8)</b>  |
| Provisions for employee benefits | 115.0       | 6.4                          | 0.3                                      | <b>121.7</b>  |
| Other                            | (3.6)       | (1.6)                        | 6.2                                      | <b>1.0</b>    |
| Unused tax losses                | 26.6        | (0.2)                        | -  | <b>26.4</b>   |
| <b>Total</b>                     | <b>94.3</b> | <b>1.3</b>                   | <b>6.5</b>                               | <b>102.1</b>  |

Tax loss not recognized in calculation of deferred tax assets

As at 30 June 2019 and 31 December 2018, there was no income tax loss not recognized in calculation of deferred tax assets.

## 4. Explanatory notes on debt

### 4.1 Reconciliation of debt liabilities

As at 30 June 2019 and 31 December 2018, the Company's debt liabilities consist of the following two main categories: bank loans and borrowings and leases.

Items in foreign currencies

| 30/06/2019                         | In the functional currency<br>PLN | In a foreign currency<br>EUR | Total          |
|------------------------------------|-----------------------------------|------------------------------|----------------|
| Bank loans and borrowings          | 665.6                             | 442.4                        | <b>1,108.0</b> |
| Leases                             | 513.1                             | 88.7                         | <b>601.8</b>   |
| <b>Total</b>                       | <b>1,178.7</b>                    | <b>531.1</b>                 | <b>1,709.8</b> |
| Variable-interest-rate liabilities | 665.9                             | 442.4                        | <b>1,108.3</b> |
| Fixed-interest-rate liabilities    | 512.8                             | 88.7                         | <b>601.5</b>   |
| <b>Total</b>                       | <b>1,178.7</b>                    | <b>531.1</b>                 | <b>1,709.8</b> |

As part of its fixed interest rate liabilities, the Company recognizes liabilities arising from property lease and rental contracts containing price indexation provisions based on the rate of inflation. In accordance with IFRS 16, changes in future lease fees caused by price indexation will not result in a change in the discount rate applied to the measurement of such liabilities.

| 31/12/2018                         | In the functional currency<br>PLN | In a foreign currency<br>EUR | Total          |
|------------------------------------|-----------------------------------|------------------------------|----------------|
| Bank loans and borrowings          | 757.8                             | 468.1                        | <b>1,225.9</b> |
| Finance leases                     | 0.6                               | 4.7                          | <b>5.3</b>     |
| <b>Total</b>                       | <b>758.4</b>                      | <b>472.8</b>                 | <b>1,231.2</b> |
| Variable-interest-rate liabilities | 758.4                             | 472.8                        | <b>1,231.2</b> |
| <b>Total</b>                       | <b>758.4</b>                      | <b>472.8</b>                 | <b>1,231.2</b> |

#### 4.1 Reconciliation of debt liabilities (cont.)

##### Reconciliation of debt liabilities

| 6 months ended<br>30/06/2019            | Bank loans and borrowings | Leases       | Total          |
|---|---------------------------|--------------|----------------|
| <b>31/12/2018</b>                       | <b>1,225.9</b>            | <b>5.3</b>   | <b>1,231.2</b> |
| Effect of the implementation of IFRS 16 | -                         | 595.2        | <b>595.2</b>   |
| <b>1/01/2019</b>                        | <b>1,225.9</b>            | <b>600.5</b> | <b>1,826.4</b> |
| Obtained debt                           | -                         | 36.9         | <b>36.9</b>    |
| Transaction costs                       | 1.1                       | -            | <b>1.1</b>     |
| Accrual of interest                     | 10.0                      | 12.1         | <b>22.1</b>    |
| Payments under debt, including:         |                           |              |                |
| Repayments of the principal             | (112.7)                   | (35.4)       | <b>(148.1)</b> |
| Interest paid                           | (10.2)                    | (10.3)       | <b>(20.5)</b>  |
| Transaction costs                       | (1.1)                     | -            | <b>(1.1)</b>   |
| Other                                   | -                         | (1.0)        | <b>(1.0)</b>   |
| FX valuation                            | (5.0)                     | (1.0)        | <b>(6.0)</b>   |
| <b>30/06/2019</b>                       | <b>1,108.0</b>            | <b>601.8</b> | <b>1,709.8</b> |
| Long-term                               | 883.7                     | 531.0        | <b>1,414.7</b> |
| Short-term                              | 224.3                     | 70.8         | <b>295.1</b>   |
| <b>Total</b>                            | <b>1,108.0</b>            | <b>601.8</b> | <b>1,709.8</b> |

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 | 6 months ended<br>30/06/2019 |
|--|--|------------------------------|
| <b>Revenue from operating leases</b>       | Revenues from contracts with customers   | 16.4                         |
| <b>Interest income from finance leases</b> | Financial revenue  | 0.5                          |
| <b>Costs on account of:</b>                |  |                              |
| Short-term leases                          | Other services   | 7.4                          |
| Leases of low-value assets                 | Other services   | 1.2                          |

| 6 months ended<br>30/06/2018    | Bank loans and borrowings | Finance leases | Total          |
|---------------------------------|---------------------------|----------------|----------------|
| <b>1/01/2018</b>                | <b>1,430.5</b>            | <b>34.4</b>    | <b>1,464.9</b> |
| Transaction costs               | 0.8                       | -              | <b>0.8</b>     |
| Accrual of interest             | 12.1                      | 0.3            | <b>12.4</b>    |
| Payments under debt, including: |                           |                |                |
| Repayments of the principal     | (110.1)                   | (19.6)         | <b>(129.7)</b> |
| Interest paid                   | (12.2)                    | (0.3)          | <b>(12.5)</b>  |
| Transaction costs               | (0.8)                     | -              | <b>(0.8)</b>   |
| FX valuation                    | 22.1                      | 0.9            | <b>23.0</b>    |
| <b>30/06/2018</b>               | <b>1,342.4</b>            | <b>15.7</b>    | <b>1,358.1</b> |
| Long-term                       | 1,118.9                   | 0.4            | <b>1,119.3</b> |
| Short-term                      | 223.5                     | 15.3           | <b>238.8</b>   |
| <b>Total</b>                    | <b>1,342.4</b>            | <b>15.7</b>    | <b>1,358.1</b> |

#### 4.1 Reconciliation of debt liabilities (cont.)

##### Net debt

Net debt is construed by the Company as the sum of bank loans, borrowings, lease liabilities and other financial liabilities, i.e. cash pool liabilities less cash and cash equivalents and selected financial assets, i.e. bank deposits over 3 months and cash pool assets. EBITDA is defined in the statement of profit or loss and other comprehensive income as operating profit plus depreciation, amortization and impairment losses. The Company's Management Board perceives EBITDA as one of a key performance measure.

Net debt/EBITDA is one of the key indicators taken into consideration by the Company's Management Board in analyzing financial liquidity and creditworthiness.

In the case of most loan agreements, the net debt/EBITDA ratio contained therein is calculated without taking into account the impact of IFRS 16. Consequently, the data presented below in respect of lease liabilities and EBITDA as at 30 June 2019 have been cleaned of the IFRS 16 impact.

|                                      | 30/06/2019     | 31/12/2018     |
|--------------------------------------|----------------|----------------|
| Bank loans and borrowings            | 1,108.0        | 1,225.9        |
| Leases                               | 0.3            | 5.3            |
| Other financial liabilities          | -              | 1.5            |
| <b>Total debt</b>                    | <b>1,108.3</b> | <b>1,232.7</b> |
| Cash and cash equivalents            | (133.7)        | (222.4)        |
| Bank deposits over 3 months          | -              | (201.1)        |
| Cash pool                            | (19.9)         | -              |
| <b>Total net debt</b>                | <b>954.7</b>   | <b>809.2</b>   |
| <b>EBITDA for the last 12 months</b> | <b>719.9</b>   | <b>771.2</b>   |
| <b>Net debt/EBITDA</b>               | <b>1.3</b>     | <b>1.0</b>     |

##### Unused credit lines

| Type of loan    | Bank Name                    | Period of availability | Currency of the contract | 30/06/2019   | 31/12/2018   |
|-----------------|------------------------------|------------------------|--------------------------|--------------|--------------|
| Investment loan | European Investment Bank     | 19/07/2020             | EUR                      | 69.9         | 70.7         |
| Overdraft       | Bank Polska Kasa Opieki S.A. | 24/05/2020             | PLN                      | 100.0        | 100.0        |
| Investment loan | Bank Gospodarstwa Krajowego  | 31/12/2019             | PLN                      | 100.0        | -            |
| Investment loan | Bank Gospodarstwa Krajowego  | 31/12/2019             | PLN                      | 150.0        | -            |
| Investment loan | Bank Polska Kasa Opieki S.A. | 31/12/2019             | PLN                      | 50.0         | -            |
| Investment loan | Bank Polska Kasa Opieki S.A. | 31/12/2019             | PLN                      | 200.0        | -            |
| <b>Total</b>    |                              |                        |                          | <b>669.9</b> | <b>170.7</b> |

On 14 May 2019, the Company signed two loan agreements with Bank Polska Kasa Opieki S.A. up to the total amount of PLN 250 million.

On 20 May 2019, the Company signed two loan agreements with Bank Gospodarstwa Krajowego up to the total amount of PLN 250 million.

All new loan agreements were concluded for the financing and refinancing of the capital expenditure plan for 2018-2019 and acquisitions. The loans will be available until 31 December 2019 and their repayment date has been set at 20 December 2024.

##### Breach of the terms and conditions of loan agreements

As at 30 June 2019, there were no breaches of any loan agreements.

#### 4.2 Equity

##### Share capital

|  | 30/06/2019 | 31/12/2018 |
|--|------------|------------|
| The share capital consists of:                 |            |            |
| Ordinary shares – fully paid up and registered | 2,239.3    | 2,239.3    |

As at 30 June 2019 and 31 December 2018, 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.

## 4.2 Equity (cont.)

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, there were no movements in the Company's share capital.

### Supplementary capital

In the period of 6 month ended 30 June 2019, supplementary capital increased by PLN 148.0 million as a result of the distribution of the profit generated in 2018. In the 6 month period ended 30 June 2018, in turn, supplementary capital increased by PLN 7.5 million as a result of the distribution of the profit generated in 2017.

### Retained earnings

As at 1 January 2019, retained earnings were restated in connection with the implementation of IFRS 16, as described in [Note 1.3](#) to these Interim Condensed Standalone Financial Statements.

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

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

## 4.3 Cash and cash equivalents

### Structure of cash and cash equivalents

|                                   | 30/06/2019   | 31/12/2018   |
|-----------------------------------|--------------|--------------|
| Cash on hand and on bank accounts | 36.9         | 70.2         |
| Bank deposits up to 3 months      | 96.8         | 152.2        |
| <b>Total</b>                      | <b>133.7</b> | <b>222.4</b> |
| <i>including restricted cash</i>  | <i>16.6</i>  | <i>17.7</i>  |

The decrease in cash and cash equivalents is attributable to the repayment of liabilities on account of the purchase of non-financial non-current assets and loan liabilities. Detailed information in this respect is presented in the interim standalone cash flow statement.

As at 30 June 2019 and as at 31 December 2018, restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.





## 5. Explanatory 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

| 6 months ended<br>30/06/2019                  | Rolling stock    | Other property, plant and equipment |                                   |                    |                    |                                 | Total          |
|---|------------------|-------------------------------------|-----------------------------------|--------------------|--------------------|---------------------------------|----------------|
|   |                  | Real properties                     | Technical machinery and equipment | Means of transport | Other fixed assets | Fixed assets under construction |                |
| <b>Gross value</b>                            |                  |                                     |                                   |                    |                    |                                 |                |
| <b>31/12/2018</b>                             | <b>5,521.2</b>   | <b>592.9</b>                        | <b>220.3</b>                      | <b>34.8</b>        | <b>23.3</b>        | <b>16.7</b>                     | <b>888.0</b>   |
| Effect of the implementation of IFRS 16       | (25.3)           | (30.2)                              | (0.7)                             | (2.4)              | -                  | -                               | (33.3)         |
| <b>1/01/2019</b>                              | <b>5,495.9</b>   | <b>562.7</b>                        | <b>219.6</b>                      | <b>32.4</b>        | <b>23.3</b>        | <b>16.7</b>                     | <b>854.7</b>   |
| <i>Increases / (decreases):</i>               |                  |                                     |                                   |                    |                    |                                 |                |
| Periodic repairs of rolling stock             | -                | -                                   | -                                 | -                  | -                  | 306.5                           | 306.5          |
| Other acquisitions                            | -                | -                                   | -                                 | -                  | -                  | 212.4                           | 212.4          |
| Purchases of leased items                     | 25.3             | -                                   | -                                 | 1.9                | -                  | -                               | 1.9            |
| Settlement of fixed assets under construction | 518.2            | -                                   | 1.9                               | -                  | 0.2                | (520.3)                         | (518.2)        |
| Grant for non-current assets                  | (46.1)           | -                                   | -                                 | -                  | -                  | -                               | -              |
| Sales   | (1.1)            | -                                   | -                                 | (0.4)              | -                  | -                               | (0.4)          |
| Liquidation                                   | (171.0)          | (1.3)                               | (0.5)                             | -                  | -                  | -                               | (1.8)          |
| Reclassified to assets held for sale          | (14.7)           | -                                   | -                                 | -                  | -                  | -                               | -              |
| <b>30/06/2019</b>                             | <b>5,806.5</b>   | <b>561.4</b>                        | <b>221.0</b>                      | <b>33.9</b>        | <b>23.5</b>        | <b>15.3</b>                     | <b>855.1</b>   |
| <b>Accumulated depreciation</b>               |                  |                                     |                                   |                    |                    |                                 |                |
| <b>31/12/2018</b>                             | <b>(1,988.6)</b> | <b>(123.4)</b>                      | <b>(165.6)</b>                    | <b>(31.9)</b>      | <b>(19.8)</b>      | <b>-</b>                        | <b>(340.7)</b> |
| Effect of the implementation of IFRS 16       | 4.4              | -                                   | 0.4                               | 1.3                | -                  | -                               | 1.7            |
| <b>1/01/2019</b>                              | <b>(1,984.2)</b> | <b>(123.4)</b>                      | <b>(165.2)</b>                    | <b>(30.6)</b>      | <b>(19.8)</b>      | <b>-</b>                        | <b>(339.0)</b> |
| <i>(Increases) / decreases:</i>               |                  |                                     |                                   |                    |                    |                                 |                |
| Depreciation                                  | (224.8)          | (11.9)                              | (7.2)                             | (0.7)              | (0.8)              | -                               | (20.6)         |
| Purchases of leased items                     | (4.5)            | -                                   | -                                 | (1.2)              | -                  | -                               | (1.2)          |
| Sales   | 0.5              | -                                   | -                                 | 0.4                | -                  | -                               | 0.4            |
| Liquidation                                   | 167.5            | 1.3                                 | 0.5                               | -                  | -                  | -                               | 1.8            |
| Reclassified to assets held for sale          | 7.1              | -                                   | -                                 | -                  | -                  | -                               | -              |
| <b>30/06/2019</b>                             | <b>(2,038.4)</b> | <b>(134.0)</b>                      | <b>(171.9)</b>                    | <b>(32.1)</b>      | <b>(20.6)</b>      | <b>-</b>                        | <b>(358.6)</b> |
| <b>Accumulated impairment loss</b>            |                  |                                     |                                   |                    |                    |                                 |                |
| <b>1/01/2019</b>                              | <b>(106.9)</b>   | <b>(1.6)</b>                        | <b>-</b>                          | <b>-</b>           | <b>-</b>           | <b>(2.6)</b>                    | <b>(4.2)</b>   |
| <i>(Increases) / decreases:</i>               |                  |                                     |                                   |                    |                    |                                 |                |
| Sales   | 0.1              | -                                   | -                                 | -                  | -                  | -                               | -              |
| Liquidation                                   | 0.5              | -                                   | -                                 | -                  | -                  | 0.1                             | 0.1            |
| Reclassified to assets held for sale          | 0.8              | -                                   | -                                 | -                  | -                  | -                               | -              |
| <b>30/06/2019</b>                             | <b>(105.5)</b>   | <b>(1.6)</b>                        | <b>-</b>                          | <b>-</b>           | <b>-</b>           | <b>(2.5)</b>                    | <b>(4.1)</b>   |
| <b>Net value</b>                              |                  |                                     |                                   |                    |                    |                                 |                |
| <b>1/01/2019</b>                              | <b>3,404.9</b>   | <b>437.7</b>                        | <b>54.4</b>                       | <b>1.8</b>         | <b>3.5</b>         | <b>14.1</b>                     | <b>511.5</b>   |
| <b>30/06/2019</b>                             | <b>3,662.6</b>   | <b>425.8</b>                        | <b>49.1</b>                       | <b>1.8</b>         | <b>2.9</b>         | <b>12.8</b>                     | <b>492.4</b>   |

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

| 6 months ended<br>30/06/2018                  | Rolling stock | Other property, plant and equipment |                                   |                    |                    |                                 | Total   |
|---|---------------|-------------------------------------|-----------------------------------|--------------------|--------------------|---------------------------------|---------|
|   |               | Real properties                     | Technical machinery and equipment | Means of transport | Other fixed assets | Fixed assets under construction |         |
| <b>Gross value</b>                            |               |                                     |                                   |                    |                    |                                 |         |
| 1/01/2018                                     | 5,095.2       | 582.2                               | 210.3                             | 35.1               | 22.2               | 13.0                            | 862.8   |
| <i>Increases / (decreases):</i>               |               |                                     |                                   |                    |                    |                                 |         |
| Periodic repairs of rolling stock             | -             | -                                   | -                                 | -                  | -                  | 264.0                           | 264.0   |
| Other acquisitions                            | -             | -                                   | -                                 | -                  | -                  | 21.0                            | 21.0    |
| Settlement of fixed assets under construction | 281.9         | 0.3                                 | 1.1                               | -                  | 0.1                | (283.4)                         | (281.9) |
| Sales   | -             | -                                   | (0.3)                             | (0.1)              | -                  | -                               | (0.4)   |
| Contribution in kind                          | (8.3)         | -                                   | -                                 | -                  | -                  | -                               | -       |
| Liquidation                                   | (144.8)       | (0.5)                               | (1.0)                             | (0.1)              | -                  | -                               | (1.6)   |
| Reclassified to assets held for sale          | (30.3)        | -                                   | -                                 | -                  | -                  | -                               | -       |
| 30/06/2018                                    | 5,193.7       | 582.0                               | 210.1                             | 34.9               | 22.3               | 14.6                            | 863.9   |
| <b>Accumulated depreciation</b>               |               |                                     |                                   |                    |                    |                                 |         |
| 1/01/2018                                     | (1,927.7)     | (103.5)                             | (151.1)                           | (30.7)             | (18.1)             | -                               | (303.4) |
| <i>(Increases) / decreases:</i>               |               |                                     |                                   |                    |                    |                                 |         |
| Depreciation                                  | (192.6)       | (8.6)                               | (8.5)                             | (0.9)              | (0.7)              | -                               | (18.7)  |
| Sales   | -             | -                                   | 0.3                               | 0.1                | -                  | -                               | 0.4     |
| Contribution in kind                          | 5.0           | -                                   | -                                 | -                  | -                  | -                               | -       |
| Liquidation                                   | 141.4         | 0.5                                 | 0.9                               | 0.1                | -                  | -                               | 1.5     |
| Reclassified to assets held for sale          | 8.6           | -                                   | -                                 | -                  | -                  | -                               | -       |
| 30/06/2018                                    | (1,965.3)     | (111.6)                             | (158.4)                           | (31.4)             | (18.8)             | -                               | (320.2) |
| <b>Accumulated impairment loss</b>            |               |                                     |                                   |                    |                    |                                 |         |
| 1/01/2018                                     | (111.5)       | (1.6)                               | -                                 | -                  | -                  | (2.6)                           | (4.2)   |
| <i>(Increases) / decreases:</i>               |               |                                     |                                   |                    |                    |                                 |         |
| Contribution in kind                          | 0.6           | -                                   | -                                 | -                  | -                  | -                               | -       |
| Liquidation                                   | 0.3           | -                                   | -                                 | -                  | -                  | -                               | -       |
| Reclassified to assets held for sale          | 3.4           | -                                   | -                                 | -                  | -                  | -                               | -       |
| 30/06/2018                                    | (107.2)       | (1.6)                               | -                                 | -                  | -                  | (2.6)                           | (4.2)   |
| <b>Net value</b>                              |               |                                     |                                   |                    |                    |                                 |         |
| 1/01/2018                                     | 3,056.0       | 477.1                               | 59.2                              | 4.4                | 4.1                | 10.4                            | 555.2   |
| including finance lease                       | 100.5         | -                                   | 4.2                               | 2.9                | -                  | -                               | 7.1     |
| 30/06/2018                                    | 3,121.2       | 468.8                               | 51.7                              | 3.5                | 3.5                | 12.0                            | 539.5   |
| including finance lease                       | 43.9          | -                                   | 3.5                               | 1.9                | -                  | -                               | 5.4     |

## 5.2 Right-of-use assets

### Movement in right-of-use assets

| 6 months ended 30/06/2019               | Rolling stock | Real properties | Technical machinery and equipment | Means of transport | Other fixed assets | Total         |
|---|---------------|-----------------|-----------------------------------|--------------------|--------------------|---------------|
| <b>Gross value</b>                      |               |                 |                                   |                    |                    |               |
| Effect of the implementation of IFRS 16 | 91.5          | 526.9           | 0.7                               | 2.4                | 0.6                | <b>622.1</b>  |
| <b>1/01/2019</b>                        | <b>91.5</b>   | <b>526.9</b>    | <b>0.7</b>                        | <b>2.4</b>         | <b>0.6</b>         | <b>622.1</b>  |
| <i>Increases / (decreases):</i>         |               |                 |                                   |                    |                    |               |
| New leases                              | 29.7          | 1.3             | -                                 | 5.9                | -                  | <b>36.9</b>   |
| Return of leased items                  | -             | (0.8)           | -                                 | -                  | -                  | <b>(0.8)</b>  |
| Purchases of leased items               | (25.3)        | -               | -                                 | (1.9)              | -                  | <b>(27.2)</b> |
| Other                                   | -             | 0.2             | -                                 | -                  | -                  | <b>0.2</b>    |
| <b>30/06/2019</b>                       | <b>95.9</b>   | <b>527.6</b>    | <b>0.7</b>                        | <b>6.4</b>         | <b>0.6</b>         | <b>631.2</b>  |
| <b>Accumulated depreciation</b>         |               |                 |                                   |                    |                    |               |
| Effect of the implementation of IFRS 16 | (4.4)         | -               | (0.4)                             | (1.3)              | -                  | (6.1)         |
| <b>1/01/2019</b>                        | <b>(4.4)</b>  | <b>-</b>        | <b>(0.4)</b>                      | <b>(1.3)</b>       | <b>-</b>           | <b>(6.1)</b>  |
| <i>(Increases) / decreases:</i>         |               |                 |                                   |                    |                    |               |
| Depreciation                            | (13.0)        | (20.3)          | (0.1)                             | (0.8)              | -                  | <b>(34.2)</b> |
| Purchases of leased items               | 4.5           | -               | -                                 | 1.2                | -                  | <b>5.7</b>    |
| Other                                   | (0.3)         | -               | -                                 | -                  | -                  | <b>(0.3)</b>  |
| <b>30/06/2019</b>                       | <b>(13.2)</b> | <b>(20.3)</b>   | <b>(0.5)</b>                      | <b>(0.9)</b>       | <b>-</b>           | <b>(34.9)</b> |
| <b>Net value</b>                        |               |                 |                                   |                    |                    |               |
| <b>1/01/2019</b>                        | <b>87.1</b>   | <b>526.9</b>    | <b>0.3</b>                        | <b>1.1</b>         | <b>0.6</b>         | <b>616.0</b>  |
| <b>30/06/2019</b>                       | <b>82.7</b>   | <b>507.3</b>    | <b>0.2</b>                        | <b>5.5</b>         | <b>0.6</b>         | <b>596.3</b>  |

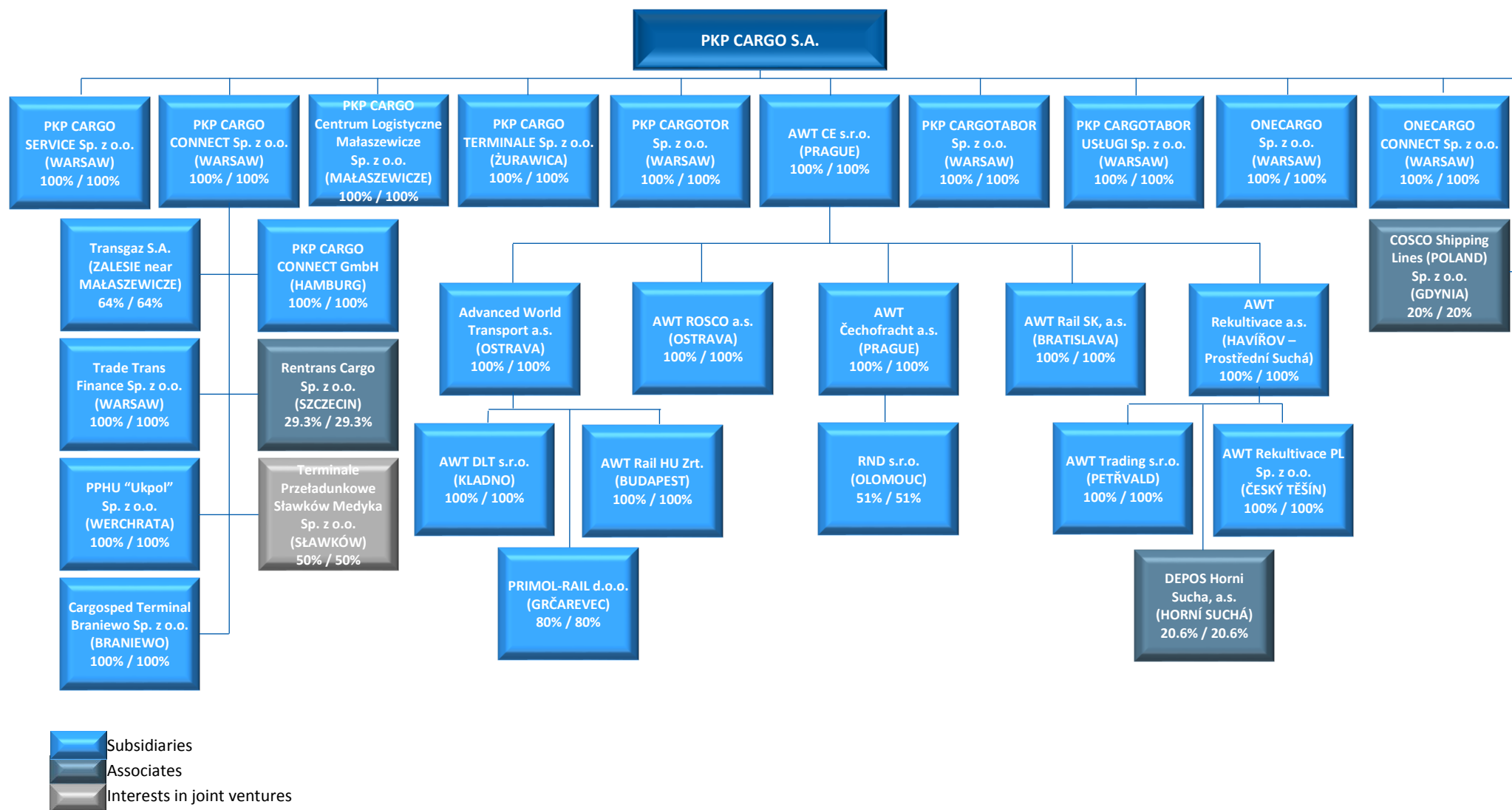
## 5.3 Investments in related parties

### List of investments in related parties

|   | Carrying amount |              |
|---|-----------------|--------------|
|   | 30/06/2019      | 31/12/2018   |
| AWT CE s.r.o.   | 499.7           | 499.7        |
| CARGOTOR Sp. z o.o.                                   | 20.2            | 20.2         |
| COSCO Shipping Lines (Poland) Sp. z o.o.              | 1.1             | 1.1          |
| ONECARGO Sp. z o.o.                                   | -               | -            |
| ONECARGO CONNECT Sp. z o.o.                           | -               | -            |
| PKP CARGOTABOR Sp. z o.o.                             | 84.7            | 84.7         |
| PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. | 40.4            | 40.4         |
| PKP CARGO TERMINALE Sp. z o.o.                        | 10.7            | 10.7         |
| PKP CARGO SERVICE Sp. z o.o.                          | 15.4            | 15.4         |
| PKP CARGOTABOR USŁUGI Sp. z o.o.                      | 10.1            | 10.1         |
| PKP CARGO CONNECT Sp. z o.o.                          | 123.2           | 123.2        |
| <b>Total</b>  | <b>805.5</b>    | <b>805.5</b> |

In the period of 6 months ended 30 June 2019, no changes were made to the value of investments in related parties.

### 5.3 Investments in related parties (cont.)



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

## 5.4 Inventories

### Structure of inventories

|                                  | 30/06/2019  | 31/12/2018  |
|----------------------------------|-------------|-------------|
| Strategic inventories            | 25.2        | 25.3        |
| Rolling stock during liquidation | 18.6        | 20.7        |
| Other inventories                | 43.1        | 41.1        |
| Impairment losses                | (6.1)       | (2.9)       |
| <b>Net inventories</b>           | <b>80.8</b> | <b>84.2</b> |

## 5.5 Trade receivables

### Structure of trade receivables

|                                | 30/06/2019   | 31/12/2018   |
|--------------------------------|--------------|--------------|
| Trade receivables              | 497.1        | 526.8        |
| Impairment loss on receivables | (46.6)       | (47.4)       |
| <b>Total</b>                   | <b>450.5</b> | <b>479.4</b> |
| Current assets                 | 450.5        | 479.4        |
| <b>Total</b>                   | <b>450.5</b> | <b>479.4</b> |

## 5.6 Financial assets

### Structure of financial assets

|                              | 30/06/2019  | 31/12/2018   |
|------------------------------|-------------|--------------|
| FX forwards                  | 6.1         | 3.1          |
| Shares in unlisted companies | 5.6         | 4.9          |
| Bank deposits over 3 months  | -           | 201.1        |
| Cash pool                    | 19.9        | -            |
| <b>Total</b>                 | <b>31.6</b> | <b>209.1</b> |
| Non-current assets           | 7.5         | 5.7          |
| Current assets               | 24.1        | 203.4        |
| <b>Total</b>                 | <b>31.6</b> | <b>209.1</b> |

The decrease in the value of bank deposits over 3 months is attributable mainly to the repayment of liabilities on account of non-financial non-current assets and bank loans. Detailed information in this respect is presented in the interim standalone cash flow statement.

## 5.7 Other assets

### Structure of other assets

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| <b>Non-financial assets</b>                             |              |              |
| Costs settled over time                                 |              |              |
| Prepayments for purchase of electricity                 | 34.1         | 30.9         |
| Insurance   | 8.6          | 6.7          |
| IT services   | 6.3          | 3.8          |
| Purchase of transportation services for eligible person | 6.7          | -            |
| Company Social Benefits Fund                            | 7.1          | -            |
| Other costs settled over time                           | 1.9          | 1.1          |
| Other   | 14.3         | 0.1          |
| <b>Other receivables</b>                                |              |              |
| VAT settlements   | 25.7         | 45.6         |
| Income tax receivables                                  | 20.7         | 2.9          |
| Dividends settlements                                   | 33.2         | -            |
| Other   | 6.9          | 3.8          |
| <b>Intangible assets</b>                                |              |              |
| Licenses  | 22.2         | 26.0         |
| Intangible assets under development                     | 4.5          | 4.8          |
| <b>Total</b>  | <b>192.2</b> | <b>125.7</b> |
| Non-current assets                                      | 46.4         | 35.3         |
| Current assets  | 145.8        | 90.4         |
| <b>Total</b>  | <b>192.2</b> | <b>125.7</b> |



## 5.8 Investment liabilities

### Structure of investment liabilities

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| Investment liabilities related to rolling stock   | 365.8        | 307.1        |
| Investment liabilities related to real properties | -            | 11.1         |
| Other   | 2.8          | 17.0         |
| <b>Total</b>                                      | <b>368.6</b> | <b>335.2</b> |
| Long-term liabilities                             | 176.3        | 109.7        |
| Short-term liabilities                            | 192.3        | 225.5        |
| <b>Total</b>                                      | <b>368.6</b> | <b>335.2</b> |

## 5.9 Provisions for employee benefits

### Structure of provisions for employee benefits

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| <b>Post-employment defined benefit plans</b>        |              |              |
| Retirement and disability severance benefit         | 197.8        | 177.1        |
| Company Social Benefits Fund                        | 115.1        | 121.6        |
| Transportation benefits                             | 31.4         | 31.0         |
| Post-mortem benefits                                | 6.5          | 6.1          |
| <b>Other employee benefits</b>                      |              |              |
| Jubilee awards                                      | 290.1        | 265.3        |
| Other employee benefits (unused holidays / bonuses) | 36.6         | 20.3         |
| <b>Total</b>  | <b>677.5</b> | <b>621.4</b> |
| Long-term liabilities                               | 559.1        | 528.8        |
| Short-term liabilities                              | 118.4        | 92.6         |
| <b>Total</b>  | <b>677.5</b> | <b>621.4</b> |

## 5.10 Other provisions

### Structure of other provisions

|  | 30/06/2019  | 31/12/2018  |
|--|-------------|-------------|
| Provision for penalties imposed by anti-monopoly authorities | 14.2        | 14.2        |
| Other provisions   | 19.6        | 19.4        |
| <b>Total</b>   | <b>33.8</b> | <b>33.6</b> |
| Long-term liabilities  | 14.2        | 14.2        |
| Short-term liabilities                                       | 19.6        | 19.4        |
| <b>Total</b>   | <b>33.8</b> | <b>33.6</b> |

### Provision for penalties imposed by anti-monopoly authorities

As at 30 June 2019 and 31 December 2018, the provision represented an estimate by the Company's Management Board in connection with the likelihood of payment of a fine imposed by the Office for Protection of Competition and Consumers (UOKiK) in the amount of PLN 14.2 million.

### Other provisions

This line item mostly includes the provisions recognized 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 Company's Management Board, the amount of other provisions as at 30 June 2019 and as at 31 December 2018 constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the estimates made by the Company's Management Board may be changed in subsequent reporting periods.

## 5.11 Other financial liabilities

### Structure of other financial liabilities

|                        | 30/06/2019 | 31/12/2018 |
|------------------------|------------|------------|
| FX forwards            | -          | 0.2        |
| Cash pool              | -          | 1.5        |
| <b>Total</b>           | <b>-</b>   | <b>1.7</b> |
| Short-term liabilities | -          | 1.7        |
| <b>Total</b>           | <b>-</b>   | <b>1.7</b> |

## 5.12 Other liabilities

### Structure of other liabilities

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| Liabilities arising out of collateral (deposits, bid bonds, guarantees) | 20.1         | 22.9         |
| Dividend payable  | 67.2         | -            |
| Public law settlement <sup>(1)</sup>                                    | 84.0         | 54.6         |
| Settlements with employees  | 66.1         | 69.4         |
| Other settlements   | 5.9          | 5.1          |
| <b>Total</b>  | <b>243.3</b> | <b>152.0</b> |
| Short-term liabilities  | 243.3        | 152.0        |
| <b>Total</b>  | <b>243.3</b> | <b>152.0</b> |

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

## 6. Financial instruments

### 6.1 Financial instruments

#### Categories and classes of financial instruments

| Financial assets by categories and classes  | Note                     | 30/06/2019   | 31/12/2018   |
|---|--------------------------|--------------|--------------|
| <b>Hedging financial instruments</b>  |                          |              |              |
| Derivatives   | <a href="#">Note 5.6</a> | 6.1          | 3.1          |
| <b>Financial assets measured at fair value through other comprehensive income</b> |                          |              |              |
| Investments in equity instruments   | <a href="#">Note 5.6</a> | 5.6          | 4.9          |
| <b>Financial assets measured at amortized cost</b>                                |                          |              |              |
| Trade receivables   | <a href="#">Note 5.5</a> | 450.5        | 479.4        |
| Receivables from sale of non-financial non-current assets                         |                          | 0.3          | 0.8          |
| Bank deposits over 3 months   | <a href="#">Note 5.6</a> | -            | 201.1        |
| Cash pool   | <a href="#">Note 5.6</a> | 19.9         | -            |
| Cash and cash equivalents   | <a href="#">Note 4.3</a> | 133.7        | 222.4        |
| <b>Financial assets excluded from the scope of IFRS 9</b>                         |                          | 22.7         | -            |
| <b>Total</b>  |                          | <b>638.8</b> | <b>911.7</b> |

| Financial liabilities by categories and classes                | Note                      | 30/06/2019     | 31/12/2018     |
|--|---------------------------|----------------|----------------|
| <b>Hedging financial instruments</b>                           |                           |                |                |
| Derivatives  | <a href="#">Note 5.11</a> | -              | 0.2            |
| Bank loans and borrowings                                      | <a href="#">Note 4.1</a>  | 442.4          | 468.1          |
| <b>Financial liabilities measured at amortized cost</b>        |                           |                |                |
| Bank loans and borrowings                                      | <a href="#">Note 4.1</a>  | 665.6          | 757.8          |
| Trade payables   |                           | 212.6          | 292.6          |
| Investment liabilities   | <a href="#">Note 5.8</a>  | 368.6          | 335.2          |
| Cash pool  | <a href="#">Note 5.11</a> | -              | 1.5            |
| <b>Financial liabilities excluded from the scope of IFRS 9</b> | <a href="#">Note 4.1</a>  | 601.8          | 5.3            |
| <b>Total</b>   |                           | <b>2,291.0</b> | <b>1,860.7</b> |

Impairment losses on trade receivables are presented in [Note 5.5](#) to these Interim Condensed Standalone Financial Statements.

## 6.1 Financial instruments (cont.)

### Hedge accounting

In the period from 1 January 2019 to 30 June 2019, the Company applied cash flow hedging 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 June 2019, the following hedging instruments were established:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 30 June 2019, the nominal amount of the hedging instrument was EUR 104.0 million, which is an equivalent of PLN 442.4 million.
- in forward foreign exchange contracts. The hedged cash flows will be realized until June 2021. As at 30 June 2019, the value of the assets on account of measurement of hedging instruments was PLN 6.1 million.

### Fair value hierarchy

As at 30 June 2019, financial instruments measured at fair value were forward FX contracts and investments in equity instruments.

|  | 30/06/2019 |         | 31/12/2018 |         |
|--|------------|---------|------------|---------|
|  | Level 2    | Level 3 | Level 2    | Level 3 |
| <b>Assets</b>  |            |         |            |         |
| Derivatives – forward FX contracts                               | 6.1        | -       | 3.1        | -       |
| Investments in equity instruments - shares in unlisted companies | -          | 5.6     | -          | 4.9     |
| <b>Liabilities</b>   |            |         |            |         |
| Derivatives – forward FX contracts                               | -          | -       | 0.2        | -       |

### Measurement methods for financial instruments carried at fair value

#### a) Forward foreign exchange contracts

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

#### b) Investments in equity instruments

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



#### c) Other financial instruments

For the category of financial instruments which are not measured at fair value as at the balance sheet date, the Company does not disclose fair value because the fair values of these financial instruments as at 30 June 2019 and 31 December 2018 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

|  | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 |
|--|------------------------------|------------------------------|
| <b>As at the beginning of the reporting period</b>                         | <b>4.9</b>                   | <b>4.9</b>                   |
| Profits / (losses) for the period recognized in other comprehensive income | 0.7                          | -                            |
| <b>As at the end of the reporting period</b>                               | <b>5.6</b>                   | <b>4.9</b>                   |

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, there were no transfers between level 2 and level 3 of the fair value hierarchy.

## 6.1 Financial instruments (cont.)

Revenues, costs, profits and losses in the statement of profit or loss and other comprehensive income by categories of financial instruments

| 6 months ended 30/06/2019                          | 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         |
|--|-------------------------------|-----------------------------------|---|--|--|---|---------------|
| Interest income / (expense)                        | (1.5)                         | -                                 | 2.9   | 0.5  | (9.9)  | (12.1)  | (20.1)        |
| FX differences                                     | -                             | -                                 | (0.7)                                       | -  | (0.8)  | 1.0   | (0.5)         |
| Impairment losses / revaluation                    | -                             | 0.7                               | (1.0)                                       | -  | -  | -   | (0.3)         |
| Transaction costs related to loans                 | -                             | -                                 | -   | -  | (1.1)  | -   | (1.1)         |
| Effect of settlement of cash flow hedge accounting | 2.1                           | -                                 | -   | -  | -  | -   | 2.1           |
| <b>Gross profit / (loss)</b>                       | <b>0.6</b>                    | <b>0.7</b>                        | <b>1.2</b>                                  | <b>0.5</b>   | <b>(11.8)</b>                                    | <b>(11.1)</b>   | <b>(19.9)</b> |
| Revaluation  | 8.4                           | -                                 | -   | -  | -  | -   | 8.4           |
| <b>Other comprehensive income</b>                  | <b>8.4</b>                    | -                                 | -   | -  | -  | -   | <b>8.4</b>    |

In the period of 6 months ended 30 June 2019, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 2.1 million.

In the period of 6 months ended 30 June 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 3.2 million and bank loans in the amount of PLN 5.2 million, recognized as part of the hedge accounting applied by the Company.

| 6 months ended 30/06/2018                          | Hedging financial instruments | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Total financial liabilities excluded from the scope of IFRS 9 | Total         |
|--|-------------------------------|---|--|---|---------------|
| Interest income / (expense)                        | (1.5)                         | 6.2   | (10.7)   | (0.3)   | (6.3)         |
| FX differences                                     | -                             | 3.4   | (1.0)  | (0.9)   | 1.5           |
| Impairment losses / revaluation                    | -                             | 2.5   | -  | -   | 2.5           |
| Commission in connection with bank loans           | -                             | -   | (0.8)  | -   | (0.8)         |
| Effect of settlement of cash flow hedge accounting | 3.9                           | -   | -  | -   | 3.9           |
| <b>Gross profit / (loss)</b>                       | <b>2.4</b>                    | <b>12.1</b>                                 | <b>(12.5)</b>                                    | <b>(1.2)</b>  | <b>0.8</b>    |
| Revaluation  | (32.5)                        | -   | -  | -   | (32.5)        |
| <b>Other comprehensive income</b>                  | <b>(32.5)</b>                 | -   | -  | -   | <b>(32.5)</b> |

In the period of 6 months ended 30 June 2018, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 3.9 million.

In the period of 6 months ended 30 June 2018, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (10.4) million and bank loans in the amount of PLN (22.1) million, recognized as part of the hedge accounting applied by the Company.

## 7. Other notes

### 7.1 Related party transactions

#### Transactions with the State Treasury and its other related parties

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, the State Treasury was a higher-level parent entity of the Company. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Company's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Interim Condensed Standalone Financial Statements, the Management Board has disclosed transactions with material related parties identified as such according to the best knowledge of the Management Board.

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, there were no individual transactions effected between the Company and the other parties related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Interim Condensed Standalone Financial Statements, the Company's most important clients among other parties related to the State Treasury were members of the following groups: ENEA, JSW, PGE, Azoty, PKN Orlen and Węglukoks. The Company's most important other suppliers related to the State Treasury were Orlen Group entities.

#### Transactions with PKP Group related parties

In the period covered by these Interim Condensed Standalone Financial Statements, the Company entered into the following commercial transactions with PKP Group related parties:

|                                 | 6 months ended 30/06/2019 |                                | 30/06/2019                       |                                |
|---------------------------------|---------------------------|--------------------------------|----------------------------------|--------------------------------|
|                                 | Sales to related parties  | Purchases from related parties | Receivables from related parties | Liabilities to related parties |
| Parent Company                  | 0.2                       | 28.2                           | 0.1                              | 477.6                          |
| Subsidiaries / co-subsiidiaries | 246.2                     | 333.9                          | 58.6                             | 112.4                          |
| Other PKP Group related parties | 6.8                       | 279.9                          | 2.8                              | 55.4                           |

|                                 | 6 months ended 30/06/2018 |                                | 31/12/2018                       |                                |
|---------------------------------|---------------------------|--------------------------------|----------------------------------|--------------------------------|
|                                 | Sales to related parties  | Purchases from related parties | Receivables from related parties | Liabilities to related parties |
| Parent Company                  | 0.2                       | 28.4                           | 1.3                              | 8.7                            |
| Subsidiaries / co-subsiidiaries | 292.7                     | 293.0                          | 93.1                             | 125.1                          |
| Associates                      | 1.3                       | -                              | -                                | -                              |
| Other PKP Group related parties | 4.9                       | 334.8                          | 1.8                              | 59.7                           |

Purchase transactions with the Parent Company (PKP S.A.) pertain to the supply of utilities and occupational medicine services. As at 30 June 2019, the increase in liabilities toward PKP S.A. was caused by the entry into force of IFRS 16 and the recognition, as of 1 January 2019, of lease liabilities arising from lease and rental agreements concluded with PKP S.A.

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

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

In addition to commercial transactions, the Company has cash pooling settlements disclosed in [Notes 5.6](#) and [5.11](#), and dividend receivables presented in [Note 5.7](#). In addition the Company granted sureties to its subsidiaries described in [Note 7.3](#) to these Standalone Financial Statements. As at 30 June 2019, the Company also had a dividend payable towards PKP S.A. in the amount of PLN 22.2 million.



## 7.1 Related party transactions (cont.)

### Loans granted to / received from related parties

In the period of 6 months ended 30 June 2019 and 30 June 2018, the Company did not grant or take any loans from its related parties.

### 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 | 6 months ended<br>30/06/2019 | 6 months ended<br>30 /06/2018 |
|---|------------------------------|-------------------------------|
| Short-term benefits                       | 1.3                          | 1.1                           |
| Post-employment benefits                  | -                            | 0.4                           |
| Termination benefits                      | -                            | 0.1                           |
| <b>Total</b>                              | <b>1.3</b>                   | <b>1.6</b>                    |

| Remunerations of Supervisory Board Members | 6 months ended<br>30/06/2019 | 6 months ended<br>30 /06/2018 |
|--|------------------------------|-------------------------------|
| Short-term benefits                        | 0.6                          | 0.5                           |
| <b>Total</b>                               | <b>0.6</b>                   | <b>0.5</b>                    |

| Remunerations of other members of key management personnel | 6 months ended<br>30/06/2019 | 6 months ended<br>30 /06/2018 |
|--|------------------------------|-------------------------------|
| Short-term benefits  | 3.3                          | 3.0                           |
| Post-employment benefits                                   | 0.1                          | 0.5                           |
| Termination benefits                                       | 0.1                          | 0.1                           |
| <b>Total</b>   | <b>3.5</b>                   | <b>3.6</b>                    |

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, members of key management personnel did not enter into any loan or guarantee transactions with the Company.

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

|   | 30/06/2019     | 31/12/2018     |
|---|----------------|----------------|
| Contractual liabilities on account of the acquisition of non-financial non-current assets | 1,591.5        | 1,277.0        |
| <b>Total</b>  | <b>1,591.5</b> | <b>1,277.0</b> |

As at 30 June 2019, the increase in the future investment liabilities resulted mainly from newly concluded agreements. The most important agreements included:

- the agreement with Tatravagónka a.s. entered into in March 2019 for the delivery of 936 container platforms with a total value of PLN 368.4 million, to be delivered by December 2022.
- the contract entered into in January 2019 with PKP CARGOTABOR Sp. z o.o. for 424 periodic repairs of locomotives to be performed until December 2021. As at 30 June 2019 the outstanding contractual value of the contract was PLN 201.8 million.
- the annex to the agreement with Siemens Mobility Sp. z o.o. entered into in January 2019, providing for the delivery of additional 5 brand new Siemens VECTRON multi-system locomotives with the provision of auxiliary services. As at 30 June 2019, the total remaining value of the agreement in the part pertaining to the delivery of locomotives was EUR 17.5 million (PLN 74.3 million).

The remaining changes were caused by repayment of investment liabilities resulting from the agreements entered into in previous periods.

### 7.3 Contingent liabilities

#### Structure of contingent liabilities

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| Sureties granted for subsidiaries             | 1.5          | 1.5          |
| Guarantees issued at PKP CARGO S.A.'s request | 43.1         | 38.1         |
| Other contingent liabilities                  | 108.8        | 110.2        |
| <b>Total</b>                                  | <b>153.4</b> | <b>149.8</b> |

#### Sureties granted for subsidiaries

As at 30 June 2019 and 31 December 2018, there was an outstanding loan agreement surety granted by the Company for PKP CARGOTABOR Sp. z o.o. The surety was secured with a blank promissory note.

#### Guarantees issued at PKP CARGO S.A.'s request

As at 30 June 2019, there were outstanding guarantees issued by banks at the Company's request for commercial business partners. The guarantees comprised tender bonds (for PLN 5.5 million), performance bonds (for PLN 28.1 million) and payment guarantees (for PLN 9.5 million). As at 31 December 2018, the guarantees comprised tender bonds (for PLN 13.9 million), performance bonds (for PLN 17.8 million) and payment guarantees (for PLN 6.3 million).

#### Other contingent liabilities

This line item comprises the claims made against the Company 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 Company. The amounts presented in this Note correspond to the value of the full claims reported by external entities. Assessment of the estimates may change in subsequent periods as a result of future events.

### 7.4 Subsequent events

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

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

In August 2019, the plan of merge PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. ("PKP CARGO CL Małaszewicze") and PKP CARGO TERMINALE Sp. z o.o. ("PKP CARGO TERMINALE") was accepted to the company's registration files. The merger is scheduled to be effected by way of the acquisition of PKP CARGO CL Małaszewicze by PKP CARGO TERMINALE, as a result of which PKP CARGO CL Małaszewicze will cease to exist on the date it is deleted from the register of commercial undertakings.

### 7.5 Approval of the financial statements

These Interim Condensed Standalone Financial Statements were approved for publication by the Company's Management Board on 21 August 2019.



**Company's Management Board**

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Czesław Warsewicz  
President of the Management Board

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Leszek Borowiec  
Management Board Member

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Grzegorz Fingas  
Management Board Member

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Witold Bawor  
Management Board Member

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Zenon Kozendra  
Management Board Member

Warsaw, 21 August 2019



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

tel.: +48 22 543 16 00  
fax: +48 22 543 16 01  
e-mail: [office@bdo.pl](mailto:office@bdo.pl)  
[www.bdo.pl](http://www.bdo.pl)

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

**INDEPENDENT AUDITOR'S REVIEW REPORT  
ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SHAREHOLDERS AND SUPERVISORY BOARD OF PKP CARGO SA**

## **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of PKP CARGO GROUP where the parent company is PKP CARGO SA (Company) with its registered office in Warszawa, at Grójecka 17 street, comprising the interim consolidated statement of financial position prepared as at 30 June 2019, the interim consolidated statement of profit or loss and other comprehensive income for the period from 1 January 2019 to 30 June 2019, the interim consolidated statement of changes in equity for the period from 1 January 2019 to 30 June 2019, the interim consolidated cash flow statement for the period from 1 January 2019 to 30 June 2019, and other explanatory notes ("interim condensed consolidated financial statements").

The company's Management is responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with the requirements of International Accounting Standards 34 *Interim Financial Reporting*, announced in the form of European Commission regulations.

Our responsibility is to form a conclusion on the interim condensed consolidated financial statements based on our review.

## **Scope of Review**

We performed the review in accordance with National Standard on Review Engagements 2410 in the wording of International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, adopted in a resolution passed by the National Council of Certified Auditors.

A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in the wording of International Standards on Auditing. In consequence, a review is not sufficient to obtain assurance that all significant matters that might be identified in an audit, have been identified. Accordingly, we do not express an audit opinion on the accompanying interim condensed consolidated financial statements.

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

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting*, announced in the form of European Commission regulations.

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

**on behalf of which the review of financial statements was performed by**



Signed by /  
Podpisano przez:

Marcin Krupa

Date / Data: 2019-  
08-21 15:15

**Marcin Krupa**  
Certified Auditor No. 11142



Signed by /  
Podpisano przez:

André Helin

Date / Data:  
2019-08-21 15:28

**Dr. André Helin**  
Managing Partner  
Certified Auditor No. 90004

Warszawa, 21 August 2019



Interim condensed consolidated financial  
statements of the **PKP CARGO** Group  
for the period of 6 months  
ended 30 June 2019

Prepared in accordance with IFRS  
as endorsed by the European Union



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# INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |                          |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|--------------------------|
| Revenues from contracts with customers  | 2,425.3                         | 1,164.4                         | 2,486.7                         | 1,281.7                         | <a href="#">Note 2.1</a> |
| Consumption of traction electricity and traction fuel   | (279.9)                         | (120.7)                         | (289.0)                         | (146.7)                         | <a href="#">Note 2.2</a> |
| Services of access to infrastructure  | (289.5)                         | (142.8)                         | (354.9)                         | (183.4)                         |                          |
| Transport services  | (203.5)                         | (105.8)                         | (234.7)                         | (121.5)                         |                          |
| Other services  | (181.0)                         | (87.9)                          | (230.0)                         | (120.7)                         | <a href="#">Note 2.2</a> |
| Employee benefits   | (881.4)                         | (453.1)                         | (815.2)                         | (415.8)                         | <a href="#">Note 2.2</a> |
| Other expenses  | (141.3)                         | (65.3)                          | (146.8)                         | (76.0)                          | <a href="#">Note 2.2</a> |
| Other operating revenue and (expenses)  | 1.4                             | 2.8                             | 5.7                             | 4.3                             | <a href="#">Note 2.3</a> |
| <b>Operating profit without depreciation (EBITDA)</b>   | <b>450.1</b>                    | <b>191.6</b>                    | <b>421.8</b>                    | <b>221.9</b>                    |                          |
| Depreciation, amortization and impairment losses  | (348.2)                         | (176.6)                         | (288.6)                         | (151.6)                         | <a href="#">Note 2.2</a> |
| <b>Profit on operating activities (EBIT)</b>  | <b>101.9</b>                    | <b>15.0</b>                     | <b>133.2</b>                    | <b>70.3</b>                     |                          |
| Financial revenue and (expenses)  | (34.6)                          | (15.8)                          | (18.3)                          | (8.2)                           | <a href="#">Note 2.4</a> |
| Share in the profit / (loss) of entities accounted for under the equity method                  | 0.7                             | (0.1)                           | (2.1)                           | 1.0                             | <a href="#">Note 5.3</a> |
| <b>Profit before tax</b>  | <b>68.0</b>                     | <b>(0.9)</b>                    | <b>112.8</b>                    | <b>63.1</b>                     |                          |
| Income tax  | (20.1)                          | (4.3)                           | (23.2)                          | (9.1)                           | <a href="#">Note 3.1</a> |
| <b>NET PROFIT</b>   | <b>47.9</b>                     | <b>(5.2)</b>                    | <b>89.6</b>                     | <b>54.0</b>                     |                          |
| <b>OTHER COMPREHENSIVE INCOME</b>   |                                 |                                 |                                 |                                 |                          |
| Measurement of hedging instruments  | 9.1                             | 8.7                             | (35.0)                          | (27.1)                          | <a href="#">Note 6.1</a> |
| Income tax  | (1.7)                           | (1.6)                           | 6.7                             | 5.2                             |                          |
| FX differences resulting from translation of financial statements                               | 0.3                             | 2.9                             | 20.0                            | 8.3                             |                          |
| <b>Total other comprehensive income subject to reclassification in the financial result</b>     | <b>7.7</b>                      | <b>10.0</b>                     | <b>(8.3)</b>                    | <b>(13.6)</b>                   |                          |
| Actuarial profits / (losses) on post-employment benefits  | (14.0)                          | (14.0)                          | (4.0)                           | (4.0)                           |                          |
| Income tax  | 2.7                             | 2.7                             | 0.8                             | 0.8                             |                          |
| Measurement of equity instruments at fair value   | 0.7                             | 0.7                             | -                               | -                               |                          |
| <b>Total other comprehensive income not subject to reclassification in the financial result</b> | <b>(10.6)</b>                   | <b>(10.6)</b>                   | <b>(3.2)</b>                    | <b>(3.2)</b>                    |                          |
| <b>Total other comprehensive income</b>   | <b>(2.9)</b>                    | <b>(0.6)</b>                    | <b>(11.5)</b>                   | <b>(16.8)</b>                   |                          |
| <b>TOTAL COMPREHENSIVE INCOME</b>   | <b>45.0</b>                     | <b>(5.8)</b>                    | <b>78.1</b>                     | <b>37.2</b>                     |                          |
| Net profit attributable to the shareholders of the parent company                               | 47.9                            | (5.2)                           | 89.6                            | 54.0                            |                          |
| Total other comprehensive income attributable to shareholders of the parent company             | 45.0                            | (5.8)                           | 78.1                            | 37.2                            |                          |
| <b>Earnings per share (PLN per share)</b>   |                                 |                                 |                                 |                                 |                          |
| Weighted average number of ordinary shares  | 44,786,917                      | 44,786,917                      | 44,786,917                      | 44,786,917                      |                          |
| Basic and diluted earnings per share  | <b>1.1</b>                      | <b>(0.1)</b>                    | <b>2.0</b>                      | <b>1.2</b>                      |                          |

The data for the period of 6 months ended 30 June 2018 have been restated as described in [Note 1.4](#) to these Interim Condensed Consolidated Financial Statements.

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

# **INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

|   | 30/06/2019     | 31/12/2018     | 30/06/2018     |                           |
|---|----------------|----------------|----------------|---------------------------|
| <b>ASSETS</b>   |                |                |                |                           |
| Rolling stock   | 4,107.5        | 3,997.0        | 3,782.3        | <a href="#">Note 5.1</a>  |
| Other property, plant and equipment                               | 857.1          | 949.9          | 920.6          | <a href="#">Note 5.1</a>  |
| Right-of-use assets   | 969.1          | -              | -              | <a href="#">Note 5.2</a>  |
| Investments in entities accounted for under the equity method     | 46.5           | 47.3           | 51.9           | <a href="#">Note 5.3</a>  |
| Trade receivables   | 1.3            | 0.7            | 1.4            | <a href="#">Note 5.5</a>  |
| Lease receivables   | 11.0           | -              | -              |                           |
| Other assets  | 62.6           | 56.7           | 57.7           | <a href="#">Note 5.6</a>  |
| Deferred tax assets   | 121.7          | 135.6          | 150.8          | <a href="#">Note 3.1</a>  |
| <b>Total non-current assets</b>                                   | <b>6,176.8</b> | <b>5,187.2</b> | <b>4,964.7</b> |                           |
| Inventories   | 163.2          | 161.7          | 154.8          | <a href="#">Note 5.4</a>  |
| Trade receivables   | 667.5          | 684.6          | 708.9          | <a href="#">Note 5.5</a>  |
| Lease receivables   | 0.6            | -              | -              |                           |
| Bank deposits over 3 months                                       | -              | 201.1          | 403.6          |                           |
| Other assets  | 153.6          | 124.4          | 108.0          | <a href="#">Note 5.6</a>  |
| Cash and cash equivalents   | 327.0          | 447.3          | 264.4          | <a href="#">Note 4.3</a>  |
| <b>Total current assets</b>                                       | <b>1,311.9</b> | <b>1,619.1</b> | <b>1,639.7</b> |                           |
| Non-current assets classified as held for sale                    | 5.2            | -              | 18.3           |                           |
| <b>TOTAL ASSETS</b>   | <b>7,493.9</b> | <b>6,806.3</b> | <b>6,622.7</b> |                           |
| <b>EQUITY AND LIABILITIES</b>                                     |                |                |                |                           |
| Share capital   | 2,239.3        | 2,239.3        | 2,239.3        | <a href="#">Note 4.2</a>  |
| Supplementary capital   | 781.4          | 628.2          | 627.6          |                           |
| Other items of equity   | (47.4)         | (44.2)         | (46.0)         |                           |
| FX differences resulting from translation of financial statements | 76.1           | 75.8           | 79.9           |                           |
| Retained earnings   | 414.7          | 584.4          | 490.7          |                           |
| <b>Total equity</b>   | <b>3,464.1</b> | <b>3,483.5</b> | <b>3,391.5</b> |                           |
| Debt liabilities  | 1,709.4        | 1,156.5        | 1,300.6        | <a href="#">Note 4.1</a>  |
| Trade liabilities   | 1.7            | 0.5            | 1.1            |                           |
| Investment liabilities  | 180.3          | 109.8          | -              | <a href="#">Note 5.7</a>  |
| Provisions for employee benefits                                  | 623.7          | 591.5          | 589.6          | <a href="#">Note 5.8</a>  |
| Other provisions  | 19.2           | 20.5           | 23.0           | <a href="#">Note 5.9</a>  |
| Deferred tax liability  | 89.6           | 88.5           | 100.2          | <a href="#">Note 3.1</a>  |
| Other liabilities   | 0.6            | 1.8            | 2.6            | <a href="#">Note 5.10</a> |
| <b>Total long-term liabilities</b>                                | <b>2,624.5</b> | <b>1,969.1</b> | <b>2,017.1</b> |                           |
| Debt liabilities  | 379.1          | 270.5          | 280.9          | <a href="#">Note 4.1</a>  |
| Trade liabilities   | 380.5          | 499.4          | 453.6          |                           |
| Investment liabilities  | 126.6          | 177.6          | 33.0           | <a href="#">Note 5.7</a>  |
| Provisions for employee benefits                                  | 148.4          | 115.5          | 141.2          | <a href="#">Note 5.8</a>  |
| Other provisions  | 54.0           | 56.9           | 54.7           | <a href="#">Note 5.9</a>  |
| Other liabilities   | 316.7          | 233.8          | 250.7          | <a href="#">Note 5.10</a> |
| <b>Total short-term liabilities</b>                               | <b>1,405.3</b> | <b>1,353.7</b> | <b>1,214.1</b> |                           |
| <b>Total liabilities</b>  | <b>4,029.8</b> | <b>3,322.8</b> | <b>3,231.2</b> |                           |
| <b>TOTAL EQUITY AND LIABILITIES</b>                               | <b>7,493.9</b> | <b>6,806.3</b> | <b>6,622.7</b> |                           |

The data as at 30 June 2018 have been restated as described in [Note 1.4](#) to these Interim Condensed Consolidated Financial Statements.

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|  | Share capital  | Supplementary capital | Other items of equity                           |  |                                    | FX differences resulting from translation of financial statements | Retained earnings | Total equity   |
|--|----------------|-----------------------|---|--|------------------------------------|---|-------------------|----------------|
|  |                |                       | Measurement of equity instruments at fair value | Actuarial profits / (losses) on post-employment benefits | Measurement of hedging instruments |   |                   |                |
| <b>31/12/2018</b>                                    | <b>2,239.3</b> | <b>628.2</b>          | <b>(12.9)</b>                                   | <b>(32.8)</b>  | <b>1.5</b>                         | <b>75.8</b>   | <b>584.4</b>      | <b>3,483.5</b> |
| Changes resulting from the implementation of IFRS 16 | -              | -                     | -   | -  | -                                  | -   | 2.8               | 2.8            |
| <b>1/01/2019</b>                                     | <b>2,239.3</b> | <b>628.2</b>          | <b>(12.9)</b>                                   | <b>(32.8)</b>  | <b>1.5</b>                         | <b>75.8</b>   | <b>587.2</b>      | <b>3,486.3</b> |
| Net result for the period                            | -              | -                     | -   | -  | -                                  | -   | 47.9              | 47.9           |
| Other comprehensive income for the period (net)      | -              | -                     | 0.7   | (11.3)   | 7.4                                | 0.3   | -                 | (2.9)          |
| Total comprehensive income                           | -              | -                     | 0.7   | (11.3)   | 7.4                                | 0.3   | 47.9              | 45.0           |
| Dividends  | -              | -                     | -   | -  | -                                  | -   | (67.2)            | (67.2)         |
| Other changes for the period                         | -              | 153.2                 | -   | -  | -                                  | -   | (153.2)           | -              |
| <b>30/06/2019</b>                                    | <b>2,239.3</b> | <b>781.4</b>          | <b>(12.2)</b>                                   | <b>(44.1)</b>  | <b>8.9</b>                         | <b>76.1</b>   | <b>414.7</b>      | <b>3,464.1</b> |
| <b>1/01/2018</b>                                     | <b>2,239.3</b> | <b>619.3</b>          | <b>(12.9)</b>                                   | <b>(22.1)</b>  | <b>20.5</b>                        | <b>59.9</b>   | <b>409.4</b>      | <b>3,313.4</b> |
| Net result for the period                            | -              | -                     | -   | -  | -                                  | -   | 89.6              | 89.6           |
| Other comprehensive income for the period (net)      | -              | -                     | -   | (3.2)  | (28.3)                             | 20.0  | -                 | (11.5)         |
| <b>Total comprehensive income</b>                    | <b>-</b>       | <b>-</b>              | <b>-</b>  | <b>(3.2)</b>   | <b>(28.3)</b>                      | <b>20.0</b>   | <b>89.6</b>       | <b>78.1</b>    |
| Other changes for the period                         | -              | 8.3                   | -   | -  | -                                  | -   | (8.3)             | -              |
| <b>30/06/2018 (restated)</b>                         | <b>2,239.3</b> | <b>627.6</b>          | <b>(12.9)</b>                                   | <b>(25.3)</b>  | <b>(7.8)</b>                       | <b>79.9</b>   | <b>490.7</b>      | <b>3,391.5</b> |

Note 1.3

Restatement of comparable data is described in [Note 1.3](#) and [1.4](#) to these Interim Condensed Consolidated Financial Statements.



# INTERIM CONSOLIDATED CASH FLOW STATEMENT

|  | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 |                          |
|--|------------------------------|------------------------------|--------------------------|
| <b>Cash flow from operating activities</b>   |                              |                              |                          |
| <b>Profit before tax</b>   | <b>68.0</b>                  | <b>112.8</b>                 |                          |
| <b>Adjustments</b>   |                              |                              |                          |
| Depreciation, amortization and impairment losses                                   | 348.2                        | 288.6                        | <a href="#">Note 2.2</a> |
| (Profits) / losses on interest, dividends  | 27.9                         | 9.7                          |                          |
| Received / (paid) interest   | 0.8                          | 2.5                          |                          |
| Received / (paid) income tax   | (23.6)                       | (33.6)                       |                          |
| Movement in working capital  | (49.6)                       | 30.3                         |                          |
| Other adjustments  | (16.2)                       | (17.5)                       |                          |
| <b>Net cash from operating activities</b>  | <b>355.5</b>                 | <b>392.8</b>                 |                          |
| <b>Cash flow from investing activities</b>   |                              |                              |                          |
| Expenditures on the acquisition of non-financial non-current assets                | (522.7)                      | (344.9)                      |                          |
| Proceeds from the sale of non-financial non-current assets                         | 12.5                         | 1.8                          |                          |
| Proceeds from the sale of other financial assets                                   | -                            | 5.3                          |                          |
| Proceeds from dividends received   | 0.4                          | -                            |                          |
| Proceeds from repayment of loans   | -                            | 0.3                          |                          |
| Inflows / (outflows) on bank deposits over 3 months                                | 200.0                        | (149.2)                      |                          |
| Other inflows / (outflows) from investing activities                               | 4.2                          | 4.5                          |                          |
| <b>Net cash from investing activities</b>  | <b>(305.6)</b>               | <b>(482.2)</b>               |                          |
| <b>Cash flow from financing activities</b>   |                              |                              |                          |
| Payments on financial lease liabilities  | (62.8)                       | (28.4)                       | <a href="#">Note 4.1</a> |
| Repayment of bank loans and borrowings   | (122.8)                      | (121.3)                      | <a href="#">Note 4.1</a> |
| Interest paid on financial lease liabilities and bank loans and borrowings         | (26.6)                       | (15.7)                       | <a href="#">Note 4.1</a> |
| Grants received  | 45.5                         | 1.0                          |                          |
| Other outflows from financing activities   | (3.3)                        | (1.4)                        |                          |
| <b>Net cash from financing activities</b>  | <b>(170.0)</b>               | <b>(165.8)</b>               |                          |
| Net increase / (decrease) in cash and cash equivalents                             | (120.1)                      | (255.2)                      |                          |
| Cash and cash equivalents at the beginning of the reporting period                 | 447.3                        | 516.8                        |                          |
| Impact exerted by FX rate movements on the cash balance in foreign currencies      | (0.2)                        | 2.8                          |                          |
| <b>Cash and cash equivalents as at the end of the reporting period, including:</b> | <b>327.0</b>                 | <b>264.4</b>                 |                          |
| <i>restricted cash</i>   | <i>40.0</i>                  | <i>30.0</i>                  |                          |



## EXPLANATORY NOTES TO THE INTERIM 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 June 2019 are presented in the Management Board Report on the Activity of the PKP CARGO Group for H1 2019, in [Chapters 3.1](#) and [3.2](#), respectively.

##### Information about the Group

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

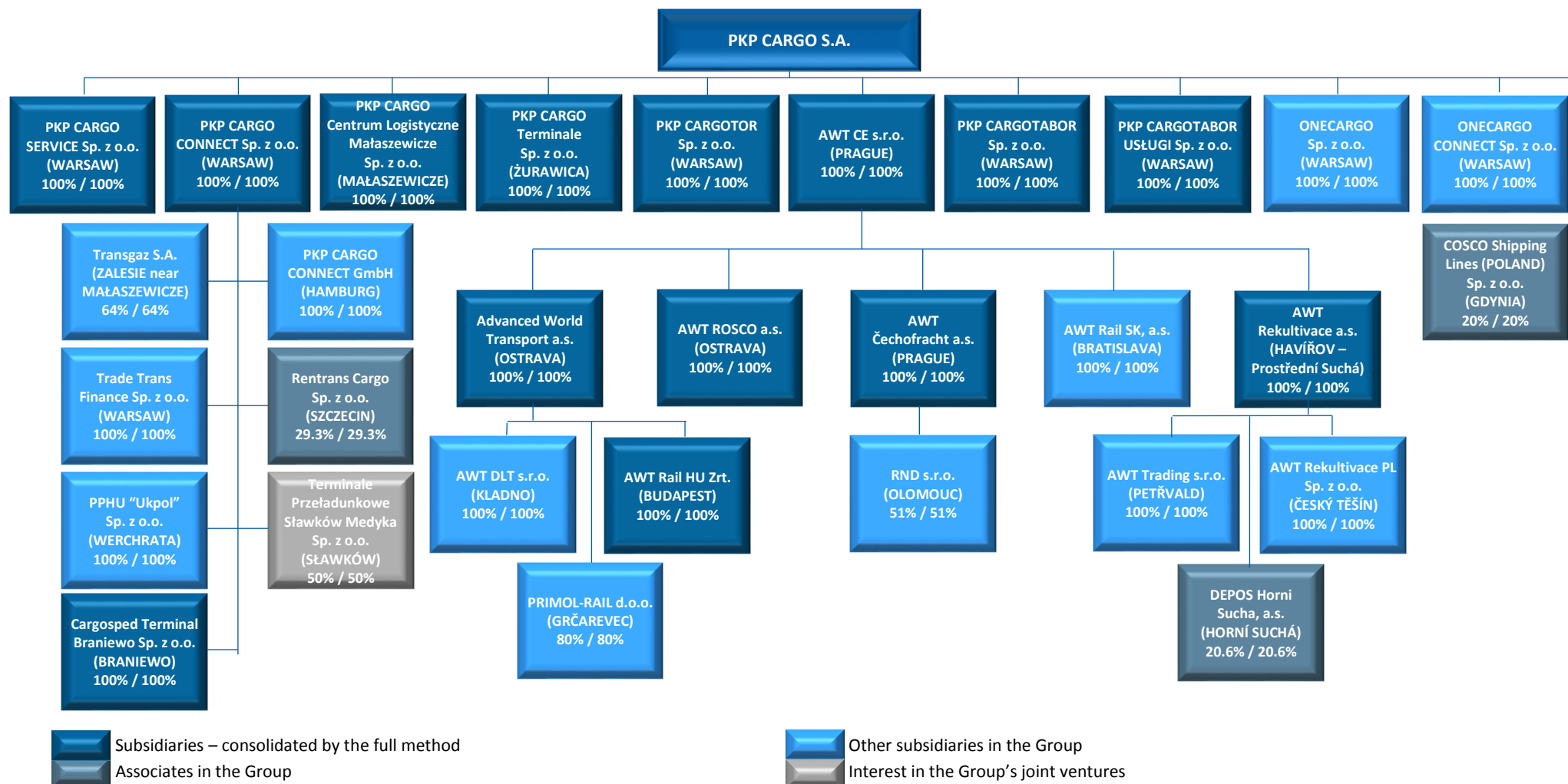


As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 26 subsidiaries. In addition, the Group held shares in 3 associated entities and 1 joint venture.

The duration of individual Group companies is unlimited.

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

The detailed information about members of the Group as at 30 June 2019 and 31 December 2018 is as follows:



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

## 1.2 Basis for preparation of the Interim Condensed Consolidated Financial Statements

These Interim 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 Interim 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 2018 prepared according to EU IFRS.

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

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

The Group's business does not show any material seasonal or cyclical trends.

These Interim 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 explanatory notes.

These Interim 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 into the functional currency at the exchange rate at the date of the transaction or valuation upon their initial revaluation. As at the balance sheet date, cash assets and liabilities denominated in foreign currencies are translated 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 security for cash flows. Non-cash items measured at historical cost expressed in a foreign currency are converted using the exchange rate on the transaction date.

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

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

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

As at 30 June 2019 and 31 December 2018, for the needs of valuation of the financial statements of foreign entities subject to consolidation, the following exchange rates were applied by the Group:

| Currency | Items of the statement of financial position |            | Items of the statement of profit or loss and other comprehensive income and cash flow statement |                           |
|----------|--|------------|---|---------------------------|
|          | 30/06/2019                                   | 31/12/2018 | 6 months ended 30/06/2019   | 6 months ended 30/06/2018 |
| EUR      | 4.2520                                       | 4.3000     | 4.2880  | 4.2395                    |
| CZK      | 0.1672                                       | 0.1673     | 0.1669  | 0.1659                    |
| HUF      | 0.0131                                       | 0.0134     | 0.0134  | 0.0134                    |
| CHF      | 3.8322                                       | 3.8166     | 3.8045  | 3.6392                    |

These Interim Condensed Consolidated Financial Statements have been reviewed by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 2018 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 2018 prepared according to EU IFRS.

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

In these Interim Condensed Consolidated Financial Statements, certain items of the statement of financial position as at 1 January 2019 have been restated in connection with the implementation of IFRS 16. Data as at 31 December 2018 are presented based on IAS 17 "Leases". Certain line items of the statement of profit or loss and comprehensive income for the period of 6 months ended 30 June 2018 have been restated due to a correction of a prior period error. The effects of restatement in connection with the implementation of IFRS 16 and the correction of a prior period error are described in **Notes 1.3** and **1.4** to these Interim Condensed Consolidated Financial Statements.

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 21 August 2019.

## 1.3 Applied accounting policies and improvements to International Financial Reporting Standards

### Statement on accounting policies

The accounting policies and calculation methods adopted for the preparation of these Interim Condensed Consolidated Financial Statements are consistent with the policies described in the PKP CARGO Group's Consolidated Financial Statements for the year ended 31 December 2018 prepared in accordance with EU IFRS, taking into account the changes resulting from the entry into force of IFRS 16, as described in this note.

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

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

### Key accounting policies

#### Group as a lessee

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

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

The Group presents its right-of-use assets in a separate line item of the statement of financial position. This line item is also used by the Group to present assets used under contracts classified as finance leases in accordance with IAS 17 and the perpetual usufruct right to land, used by the Group in exchange for consideration.

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

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

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

For each lease contract, the Group defines the lease period as: the non-cancellable period for which a lessee has the right to use an underlying asset, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lease period in contracts for the perpetual usufruct right to land is defined by the Group as the period remaining until the date to which these rights have been granted unless the circumstances require the adoption of a longer or shorter period. Perpetual usufruct rights to land for which the Group does not pay any fees due to the exemption applicable to it by operation of law do not fulfill the definition of a lease and thus are presented by the Group as part of other property, plant and equipment.



### 1.3 Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

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

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

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

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

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option;
- leases for which the underlying asset is of low value. The Group defines assets of low value as those whose value, when new, does not exceed PLN 25,000.

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

Group as a lessor

The Group classifies each of its leases as either a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. All other lease agreements are treated as operating leases.

Assets subject a finance lease are recognized in the statement of financial position as lease receivables at an amount equal to the net investment in the lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

Financial revenue from finance leases is recognized in subsequent periods at a fixed rate of return on the net investment in the lease.

Assets subject to operating leases are recognized in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the profit or loss of the current period on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which benefit from the use of the leased asset is diminished.

#### Effect of application of the new standard

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

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

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

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

Recognized contracts are concluded for a definite or indefinite term with a specified notice period. The lease periods applied for the purposes of estimation of the value of lease liabilities were as follows:

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

### 1.3 Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

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

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

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

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

#### Consolidated statement of financial position:

|                                     | 31/12/2018     | Impact of the changes | 1/01/2019      |
|-------------------------------------|----------------|-----------------------|----------------|
| <b>ASSETS</b>                       |                |                       |                |
| Rolling stock                       | 3,997.0        | (160.9)               | 3,836.1        |
| Other property, plant and equipment | 949.9          | (50.0)                | 899.9          |
| Right-of-use assets                 | -              | 1,002.8               | 1,002.8        |
| Lease receivables                   | -              | 8.6                   | 8.6            |
| Other assets                        | 56.7           | (7.7)                 | 49.0           |
| Deferred tax assets                 | 135.6          | (0.7)                 | 134.9          |
| <b>Total non-current assets</b>     | <b>5,187.2</b> | <b>792.1</b>          | <b>5,979.3</b> |
| Lease receivables                   | -              | 0.4                   | 0.4            |
| Other assets                        | 124.4          | (1.8)                 | 122.6          |
| <b>Total current assets</b>         | <b>1,619.1</b> | <b>(1.4)</b>          | <b>1,617.7</b> |
| <b>TOTAL ASSETS</b>                 | <b>6,806.3</b> | <b>790.7</b>          | <b>7,597.0</b> |
| <b>EQUITY AND LIABILITIES</b>       |                |                       |                |
| Retained earnings                   | 584.4          | 2.8                   | 587.2          |
| <b>Total equity</b>                 | <b>3,483.5</b> | <b>2.8</b>            | <b>3,486.3</b> |
| Debt liabilities                    | 1,156.5        | 701.5                 | 1,858.0        |
| Other provisions                    | 20.5           | (1.3)                 | 19.2           |
| <b>Total long-term liabilities</b>  | <b>1,969.1</b> | <b>700.2</b>          | <b>2,669.3</b> |
| Debt liabilities                    | 270.5          | 102.2                 | 372.7          |
| Trade payables                      | 499.4          | (12.1)                | 487.3          |
| Other provisions                    | 56.9           | (2.4)                 | 54.5           |
| <b>Total short-term liabilities</b> | <b>1,353.7</b> | <b>87.7</b>           | <b>1,441.4</b> |
| <b>Total liabilities</b>            | <b>3,322.8</b> | <b>787.9</b>          | <b>4,110.7</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b> | <b>6,806.3</b> | <b>790.7</b>          | <b>7,597.0</b> |

#### Consolidated statement of profit or loss and other comprehensive income

The implementation of IFRS 16 has also affected the structure of the statement of profit or loss and other comprehensive income. In the period of 6 months 2019, due to the implementation of the new standard, depreciation increased by PLN 54.3 million, the operating result increased by PLN 8.6 million and the profit before tax fell by PLN 6.1 million. Implementation of the new standard caused that EBITDA is higher by approximately PLN 62.9 million.

### 1.3 Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

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

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

The main differences are due to the fact that the period of adopted lease payment projections in accordance with IAS 17 applies only to irrevocable lease periods, which the Group considers the termination notice periods. In accordance with IFRS 16, the lease period in which lease liabilities are recognized also includes any periods resulting from an extension or early termination of the contract if any aforementioned scenario is sufficiently certain in the Group's opinion.

In the case of contracts with an extension option and contracts concluded for an indefinite term for which the Group has estimated the lease period, the lease liability is correspondingly higher.

In order to calculate the amount of lease liabilities recognized in accordance with IFRS 16, the total amounts of future minimum fees arising from the operating lease contracts as at 31 December 2018 have been adjusted to the current value by applying the pertinent discount rate.

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

| <b>Standard / Interpretation</b>  | <b>Effective date</b> |
|---|-----------------------|
| Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation | 1 January 2019        |
| Interpretation of IFRIC 23 – Uncertainty over income tax treatments                           | 1 January 2019        |
| Amendments to IAS 28 "Investments in associates and joint ventures"                           | 1 January 2019        |
| Amendments to IFRS (cycle 2015-2017) – IFRS 3, IFRS 11, IAS 12 and IAS 23                     | 1 January 2019        |
| Amendment to IAS 19 "Employee benefits"   | 1 January 2019        |

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

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 June 2019 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:

| <b>Standard / Interpretation</b>   | <b>Effective date</b> |
|--|-----------------------|
| Amendments to references to the IFRS Conceptual Framework  | 1 January 2020        |
| Amendments to IFRS 3 "Business combinations" – Definition of a business  | 1 January 2020        |
| Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" | 1 January 2020        |
| IFRS 17 "Insurance contracts"  | 1 January 2021        |

#### 1.4 Corrections of prior period errors

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

In order to ensure comparability of the data presented in these Interim Condensed Consolidated Financial Statements, the Group has restated data for the 6 months ended 30 June 2018. The effect of restatement of the statement of financial position and the statement of profit or loss and other comprehensive income is described below. The above correction of prior period errors has not affected the cash flow statement. Information disclosed in additional notes to these Interim Condensed Consolidated Financial Statements has also been restated accordingly.

#### INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|   | 6 months ended<br>30/06/2018<br>(published) | Corrections<br>of prior<br>period errors | 6 months ended<br>30/06/2018<br>(restated) |
|---|---|--|--|
| Employee benefits                                     | (814.4)                                     | (0.8)                                    | (815.2)                                    |
| <b>Operating profit without depreciation (EBITDA)</b> | <b>422.6</b>                                | <b>(0.8)</b>                             | <b>421.8</b>                               |
| <b>Profit on operating activities (EBIT)</b>          | <b>134.0</b>                                | <b>(0.8)</b>                             | <b>133.2</b>                               |
| Financial revenue and (expenses)                      | (19.1)                                      | 0.8                                      | (18.3)                                     |
| <b>Profit before tax</b>                              | <b>112.8</b>                                | -  | <b>112.8</b>                               |
| <b>NET PROFIT</b>                                     | <b>89.6</b>                                 | -  | <b>89.6</b>                                |
| <b>TOTAL COMPREHENSIVE INCOME</b>                     | <b>78.1</b>                                 | -  | <b>78.1</b>                                |

#### INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|                                     | 30/06/2018<br>(published) | Corrections<br>of prior<br>period errors | 30/06/2018<br>(restated) |
|-------------------------------------|---------------------------|--|--------------------------|
| <b>ASSETS</b>                       |                           |  |                          |
| Deferred tax assets                 | 146.7                     | 4.1                                      | 150.8                    |
| <b>Total non-current assets</b>     | <b>4,960.6</b>            | <b>4.1</b>                               | <b>4,964.7</b>           |
| <b>TOTAL ASSETS</b>                 | <b>6,618.6</b>            | <b>4.1</b>                               | <b>6,622.7</b>           |
| <b>EQUITY AND LIABILITIES</b>       |                           |  |                          |
| Other items of equity               | (39.6)                    | (6.4)                                    | (46.0)                   |
| Retained earnings                   | 501.8                     | (11.1)                                   | 490.7                    |
| <b>Total equity</b>                 | <b>3,409.0</b>            | <b>(17.5)</b>                            | <b>3,391.5</b>           |
| Provisions for employee benefits    | 572.5                     | 17.1                                     | 589.6                    |
| <b>Total long-term liabilities</b>  | <b>2,000.0</b>            | <b>17.1</b>                              | <b>2,017.1</b>           |
| Provisions for employee benefits    | 136.7                     | 4.5                                      | 141.2                    |
| <b>Total short-term liabilities</b> | <b>1,209.6</b>            | <b>4.5</b>                               | <b>1,214.1</b>           |
| <b>Total liabilities</b>            | <b>3,209.6</b>            | <b>21.6</b>                              | <b>3,231.2</b>           |
| <b>TOTAL EQUITY AND LIABILITIES</b> | <b>6,618.6</b>            | <b>4.1</b>                               | <b>6,622.7</b>           |

## 1.5 Material estimates based on professional judgment and estimation

In the period of 6 months ended 30 June 2019, changes to material values based on professional judgment and estimation related to:

- provisions for employee benefits - as at 30 June 2019, the Parent Company performed an actuarial valuation of its provisions for employee benefits in connection with the change of the discount rate and agreement concluded with the trade unions regarding a wage increase for employees coming into effect in August 2019. The discount rate adopted for the valuation of provisions for employee benefits as at 30 June 2019 amounted to 2.7%. The recognition of wage increases in the valuation of provisions for employee benefits contributed to an increase in employee costs by PLN 22.9 million. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using the actuarial method, is approx. 90%.
- trade liabilities - as at 30 June 2019 the Parent Company estimated the adjustment of the costs of electricity for the first half of 2019 in connection with the entry into force of the act of 13 June 2019 amending the act on amendment of the excise tax act and certain other acts, the act on energy efficiency and the act on biocomponents and liquid biofuels (Journal of Laws, Item 1210) equalizing the electricity prices for businesses for the first half of 2019 with the prices prevailing in the first half of 2018. As a result of the adjustment, the costs of traction energy decreased by PLN 34.9 million, the cost of non-traction energy by PLN 1.3 million and trade liabilities by PLN 36.2 million. The Parent Company expects to make the financial settlements with the electricity suppliers in the second half of 2019,
- valuation of the right-of-use asset and lease liabilities in accordance with IFRS 16 - key assumptions adopted for measurement pertain to the discount rate calculation model and the period of lease and depreciation of the right-of-use assets.

As regards the discount rate, due to the limited scope of available data necessary to determine it, the Group has set the current value of the lease liability based on the marginal interest rate of the lessee. The marginal interest rate is calculated on the basis of the following two components:

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

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

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

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

The principles of depreciation of the right-of-use assets are consistent with the depreciation rules adopted for similar assets and the Group applies IAS 16 to such assets.

During the 6 months ended 30 June 2019, no other changes were made to the 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.





## 2. Explanatory 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 Interim Condensed Consolidated Financial Statements.

| 6 months ended 30/06/2019   | 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 | 193.6  | 0.6                       | 544.4                                | 1,274.8        | <b>2,013.4</b> |
| Revenue from other transportation activity                                | 0.8  | -                         | 1.0                                  | 75.2           | <b>77.0</b>    |
| Revenue from siding and traction services                                 | 0.4  | 4.8                       | 60.1                                 | 71.7           | <b>137.0</b>   |
| Revenue from transshipment services                                       | 0.5  | -                         | 0.3                                  | 73.0           | <b>73.8</b>    |
| Revenue from reclamation services   | -  | -                         | -                                    | 39.8           | <b>39.8</b>    |
| Revenue from sales of goods and raw materials                             | -  | -                         | -                                    | 25.2           | <b>25.2</b>    |
| Other revenues  | 0.8  | 4.8                       | 5.4                                  | 48.1           | <b>59.1</b>    |
| <b>Total</b>  | <b>196.1</b>   | <b>10.2</b>               | <b>611.2</b>                         | <b>1,607.8</b> | <b>2,425.3</b> |
| <b>Revenue recognition date</b>   |  |                           |                                      |                |                |
| At a point of time  | -  | -                         | -                                    | 31.2           | <b>31.2</b>    |
| Over a period   | 196.1  | 10.2                      | 611.2                                | 1,576.6        | <b>2,394.1</b> |
| <b>Total</b>  | <b>196.1</b>   | <b>10.2</b>               | <b>611.2</b>                         | <b>1,607.8</b> | <b>2,425.3</b> |

| 3 months ended 30/06/2019   | 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 | 83.8   | 0.5                       | 259.4                                | 616.6        | <b>960.3</b>   |
| Revenue from other transportation activity                                | 0.6  | -                         | 0.5                                  | 39.7         | <b>40.8</b>    |
| Revenue from siding and traction services                                 | 0.4  | 3.2                       | 28.8                                 | 36.4         | <b>68.8</b>    |
| Revenue from transshipment services                                       | 0.4  | -                         | 0.1                                  | 38.3         | <b>38.8</b>    |
| Revenue from reclamation services   | -  | -                         | -                                    | 18.8         | <b>18.8</b>    |
| Revenue from sales of goods and raw materials                             | -  | -                         | -                                    | 11.5         | <b>11.5</b>    |
| Other revenues  | 0.4  | 2.2                       | 2.7                                  | 20.1         | <b>25.4</b>    |
| <b>Total</b>  | <b>85.6</b>  | <b>5.9</b>                | <b>291.5</b>                         | <b>781.4</b> | <b>1,164.4</b> |
| <b>Revenue recognition date</b>   |  |                           |                                      |              |                |
| At a point of time  | -  | -                         | -                                    | 14.2         | <b>14.2</b>    |
| Over a period   | 85.6   | 5.9                       | 291.5                                | 767.2        | <b>1,150.2</b> |
| <b>Total</b>  | <b>85.6</b>  | <b>5.9</b>                | <b>291.5</b>                         | <b>781.4</b> | <b>1,164.4</b> |

## 2.1 Revenues from contracts with customers (cont.)

| 6 months ended 30/06/2018   | 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 | 208.8  | 2.5                       | 466.5                                | 1,415.3        | <b>2,093.1</b> |
| Revenue from other transportation activity                                | 0.6  | 0.3                       | 0.9                                  | 88.7           | <b>90.5</b>    |
| Revenue from siding and traction services                                 | -  | 3.5                       | 50.7                                 | 70.4           | <b>124.6</b>   |
| Revenue from transshipment services                                       | 0.3  | -                         | 0.1                                  | 55.9           | <b>56.3</b>    |
| Revenue from reclamation services   | -  | 0.7                       | -                                    | 41.1           | <b>41.8</b>    |
| Revenue from sales of goods and raw materials                             | -  | -                         | -                                    | 26.7           | <b>26.7</b>    |
| Other revenues  | 0.8  | 5.8                       | 2.4                                  | 44.7           | <b>53.7</b>    |
| <b>Total</b>  | <b>210.5</b>   | <b>12.8</b>               | <b>520.6</b>                         | <b>1,742.8</b> | <b>2,486.7</b> |
| <b>Revenue recognition date</b>   |  |                           |                                      |                |                |
| At a point of time  | -  | -                         | -                                    | 33.8           | <b>33.8</b>    |
| Over a period   | 210.5  | 12.8                      | 520.6                                | 1,709.0        | <b>2,452.9</b> |
| <b>Total</b>  | <b>210.5</b>   | <b>12.8</b>               | <b>520.6</b>                         | <b>1,742.8</b> | <b>2,486.7</b> |

| 3 months ended 30/06/2018   | 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 | 80.3   | 0.5                       | 241.2                                | 748.2        | <b>1,070.2</b> |
| Revenue from other transportation activity                                | 0.3  | 0.3                       | 0.5                                  | 46.9         | <b>48.0</b>    |
| Revenue from siding and traction services                                 | -  | 2.2                       | 26.4                                 | 34.0         | <b>62.6</b>    |
| Revenue from transshipment services                                       | 0.3  | -                         | 0.1                                  | 30.7         | <b>31.1</b>    |
| Revenue from reclamation services   | -  | -                         | -                                    | 26.3         | <b>26.3</b>    |
| Revenue from sales of goods and raw materials                             | -  | -                         | -                                    | 14.2         | <b>14.2</b>    |
| Other revenues  | 0.4  | 2.8                       | 1.2                                  | 24.9         | <b>29.3</b>    |
| <b>Total</b>  | <b>81.3</b>  | <b>5.8</b>                | <b>269.4</b>                         | <b>925.2</b> | <b>1,281.7</b> |
| <b>Revenue recognition date</b>   |  |                           |                                      |              |                |
| At a point of time  | -  | -                         | -                                    | 19.7         | <b>19.7</b>    |
| Over a period   | 81.3   | 5.8                       | 269.4                                | 905.5        | <b>1,262.0</b> |
| <b>Total</b>  | <b>81.3</b>  | <b>5.8</b>                | <b>269.4</b>                         | <b>925.2</b> | <b>1,281.7</b> |

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

|                 | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|-----------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Poland          | 1,737.9                         | 835.9                           | 1,753.2                         | 902.7                           |
| Czech Republic  | 287.7                           | 144.5                           | 301.8                           | 156.9                           |
| Germany         | 146.2                           | 65.4                            | 133.8                           | 69.5                            |
| Slovakia        | 64.8                            | 29.7                            | 74.8                            | 39.3                            |
| Other countries | 188.7                           | 89.0                            | 223.1                           | 113.3                           |
| <b>Total</b>    | <b>2,425.3</b>                  | <b>1,164.4</b>                  | <b>2,486.7</b>                  | <b>1,281.7</b>                  |

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

|                 | 30/06/2019     | 31/12/2018     |
|-----------------|----------------|----------------|
| Poland          | 5,253.7        | 4,310.7        |
| Czech Republic  | 774.2          | 727.7          |
| Other countries | 5.5            | 4.9            |
| <b>Total</b>    | <b>6,033.4</b> | <b>5,043.3</b> |

### Information on key customers

In the period of 6 months ended 30 June 2019 and 6 months ended 30 June 2018, revenue from any single customer of the Group did not exceed 10% of the total revenue from contracts with customers.

### Assets from contracts with customers

|  | 30/06/2019  | 30/06/2018  |
|--|-------------|-------------|
| <b>As at the beginning of the reporting period</b> | <b>37.1</b> | <b>43.6</b> |
| Recognition of revenue before the payment date     | 47.7        | 55.1        |
| Reclassification to receivables                    | (37.1)      | (43.4)      |
| <b>As at the end of the reporting period</b>       | <b>47.7</b> | <b>55.3</b> |

### Liabilities from contracts with customers

|   | 30/06/2019 | 30/06/2018 |
|---|------------|------------|
| <b>As at the beginning of the reporting period</b>                    | <b>1.6</b> | <b>5.2</b> |
| Recognition of revenues:  |            |            |
| From the opening balance of liabilities from contracts with customers | (1.6)      | (5.2)      |
| Payment received or due in advance                                    | 3.4        | 3.0        |
| <b>As at the end of the reporting period</b>                          | <b>3.4</b> | <b>3.0</b> |



## 2.2 Operating expenses

### Consumption of traction electricity and traction fuel

|                                     | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|-------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Consumption of traction fuel        | (92.3)                          | (43.2)                          | (95.5)                          | (48.1)                          |
| Consumption of traction electricity | (187.6)                         | (77.5)                          | (193.5)                         | (98.6)                          |
| <b>Total</b>                        | <b>(279.9)</b>                  | <b>(120.7)</b>                  | <b>(289.0)</b>                  | <b>(146.7)</b>                  |

### Other services

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Repair services  | (18.7)                          | (10.8)                          | (20.8)                          | (12.1)                          |
| Rent and fees for the use of real properties and rolling stock     | (40.2)                          | (14.9)                          | (98.5)                          | (51.6)                          |
| Telecommunications services  | (3.2)                           | (1.8)                           | (3.2)                           | (1.6)                           |
| Legal, consulting and similar services                             | (7.0)                           | (3.9)                           | (6.4)                           | (3.3)                           |
| IT services  | (22.3)                          | (10.9)                          | (21.8)                          | (11.1)                          |
| Maintenance and operation services for facilities and fixed assets | (19.2)                          | (9.9)                           | (14.3)                          | (7.8)                           |
| Transshipment services   | (7.9)                           | (4.3)                           | (6.5)                           | (2.7)                           |
| Reclamation services   | (34.5)                          | (17.2)                          | (31.2)                          | (17.0)                          |
| Other services   | (28.0)                          | (14.2)                          | (27.3)                          | (13.5)                          |
| <b>Total</b>   | <b>(181.0)</b>                  | <b>(87.9)</b>                   | <b>(230.0)</b>                  | <b>(120.7)</b>                  |

### Employee benefits

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Payroll  | (640.4)                         | (324.9)                         | (588.7)                         | (295.5)                         |
| Social security expenses                                       | (136.1)                         | (69.2)                          | (127.5)                         | (64.6)                          |
| Expenses for contributions to the Company Social Benefits Fund | (13.9)                          | (7.0)                           | (13.2)                          | (6.6)                           |
| Other employee benefits during employment                      | (22.7)                          | (10.9)                          | (20.1)                          | (9.9)                           |
| Post-employment benefits                                       | (2.8)                           | (1.2)                           | (5.0)                           | (3.2)                           |
| Movement in provisions for employee benefits                   | (65.5)                          | (39.9)                          | (60.7)                          | (36.0)                          |
| <b>Total</b>   | <b>(881.4)</b>                  | <b>(453.1)</b>                  | <b>(815.2)</b>                  | <b>(415.8)</b>                  |

### Other expenses

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Consumption of non-traction fuel          | (14.0)                          | (6.7)                           | (15.7)                          | (8.8)                           |
| Consumption of electricity, gas and water | (20.7)                          | (6.6)                           | (22.1)                          | (8.8)                           |
| Consumption of materials                  | (46.7)                          | (22.7)                          | (49.4)                          | (26.6)                          |
| Taxes and charges                         | (17.3)                          | (9.6)                           | (14.7)                          | (8.8)                           |
| Cost of goods and raw materials sold      | (15.4)                          | (6.8)                           | (15.6)                          | (7.8)                           |
| Business trips                            | (16.3)                          | (8.3)                           | (16.4)                          | (8.4)                           |
| Other                                     | (10.9)                          | (4.6)                           | (12.9)                          | (6.8)                           |
| <b>Total</b>                              | <b>(141.3)</b>                  | <b>(65.3)</b>                   | <b>(146.8)</b>                  | <b>(76.0)</b>                   |

### Depreciation, amortization and impairment losses

|   | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Depreciation of rolling stock                       | (239.0)                         | (119.6)                         | (222.3)                         | (110.2)                         |
| Depreciation of other property, plant and equipment | (45.0)                          | (24.4)                          | (39.2)                          | (18.8)                          |
| Depreciation of the right-of-use assets             | (57.6)                          | (29.4)                          | -                               | -                               |
| Amortization of intangible assets                   | (6.6)                           | (3.2)                           | (9.0)                           | (4.5)                           |
| (Recognized) / reversed impairment losses:          |                                 |                                 |                                 |                                 |
| Rolling stock                                       | -                               | -                               | (18.1)                          | (18.1)                          |
| <b>Total</b>  | <b>(348.2)</b>                  | <b>(176.6)</b>                  | <b>(288.6)</b>                  | <b>(151.6)</b>                  |

## 2.3 Other operating revenue and (expenses)

### Other operating revenue and (expenses)

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| <b>Profit on disposal</b>                                      |                                 |                                 |                                 |                                 |
| Profit on sales of non-financial non-current assets            | 3.0                             | 1.1                             | 1.5                             | 0.6                             |
| <b>Reversed impairment losses</b>                              |                                 |                                 |                                 |                                 |
| Trade receivables  | 4.6                             | 3.1                             | 7.0                             | 2.5                             |
| <b>Other</b>   |                                 |                                 |                                 |                                 |
| Penalties and compensations                                    | 8.4                             | 4.7                             | 6.3                             | 3.0                             |
| Reversal of other provisions                                   | 0.8                             | 0.5                             | 0.4                             | 0.3                             |
| Interest on trade and other receivables                        | 1.4                             | 0.8                             | 2.2                             | 0.9                             |
| Net result on FX differences on trade receivables and payables | -                               | (0.1)                           | 3.7                             | 3.6                             |
| Other  | 3.3                             | 2.3                             | 2.1                             | 1.4                             |
| <b>Total other operating revenue</b>                           | <b>21.5</b>                     | <b>12.4</b>                     | <b>23.2</b>                     | <b>12.3</b>                     |
| <b>Recognized impairment losses</b>                            |                                 |                                 |                                 |                                 |
| Trade receivables  | (5.6)                           | (3.6)                           | (5.6)                           | (1.6)                           |
| <b>Other</b>   |                                 |                                 |                                 |                                 |
| Penalties and compensations                                    | (4.2)                           | (1.5)                           | (4.5)                           | (2.3)                           |
| Costs of liquidation of non-current and current assets         | (2.0)                           | (1.2)                           | (1.3)                           | (0.7)                           |
| Recognized other provisions                                    | (4.0)                           | (0.7)                           | (3.4)                           | (1.8)                           |
| Net result on FX differences on trade receivables and payables | (1.5)                           | (1.5)                           | -                               | -                               |
| Other  | (2.8)                           | (1.1)                           | (2.7)                           | (1.6)                           |
| <b>Total other operating expenses</b>                          | <b>(20.1)</b>                   | <b>(9.6)</b>                    | <b>(17.5)</b>                   | <b>(8.0)</b>                    |
| <b>Other operating revenue and (expenses)</b>                  | <b>1.4</b>                      | <b>2.8</b>                      | <b>5.7</b>                      | <b>4.3</b>                      |

## 2.4 Financial revenue and (expenses)

### Financial revenue and (expenses)

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Interest income  | 3.4                             | 1.3                             | 5.3                             | 2.6                             |
| Dividend income on shares and stocks                           | 0.3                             | 0.3                             | -                               | -                               |
| Other  | 1.7                             | 1.6                             | 5.0                             | 5.0                             |
| <b>Total financial revenue</b>                                 | <b>5.4</b>                      | <b>3.2</b>                      | <b>10.3</b>                     | <b>7.6</b>                      |
| Interest expenses <sup>(1)</sup>                               | (29.7)                          | (14.2)                          | (15.7)                          | (7.7)                           |
| Settlement of the discount on provisions for employee benefits | (8.8)                           | (4.4)                           | (9.5)                           | (5.0)                           |
| Other  | (1.5)                           | (0.4)                           | (3.4)                           | (3.1)                           |
| <b>Total financial expenses</b>                                | <b>(40.0)</b>                   | <b>(19.0)</b>                   | <b>(28.6)</b>                   | <b>(15.8)</b>                   |
| <b>Financial revenue and (expenses)</b>                        | <b>(34.6)</b>                   | <b>(15.8)</b>                   | <b>(18.3)</b>                   | <b>(8.2)</b>                    |

<sup>(1)</sup> The increase in interest expenses during the period of 6 month ended 30 June 2019 was caused chiefly by the recognition of interest expense on leases in the amount of PLN 15.0 million resulting from the entry into force of IFRS 16.

The data for the period of 6 months ended 30 June 2018 have been restated due to the correction of prior period errors, as described in [Note 1.4](#) to these Interim Condensed Consolidated Financial Statements.



### 3. Explanatory notes on taxation

#### 3.1 Income tax

Income tax recognized in profit / loss

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| <b>Current income tax</b>  |                                 |                                 |                                 |                                 |
| Current tax charges  | (4.2)                           | 10.4                            | (37.2)                          | (14.6)                          |
| Adjustments recognized in the current year relating to tax from previous years | (0.7)                           | (0.2)                           | (1.2)                           | (0.5)                           |
| <b>Deferred tax</b>  |                                 |                                 |                                 |                                 |
| Deferred income tax of the reporting period                                    | (15.2)                          | (14.5)                          | 15.2                            | 6.0                             |
| <b>Income tax recognized in profit / loss</b>                                  | <b>(20.1)</b>                   | <b>(4.3)</b>                    | <b>(23.2)</b>                   | <b>(9.1)</b>                    |

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

|  | 6 months<br>ended<br>30/06/2019 | 3 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 | 3 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Deferred tax on the measurement of hedging instruments   | (1.7)                           | (1.6)                           | 6.7                             | 5.2                             |
| Deferred tax on actuarial profits / (losses) on post-employment benefits                                       | 2.7                             | 2.7                             | 0.8                             | 0.8                             |
| FX differences from translation of the balance of deferred income tax recognized in other comprehensive income | (0.1)                           | (0.5)                           | (3.0)                           | (1.3)                           |
| <b>Deferred income tax recognized in other comprehensive income</b>  | <b>0.9</b>                      | <b>0.6</b>                      | <b>4.5</b>                      | <b>4.7</b>                      |

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 Interim Condensed Consolidated Financial Statements:

|                          | 30/06/2019  | 31/12/2018  |
|--------------------------|-------------|-------------|
| Deferred tax assets      | 121.7       | 135.6       |
| Deferred tax liabilities | (89.6)      | (88.5)      |
| <b>Total</b>             | <b>32.1</b> | <b>47.1</b> |

### 3.1 Income tax (cont.)

Table of movements in deferred tax before the set-off

| 6 months ended<br>30/06/2019  | 31/12/2018  | Effect of the<br>implementation of<br>IFRS 16 | 1/01/2019   | Recognized in profit<br>or loss | Recognized in other<br>comprehensive income | FX differences resulting from<br>translation of deferred tax<br>balance | 30/06/2019     |
|---|-------------|---|-------------|---------------------------------|---|---|----------------|
| <b>Temporary differences relating to deferred tax (liabilities) / assets:</b> |             |   |             |                                 |   |   |                |
| Non-financial non-current assets  | (133.4)     | 11.9  | (121.5)     | (20.8)                          | -   | (0.1)   | <b>(142.4)</b> |
| Right-of-use assets and lease liabilities                                     | -           | (9.5)   | (9.5)       | 3.0                             | -   | -   | <b>(6.5)</b>   |
| Other provisions and liabilities  | 10.8        | (1.4)   | 9.4         | (2.4)                           | -   | -   | <b>7.0</b>     |
| Inventories   | (4.1)       | -   | (4.1)       | 0.3                             | -   | -   | <b>(3.8)</b>   |
| Lease receivables   | -           | (1.7)   | (1.7)       | (0.5)                           | -   | -   | <b>(2.2)</b>   |
| Trade receivables   | 3.6         | -   | 3.6         | (1.9)                           | -   | -   | <b>1.7</b>     |
| Provisions for employee benefits  | 134.0       | -   | 134.0       | 9.6                             | 2.7   | -   | <b>146.3</b>   |
| Other   | 0.3         | -   | 0.3         | (2.2)                           | (1.7)                                       | -   | <b>(3.6)</b>   |
| Unused tax losses   | 35.9        | -   | 35.9        | (0.3)                           | -   | -   | <b>35.6</b>    |
| <b>Total</b>  | <b>47.1</b> | <b>(0.7)</b>                                  | <b>46.4</b> | <b>(15.2)</b>                   | <b>1.0</b>                                  | <b>(0.1)</b>  | <b>32.1</b>    |

As at 30 June 2019, deferred tax assets on account of tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 141.0 million and of the subsidiaries in the amount of PLN 45.9 million. It will be possible to deduct tax losses in the amount of PLN 168.4 million within five tax years following the end of operation of the Tax Group. Other tax losses may be deducted within five fiscal years since they have occurred. According to the Parent Company Management Board, there is low risk as at 30 June 2019 that it will be impossible to realize the above assets.

| 6 months ended<br>30/06/2018  | 1/01/2018   | Recognized in profit<br>or loss | Recognized in other<br>comprehensive income | FX differences resulting from<br>translation of deferred tax<br>balance | 30/06/2018     |
|---|-------------|---------------------------------|---|---|----------------|
| <b>Temporary differences relating to deferred tax (liabilities) / assets:</b> |             |                                 |   |   |                |
| Non-financial non-current assets  | (144.1)     | 5.0                             | -   | (3.3)   | <b>(142.4)</b> |
| Other provisions and liabilities  | 9.5         | 8.7                             | -   | 0.1   | <b>18.3</b>    |
| Inventories   | (1.9)       | (2.4)                           | -   | -   | <b>(4.3)</b>   |
| Trade receivables   | 4.7         | (2.4)                           | -   | -   | <b>2.3</b>     |
| Provisions for employee benefits  | 129.8       | 7.7                             | 0.8   | 0.1   | <b>138.4</b>   |
| Other   | (4.3)       | (1.5)                           | 6.7   | -   | <b>0.9</b>     |
| Unused tax losses   | 37.2        | 0.1                             | -   | 0.1   | <b>37.4</b>    |
| <b>Total</b>  | <b>30.9</b> | <b>15.2</b>                     | <b>7.5</b>                                  | <b>(3.0)</b>  | <b>50.6</b>    |

#### 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:

|  | 30/06/2019  | 31/12/2018  |
|--|-------------|-------------|
| AWT CE s.r.o.                          | 20.2        | 20.2        |
| AWT Rail HU Zrt.                       | 21.9        | 22.1        |
| AWT Cechofracht a.s.                   | 11.8        | 9.2         |
| PKP CARGOTABOR USŁUGI Sp. z o.o.       | 7.5         | 7.5         |
| CARGOSPED Terminal Braniewo Sp. z o.o. | 1.8         | 1.6         |
| <b>Total</b>                           | <b>63.2</b> | <b>60.6</b> |

### 3.1 Income tax (cont.)

Expiration dates of the tax losses to which deferred tax assets were not applied as at 30 June 2019:

| Year              | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and beyond | Total       |
|-------------------|------|------|------|------|------|-----------------|-------------|
| Unused tax losses | 5.7  | 7.9  | 15.1 | 13.0 | 9.3  | 12.2            | <b>63.2</b> |

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

| Year              | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and beyond | Total       |
|-------------------|------|------|------|------|------|-----------------|-------------|
| Unused tax losses | 5.5  | 7.9  | 15.1 | 13.1 | 9.1  | 9.9             | <b>60.6</b> |

## 4. Explanatory notes on debt

### 4.1 Reconciliation of debt liabilities

As at 30 June 2019 and 31 December 2018, the Group's debt liabilities consist of the following two main categories: bank loans and borrowings and leases.

Items in foreign currencies

| 30/06/2019                         | In the functional<br>currency<br>PLN | In foreign currency |             | Total          |
|------------------------------------|--------------------------------------|---------------------|-------------|----------------|
|                                    |                                      | EUR                 | CZK         |                |
| Bank loans and borrowings          | 680.0                                | 522.4               | -           | <b>1,202.4</b> |
| Leases                             | 700.0                                | 134.9               | 51.2        | <b>886.1</b>   |
| <b>Total</b>                       | <b>1,380.0</b>                       | <b>657.3</b>        | <b>51.2</b> | <b>2,088.5</b> |
| Variable-interest-rate liabilities | 729.3                                | 442.4               | -           | <b>1,171.7</b> |
| Fixed-interest-rate liabilities    | 650.7                                | 214.9               | 51.2        | <b>916.8</b>   |
| <b>Total</b>                       | <b>1,380.0</b>                       | <b>657.3</b>        | <b>51.2</b> | <b>2,088.5</b> |

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

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

#### 4.1 Reconciliation of debt liabilities (cont.)

##### Reconciliation of debt liabilities

| 6 months ended 30/06/2019                 | Bank loans and borrowings | Leases       | Total          |
|---|---------------------------|--------------|----------------|
| <b>31/12/2018</b>                         | <b>1,331.8</b>            | <b>95.2</b>  | <b>1,427.0</b> |
| Effect of the implementation of IFRS 16   | -                         | 803.7        | <b>803.7</b>   |
| <b>1/01/2019</b>                          | <b>1,331.8</b>            | <b>898.9</b> | <b>2,230.7</b> |
| Obtained debt                             | -                         | 51.1         | <b>51.1</b>    |
| Transaction costs                         | 1.1                       | -            | <b>1.1</b>     |
| Accrual of interest                       | 11.1                      | 17.5         | <b>28.6</b>    |
| Payments under debt, including:           |                           |              |                |
| Repayments of the principal               | (122.8)                   | (62.8)       | <b>(185.6)</b> |
| Interest paid                             | (11.6)                    | (15.0)       | <b>(26.6)</b>  |
| Transaction costs                         | (1.1)                     | -            | <b>(1.1)</b>   |
| Other                                     | -                         | (1.3)        | <b>(1.3)</b>   |
| FX valuation                              | (6.1)                     | (1.2)        | <b>(7.3)</b>   |
| FX differences resulting from translation | -                         | (1.1)        | <b>(1.1)</b>   |
| <b>30/06/2019</b>                         | <b>1,202.4</b>            | <b>886.1</b> | <b>2,088.5</b> |
| Long-term                                 | 956.1                     | 753.3        | <b>1,709.4</b> |
| Short-term                                | 246.3                     | 132.8        | <b>379.1</b>   |
| <b>Total</b>                              | <b>1,202.4</b>            | <b>886.1</b> | <b>2,088.5</b> |

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 | 6 months ended 30/06/2019 |
|--|--|---------------------------|
| <b>Revenue from operating leases</b>                                     | Revenues from contracts with customers   | 19.4                      |
| <b>Interest income from finance leases</b>                               | Financial revenue  | 0.3                       |
| <b>Costs on account of:</b>  |  |                           |
| Short-term leases  | Other services   | (20.4)                    |
| Leases of low-value assets   | Other services   | (2.8)                     |
| Variable lease fees not included in the measurement of lease liabilities | Other services   | (1.9)                     |

| 6 months ended 30/06/2018                 | Bank loans and borrowings | Finance leases | Total          |
|---|---------------------------|----------------|----------------|
| <b>1/01/2018</b>                          | <b>1,562.3</b>            | <b>139.1</b>   | <b>1,701.4</b> |
| Obtained debt                             | 0.2                       | 0.8            | <b>1.0</b>     |
| Transaction costs                         | 0.8                       | -              | <b>0.8</b>     |
| Accrual of interest                       | 13.3                      | 2.4            | <b>15.7</b>    |
| Payments under debt, including:           |                           |                |                |
| Repayments of the principal               | (121.3)                   | (28.4)         | <b>(149.7)</b> |
| Interest paid                             | (13.3)                    | (2.4)          | <b>(15.7)</b>  |
| Transaction costs                         | (0.8)                     | -              | <b>(0.8)</b>   |
| FX valuation                              | 23.0                      | 1.6            | <b>24.6</b>    |
| FX differences resulting from translation | 3.0                       | 1.2            | <b>4.2</b>     |
| <b>30/06/2018</b>                         | <b>1,467.2</b>            | <b>114.3</b>   | <b>1,581.5</b> |
| Long-term                                 | 1,218.9                   | 81.7           | <b>1,300.6</b> |
| Short-term                                | 248.3                     | 32.6           | <b>280.9</b>   |
| <b>Total</b>                              | <b>1,467.2</b>            | <b>114.3</b>   | <b>1,581.5</b> |

#### 4.1 Reconciliation of debt liabilities (cont.)

##### Net debt

|                             | 30/06/2019     | 31/12/2018     |
|-----------------------------|----------------|----------------|
| Bank loans and borrowings   | 1,202.4        | 1,331.8        |
| Leases                      | 886.1          | 95.2           |
| <b>Total debt</b>           | <b>2,088.5</b> | <b>1,427.0</b> |
| Cash and cash equivalents   | (327.0)        | (447.3)        |
| Bank deposits over 3 months | -              | (201.1)        |
| <b>Total net debt</b>       | <b>1,761.5</b> | <b>778.6</b>   |
| <b>EBITDA</b>               | <b>1,152.8</b> | <b>907.0</b>   |
| <b>Net debt/EBITDA</b>      | <b>1.5</b>     | <b>0.9</b>     |

Net debt is construed by the Group as the sum of bank loans, borrowings and lease liabilities less cash and cash equivalents and bank deposits over 3 months. EBITDA is defined in the statement of profit or loss and other comprehensive income as operating profit plus depreciation, amortization and impairment losses. The Parent Company's Management Board perceives EBITDA as one of a key performance measure.

Due to adopted method of implementation of IFRS 16, the Group did not restate its comparative data, meaning that the net debt/EBITDA ratio as at 30 June 2019 was calculated based on the projected EBITDA for 2019 of PLN 1,152.8 million.

The loan agreement performance ratios are calculated at the level of standalone financial statements for Polish companies and at the level of the consolidated financial statements for the AWT Group. In most cases, the impact of IFRS 16 has been eliminated in the calculation of the net debt/EBITDA ratio. Accordingly, as at 30 June 2019, the estimated value of the consolidated net debt/EBITDA ratio after the elimination of the impact of IFRS 16 based on EBITDA for the last 12 months was 1.1.

##### Unused credit lines

| Type of loan    | Bank Name                    | Period of availability | Currency of the contract | 30/06/2019   | 31/12/2018   |
|-----------------|------------------------------|------------------------|--------------------------|--------------|--------------|
| Investment loan | European Investment Bank     | 19/07/2020             | EUR                      | 69.9         | 70.7         |
| Investment loan | Bank Gospodarstwa Krajowego  | 31/12/2019             | PLN                      | 100.0        | -            |
| Investment loan | Bank Gospodarstwa Krajowego  | 31/12/2019             | PLN                      | 150.0        | -            |
| Investment loan | Bank Polska Kasa Opieki S.A. | 31/12/2019             | PLN                      | 50.0         | -            |
| Investment loan | Bank Polska Kasa Opieki S.A. | 31/12/2019             | PLN                      | 200.0        | -            |
| Overdraft       | PKO Bank Polski S.A.         | 15/07/2019             | PLN                      | 0.6          | 0.7          |
| Overdraft       | Bank Polska Kasa Opieki S.A. | 24/05/2020             | PLN                      | 100.0        | 100.0        |
| <b>Total</b>    |                              |                        |                          | <b>670.5</b> | <b>171.4</b> |

On 14 May 2019, the Parent Company signed two loan agreements with Bank Polska Kasa Opieki S.A. up to the total amount of PLN 250 million.

On 20 May 2019, the Parent Company signed two loan agreements with Bank Gospodarstwa Krajowego up to the total amount of PLN 250 million.

All new loan agreements were concluded for the financing and refinancing of the capital expenditure plan for 2018-2019 and acquisitions. The loans will be available until 31 December 2019 and their repayment date has been set at 20 December 2024.

##### Breach of the terms and conditions of loan agreements

As at 30 June 2019, there were no breaches of any loan agreements.



## 4.2 Equity

### Share capital

|  | 30/06/2019 | 31/12/2018 |
|--|------------|------------|
| The share capital consists of:                 |            |            |
| Ordinary shares – fully paid up and registered | 2,239.3    | 2,239.3    |

As at 30 June 2019 and 31 December 2018, 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 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, there were no movements in the Parent Company's share capital.**

### Supplementary capital

In the period of 6 months ended 30 June 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

As at 1 January 2019, retained earnings were restated in connection with the implementation of IFRS 16, as described in [Note 1.3](#) to these Interim Condensed Consolidated Financial Statements.

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

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

## 4.3 Cash and cash equivalents

### Structure of cash and cash equivalents

|                                   | 30/06/2019   | 31/12/2018   |
|-----------------------------------|--------------|--------------|
| Cash on hand and on bank accounts | 143.5        | 204.6        |
| Bank deposits up to 3 months      | 183.5        | 242.7        |
| <b>Total</b>                      | <b>327.0</b> | <b>447.3</b> |
| <i>including restricted cash</i>  | <i>40.0</i>  | <i>39.6</i>  |

The decrease in cash and cash equivalents is attributable to the repayment of liabilities on account of the purchase of non-financial non-current assets and loan liabilities. Detailed information in this respect is presented in the interim consolidated statement of cash flows.

As at 30 June 2019 and as at 31 December 2018, restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.

## 5. Explanatory 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

| 6 months ended<br>30/06/2019                  | Other property, plant and equipment |                 |                                   |                    |                    |                                 | Total          |
|---|-------------------------------------|-----------------|-----------------------------------|--------------------|--------------------|---------------------------------|----------------|
|   | Rolling stock                       | Real properties | Technical machinery and equipment | Means of transport | Other fixed assets | Fixed assets under construction |                |
| <b>Gross value</b>                            |                                     |                 |                                   |                    |                    |                                 |                |
| <b>31/12/2018</b>                             | <b>6,471.2</b>                      | <b>943.7</b>    | <b>432.1</b>                      | <b>98.2</b>        | <b>41.1</b>        | <b>71.9</b>                     | <b>1,587.0</b> |
| Effect of the implementation of IFRS 16       | (217.4)                             | (42.8)          | (6.3)                             | (10.7)             | -                  | -                               | (59.8)         |
| <b>1/01/2019</b>                              | <b>6,253.8</b>                      | <b>900.9</b>    | <b>425.8</b>                      | <b>87.5</b>        | <b>41.1</b>        | <b>71.9</b>                     | <b>1,527.2</b> |
| <i>Increases / (decreases):</i>               |                                     |                 |                                   |                    |                    |                                 |                |
| Periodic repairs of rolling stock             | -                                   | -               | -                                 | -                  | -                  | 312.5                           | 312.5          |
| Other acquisitions                            | -                                   | -               | -                                 | -                  | -                  | 237.1                           | 237.1          |
| Purchases of leased items                     | 25.3                                | -               | -                                 | 2.0                | -                  | -                               | 2.0            |
| Settlement of fixed assets under construction | 527.0                               | 5.8             | 16.6                              | 2.8                | 0.5                | (552.7)                         | (527.0)        |
| Grant for non-current assets                  | (46.1)                              | -               | -                                 | -                  | -                  | -                               | -              |
| Sales   | (10.9)                              | -               | (0.4)                             | (0.5)              | -                  | -                               | (0.9)          |
| Liquidation                                   | (171.9)                             | (1.6)           | (0.8)                             | -                  | (0.1)              | (0.1)                           | (2.6)          |
| Reclassified to assets held for sale          | (23.5)                              | (0.1)           | -                                 | -                  | -                  | -                               | (0.1)          |
| FX differences                                | (0.6)                               | (0.3)           | -                                 | (0.1)              | -                  | -                               | (0.4)          |
| Other   | (2.1)                               | -               | -                                 | 2.1                | -                  | (0.2)                           | 1.9            |
| <b>30/06/2019</b>                             | <b>6,551.0</b>                      | <b>904.7</b>    | <b>441.2</b>                      | <b>93.8</b>        | <b>41.5</b>        | <b>68.5</b>                     | <b>1,549.7</b> |
| <b>Accumulated depreciation</b>               |                                     |                 |                                   |                    |                    |                                 |                |
| <b>31/12/2018</b>                             | <b>(2,263.4)</b>                    | <b>(234.1)</b>  | <b>(301.1)</b>                    | <b>(60.8)</b>      | <b>(33.9)</b>      | -                               | <b>(629.9)</b> |
| Effect of the implementation of IFRS 16       | 56.5                                | 1.1             | 1.9                               | 6.8                | -                  | -                               | 9.8            |
| <b>1/01/2019</b>                              | <b>(2,206.9)</b>                    | <b>(233.0)</b>  | <b>(299.2)</b>                    | <b>(54.0)</b>      | <b>(33.9)</b>      | -                               | <b>(620.1)</b> |
| <i>(Increases) / decreases:</i>               |                                     |                 |                                   |                    |                    |                                 |                |
| Depreciation                                  | (239.0)                             | (20.5)          | (20.7)                            | (2.4)              | (1.4)              | -                               | (45.0)         |
| Purchases of leased items                     | (4.6)                               | -               | -                                 | (1.3)              | -                  | -                               | (1.3)          |
| Sales   | 9.4                                 | -               | 0.4                               | 0.5                | -                  | -                               | 0.9            |
| Liquidation                                   | 168.1                               | 1.6             | 0.5                               | -                  | 0.1                | -                               | 2.2            |
| Reclassified to assets held for sale          | 15.5                                | 0.1             | -                                 | -                  | -                  | -                               | 0.1            |
| FX differences                                | 0.1                                 | 0.1             | -                                 | (0.1)              | -                  | -                               | -              |
| Other   | 22.3                                | -               | -                                 | (22.3)             | -                  | -                               | (22.3)         |
| <b>30/06/2019</b>                             | <b>(2,235.1)</b>                    | <b>(251.7)</b>  | <b>(319.0)</b>                    | <b>(79.6)</b>      | <b>(35.2)</b>      | -                               | <b>(685.5)</b> |
| <b>Accumulated impairment loss</b>            |                                     |                 |                                   |                    |                    |                                 |                |
| <b>1/01/2019</b>                              | <b>(210.8)</b>                      | <b>(2.8)</b>    | <b>(1.7)</b>                      | -                  | -                  | <b>(2.7)</b>                    | <b>(7.2)</b>   |
| <i>(Increases) / decreases:</i>               |                                     |                 |                                   |                    |                    |                                 |                |
| Sales   | 0.1                                 | -               | -                                 | -                  | -                  | -                               | -              |
| Liquidation                                   | 0.5                                 | -               | -                                 | -                  | -                  | 0.1                             | 0.1            |
| Reclassified to assets held for sale          | 0.8                                 | -               | -                                 | -                  | -                  | -                               | -              |
| FX differences                                | 1.0                                 | -               | -                                 | -                  | -                  | -                               | -              |
| <b>30/06/2019</b>                             | <b>(208.4)</b>                      | <b>(2.8)</b>    | <b>(1.7)</b>                      | -                  | -                  | <b>(2.6)</b>                    | <b>(7.1)</b>   |
| <b>Net value</b>                              |                                     |                 |                                   |                    |                    |                                 |                |
| <b>1/01/2019</b>                              | <b>3,836.1</b>                      | <b>665.1</b>    | <b>124.9</b>                      | <b>33.5</b>        | <b>7.2</b>         | <b>69.2</b>                     | <b>899.9</b>   |
| <b>30/06/2019</b>                             | <b>4,107.5</b>                      | <b>650.2</b>    | <b>120.5</b>                      | <b>14.2</b>        | <b>6.3</b>         | <b>65.9</b>                     | <b>857.1</b>   |

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

| 6 months ended<br>30/06/2018                  | Rolling stock    | Other property, plant and equipment |                                   |                    |                    |                                 | Total          |
|---|------------------|-------------------------------------|-----------------------------------|--------------------|--------------------|---------------------------------|----------------|
|   |                  | Real properties                     | Technical machinery and equipment | Means of transport | Other fixed assets | Fixed assets under construction |                |
| <b>Gross value</b>                            |                  |                                     |                                   |                    |                    |                                 |                |
| <b>1/01/2018</b>                              | <b>6,024.6</b>   | <b>914.6</b>                        | <b>405.9</b>                      | <b>100.5</b>       | <b>39.5</b>        | <b>41.2</b>                     | <b>1,501.7</b> |
| <i>Increases / (decreases):</i>               |                  |                                     |                                   |                    |                    |                                 |                |
| Periodic repairs of rolling stock             | -                | -                                   | -                                 | -                  | -                  | 258.7                           | <b>258.7</b>   |
| Other acquisitions                            | -                | -                                   | -                                 | -                  | -                  | 41.1                            | <b>41.1</b>    |
| Finance leases                                | -                | -                                   | 0.8                               | -                  | -                  | -                               | <b>0.8</b>     |
| Settlement of fixed assets under construction | 275.9            | 4.8                                 | 4.5                               | 0.9                | 0.4                | (286.5)                         | <b>(275.9)</b> |
| Grant   | -                | -                                   | -                                 | -                  | -                  | (6.8)                           | <b>(6.8)</b>   |
| Sales   | (0.4)            | -                                   | (0.6)                             | (1.4)              | -                  | -                               | <b>(2.0)</b>   |
| Liquidation                                   | (148.3)          | (0.5)                               | (1.0)                             | (0.1)              | (0.1)              | -                               | <b>(1.7)</b>   |
| Reclassified to assets held for sale          | (30.3)           | -                                   | -                                 | -                  | -                  | -                               | -              |
| FX differences                                | 25.1             | 4.1                                 | 1.2                               | 1.2                | -                  | (0.2)                           | <b>6.3</b>     |
| Other   | -                | -                                   | 0.6                               | -                  | (0.6)              | -                               | -              |
| <b>30/06/2018</b>                             | <b>6,146.6</b>   | <b>923.0</b>                        | <b>411.4</b>                      | <b>101.1</b>       | <b>39.2</b>        | <b>47.5</b>                     | <b>1,522.2</b> |
| <b>Accumulated depreciation</b>               |                  |                                     |                                   |                    |                    |                                 |                |
| <b>1/01/2018</b>                              | <b>(2,129.5)</b> | <b>(195.7)</b>                      | <b>(270.7)</b>                    | <b>(60.4)</b>      | <b>(31.6)</b>      | -                               | <b>(558.4)</b> |
| <i>(Increases) / decreases:</i>               |                  |                                     |                                   |                    |                    |                                 |                |
| Depreciation                                  | (222.3)          | (17.8)                              | (16.7)                            | (3.3)              | (1.4)              | -                               | <b>(39.2)</b>  |
| Sales   | 0.4              | -                                   | 0.5                               | 1.2                | -                  | -                               | <b>1.7</b>     |
| Liquidation                                   | 144.1            | 0.5                                 | 0.8                               | 0.1                | 0.1                | -                               | <b>1.5</b>     |
| Reclassified to assets held for sale          | 8.6              | -                                   | -                                 | -                  | -                  | -                               | -              |
| FX differences                                | (4.5)            | (0.6)                               | (0.4)                             | (0.2)              | -                  | -                               | <b>(1.2)</b>   |
| Other   | -                | -                                   | (0.6)                             | (0.3)              | 0.6                | -                               | <b>(0.3)</b>   |
| <b>30/06/2018</b>                             | <b>(2,203.2)</b> | <b>(213.6)</b>                      | <b>(287.1)</b>                    | <b>(62.9)</b>      | <b>(32.3)</b>      | -                               | <b>(595.9)</b> |
| <b>Accumulated impairment loss</b>            |                  |                                     |                                   |                    |                    |                                 |                |
| <b>1/01/2018</b>                              | <b>(144.7)</b>   | <b>(2.7)</b>                        | <b>(0.3)</b>                      | -                  | -                  | <b>(2.7)</b>                    | <b>(5.7)</b>   |
| <i>(Increases) / decreases:</i>               |                  |                                     |                                   |                    |                    |                                 |                |
| Recognition                                   | (18.1)           | -                                   | -                                 | -                  | -                  | -                               | -              |
| Liquidation                                   | 0.2              | -                                   | -                                 | -                  | -                  | -                               | -              |
| Reclassified to assets held for sale          | 3.4              | -                                   | -                                 | -                  | -                  | -                               | -              |
| FX differences                                | (1.9)            | -                                   | -                                 | -                  | -                  | -                               | -              |
| <b>30/06/2018</b>                             | <b>(161.1)</b>   | <b>(2.7)</b>                        | <b>(0.3)</b>                      | -                  | -                  | <b>(2.7)</b>                    | <b>(5.7)</b>   |
| <b>Net value</b>                              |                  |                                     |                                   |                    |                    |                                 |                |
| <b>1/01/2018</b>                              | <b>3,750.4</b>   | <b>716.2</b>                        | <b>134.9</b>                      | <b>40.1</b>        | <b>7.9</b>         | <b>38.5</b>                     | <b>937.6</b>   |
| <i>including finance lease</i>                | <i>246.1</i>     | -                                   | <i>10.8</i>                       | <i>7.0</i>         | -                  | -                               | <i>17.8</i>    |
| <b>30/06/2018</b>                             | <b>3,782.3</b>   | <b>706.7</b>                        | <b>124.0</b>                      | <b>38.2</b>        | <b>6.9</b>         | <b>44.8</b>                     | <b>920.6</b>   |
| <i>including finance lease</i>                | <i>189.9</i>     | -                                   | <i>9.0</i>                        | <i>5.6</i>         | -                  | -                               | <i>14.6</i>    |

## 5.2 Right-of-use assets

### Movement in right-of-use assets

| 6 months ended<br>30/06/2019            | Rolling<br>stock | Real<br>properties | Technical<br>machinery<br>and<br>equipment | Means of<br>transport | Other<br>fixed<br>assets | Total          |
|---|------------------|--------------------|--|-----------------------|--------------------------|----------------|
| <b>Gross value</b>                      |                  |                    |  |                       |                          |                |
| Effect of the implementation of IFRS 16 | 310.1            | 729.2              | 14.6                                       | 14.0                  | 1.2                      | <b>1,069.1</b> |
| <b>1/01/2019</b>                        | <b>310.1</b>     | <b>729.2</b>       | <b>14.6</b>                                | <b>14.0</b>           | <b>1.2</b>               | <b>1,069.1</b> |
| <i>Increases / (decreases):</i>         |                  |                    |  |                       |                          |                |
| New leases                              | 41.2             | 2.1                | 0.8  | 7.0                   | -                        | <b>51.1</b>    |
| Return of leased items                  | -                | (0.8)              | -  | -                     | -                        | <b>(0.8)</b>   |
| Purchases of leased items               | (25.3)           | -                  | -  | (2.0)                 | -                        | <b>(27.3)</b>  |
| FX differences                          | (0.1)            | -                  | -  | -                     | -                        | <b>(0.1)</b>   |
| Other                                   | -                | (2.5)              | -  | -                     | -                        | <b>(2.5)</b>   |
| <b>30/06/2019</b>                       | <b>325.9</b>     | <b>728.0</b>       | <b>15.4</b>                                | <b>19.0</b>           | <b>1.2</b>               | <b>1,089.5</b> |
| <b>Accumulated depreciation</b>         |                  |                    |  |                       |                          |                |
| Effect of the implementation of IFRS 16 | (56.5)           | (1.1)              | (1.9)                                      | (6.8)                 | -                        | <b>(66.3)</b>  |
| <b>1/01/2019</b>                        | <b>(56.5)</b>    | <b>(1.1)</b>       | <b>(1.9)</b>                               | <b>(6.8)</b>          | <b>-</b>                 | <b>(66.3)</b>  |
| <i>(Increases) / decreases:</i>         |                  |                    |  |                       |                          |                |
| Depreciation                            | (25.0)           | (29.0)             | (1.3)                                      | (2.2)                 | (0.1)                    | <b>(57.6)</b>  |
| Purchases of leased items               | 4.6              | -                  | -  | 1.3                   | -                        | <b>5.9</b>     |
| Other                                   | (0.5)            | (1.9)              | -  | -                     | -                        | <b>(2.4)</b>   |
| <b>30/06/2019</b>                       | <b>(77.4)</b>    | <b>(32.0)</b>      | <b>(3.2)</b>                               | <b>(7.7)</b>          | <b>(0.1)</b>             | <b>(120.4)</b> |
| <b>Net value</b>                        |                  |                    |  |                       |                          |                |
| <b>1/01/2019</b>                        | <b>253.6</b>     | <b>728.1</b>       | <b>12.7</b>                                | <b>7.2</b>            | <b>1.2</b>               | <b>1,002.8</b> |
| <b>30/06/2019</b>                       | <b>248.5</b>     | <b>696.0</b>       | <b>12.2</b>                                | <b>11.3</b>           | <b>1.1</b>               | <b>969.1</b>   |

## 5.3 Investments in entities accounted for under the equity method

### Detailed information on the entities accounted for under the equity method

|   | Carrying amount |             |
|---|-----------------|-------------|
|   | 30/06/2019      | 31/12/2018  |
| COSCO Shipping Lines (POLAND) Sp. z o.o.            | 0.9             | 0.8         |
| Terminale Przeladunkowe Sławków - Medyka Sp. z o.o. | 19.9            | 19.5        |
| Transgaz S.A.                                       | 6.0             | 6.3         |
| Trade Trans Finance Sp. z o.o.                      | 7.7             | 8.1         |
| Rentrans Cargo Sp. z o.o.                           | 7.5             | 8.1         |
| PPHU "Ukpol" Sp. z o.o.                             | -               | -           |
| PKP CARGO CONNECT GmbH                              | 0.9             | 1.0         |
| AWT Rail SK a. s.                                   | 3.6             | 3.5         |
| <b>Total</b>  | <b>46.5</b>     | <b>47.3</b> |

### Investments in entities accounted for under the equity method

|  | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 |
|--|------------------------------|------------------------------|
| <b>As at the beginning of the reporting period</b>                     | <b>47.3</b>                  | <b>53.6</b>                  |
| Share in the profit / (loss) of entities measured by the equity method | 0.7                          | (2.1)                        |
| Movement in equity on account of dividends                             | (1.5)                        | (0.2)                        |
| FX differences resulting from translation of financial statements      | -                            | 0.6                          |
| <b>As at the end of the reporting period</b>                           | <b>46.5</b>                  | <b>51.9</b>                  |

## 5.4 Inventories

### Structure of inventories

|                                  | 30/06/2019   | 31/12/2018   |
|----------------------------------|--------------|--------------|
| Strategic inventories            | 32.1         | 31.4         |
| Rolling stock during liquidation | 18.7         | 20.7         |
| Other inventories                | 120.0        | 114.1        |
| Impairment losses                | (7.6)        | (4.5)        |
| <b>Net inventories</b>           | <b>163.2</b> | <b>161.7</b> |

## 5.5 Trade receivables

### Structure of trade receivables

|                                | 30/06/2019   | 31/12/2018   |
|--------------------------------|--------------|--------------|
| Trade receivables              | 822.4        | 840.7        |
| Impairment loss on receivables | (153.6)      | (155.4)      |
| <b>Total</b>                   | <b>668.8</b> | <b>685.3</b> |
| Non-current assets             | 1.3          | 0.7          |
| Current assets                 | 667.5        | 684.6        |
| <b>Total</b>                   | <b>668.8</b> | <b>685.3</b> |

## 5.6 Other assets

### Structure of other assets

|  | 30/06/2019   | 31/12/2018   |
|--|--------------|--------------|
| <b>Financial assets</b>                                      |              |              |
| FX forwards  | 7.2          | 3.5          |
| Shares in unlisted companies                                 | 7.5          | 6.8          |
| <b>Non-financial assets</b>                                  |              |              |
| Costs settled over time:                                     |              |              |
| Prepayments for purchase of electricity                      | 35.0         | 31.2         |
| Lease rents  | 2.7          | 12.3         |
| Insurance  | 13.0         | 7.4          |
| IT services  | 6.3          | 4.2          |
| Company Social Benefits Fund                                 | 9.6          | -            |
| Purchase of transportation services for eligible person      | 7.9          | -            |
| Other costs settled over time                                | 6.3          | 6.2          |
| Prepayments for purchase of non-financial non-current assets | 14.5         | -            |
| Other  | 3.0          | 1.6          |
| <b>Other receivables</b>                                     |              |              |
| VAT settlements  | 40.5         | 65.2         |
| Income tax receivables                                       | 21.7         | 3.0          |
| Other  | 10.3         | 5.0          |
| <b>Intangible assets</b>                                     |              |              |
| Licenses   | 24.7         | 28.5         |
| Other intangible assets                                      | 0.3          | 0.2          |
| Intangible assets under development                          | 5.7          | 6.0          |
| <b>Total</b>   | <b>216.2</b> | <b>181.1</b> |
| Non-current assets   | 62.6         | 56.7         |
| Current assets   | 153.6        | 124.4        |
| <b>Total</b>   | <b>216.2</b> | <b>181.1</b> |



## 5.7 Investment liabilities

### Structure of investment liabilities

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| Investment liabilities related to rolling stock   | 295.9        | 234.3        |
| Investment liabilities related to real properties | 1.1          | 18.1         |
| Other   | 9.9          | 35.0         |
| <b>Total</b>                                      | <b>306.9</b> | <b>287.4</b> |
| Long-term liabilities                             | 180.3        | 109.8        |
| Short-term liabilities                            | 126.6        | 177.6        |
| <b>Total</b>                                      | <b>306.9</b> | <b>287.4</b> |

## 5.8 Provisions for employee benefits

### Structure of provisions for employee benefits

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| <b>Post-employment defined benefit plans</b>        |              |              |
| Retirement and disability severance benefit         | 218.3        | 195.8        |
| Company Social Benefits Fund                        | 124.3        | 130.2        |
| Transportation benefits                             | 33.2         | 32.8         |
| Post-mortem benefits                                | 8.3          | 7.9          |
| <b>Other employee benefits</b>                      |              |              |
| Jubilee awards                                      | 329.7        | 304.0        |
| Other employee benefits (unused holidays / bonuses) | 58.3         | 36.3         |
| <b>Total</b>  | <b>772.1</b> | <b>707.0</b> |
| Long-term provisions                                | 623.7        | 591.5        |
| Short-term provisions                               | 148.4        | 115.5        |
| <b>Total</b>  | <b>772.1</b> | <b>707.0</b> |

## 5.9 Other provisions

### Structure of other provisions

|  | 30/06/2019  | 31/12/2018  |
|--|-------------|-------------|
| Provision for penalties imposed by anti-monopoly authorities | 14.8        | 14.8        |
| Provision for land reclamation                               | 5.3         | 5.3         |
| Provision for onerous contracts                              | -           | 3.7         |
| Provision for VAT liabilities                                | 24.2        | 23.6        |
| Other provisions   | 28.9        | 30.0        |
| <b>Total</b>   | <b>73.2</b> | <b>77.4</b> |
| Long-term provisions   | 19.2        | 20.5        |
| Short-term provisions  | 54.0        | 56.9        |
| <b>Total</b>   | <b>73.2</b> | <b>77.4</b> |

### Provision for penalties imposed by anti-monopoly authorities

As at 30 June 2019 and 31 December 2018, this item included:

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

### 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.

## 5.9 Other provisions (cont.)

### Provision for onerous contracts

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

### Provision for VAT liabilities

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

### Other provisions

This line item mostly includes the provisions recognized 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 June 2019 and as at 31 December 2018 constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the Group's estimates may be changed in subsequent reporting periods.

## 5.10 Other liabilities

### Structure of other liabilities

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| <b>Financial liabilities</b>  |              |              |
| FX forwards   | -            | 0.2          |
| <b>Other liabilities</b>  |              |              |
| Liabilities arising out of collateral (deposits, bid bonds, guarantees) | 34.5         | 36.9         |
| Dividend payable  | 67.2         | -            |
| Public law settlement <sup>(1)</sup>                                    | 112.3        | 86.9         |
| Settlements with employees  | 90.8         | 95.2         |
| Other settlements   | 7.7          | 9.6          |
| VAT settlements   | 4.6          | 6.5          |
| Current income tax liabilities  | 0.2          | 0.3          |
| <b>Total</b>  | <b>317.3</b> | <b>235.6</b> |
| Long-term liabilities   | 0.6          | 1.8          |
| Short-term liabilities  | 316.7        | 233.8        |
| <b>Total</b>  | <b>317.3</b> | <b>235.6</b> |

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

## 6. Financial instruments

### 6.1 Financial instruments

#### Categories and classes of financial instruments

| Financial assets by categories and classes  | Note                     | 30/06/2019     | 31/12/2018     |
|---|--------------------------|----------------|----------------|
| <b>Hedging financial instruments</b>  |                          |                |                |
| Derivatives   | <a href="#">Note 5.6</a> | 7.2            | 3.5            |
| <b>Financial assets measured at fair value through other comprehensive income</b> |                          |                |                |
| Investments in equity instruments   | <a href="#">Note 5.6</a> | 7.5            | 6.8            |
| <b>Financial assets measured at amortized cost</b>                                |                          |                |                |
| Trade receivables   | <a href="#">Note 5.5</a> | 668.8          | 685.3          |
| Receivables from sale of non-financial non-current assets                         |                          | 0.2            | -              |
| Bank deposits over 3 months   |                          | -              | 201.1          |
| Cash and cash equivalents   | <a href="#">Note 4.3</a> | 327.0          | 447.3          |
| <b>Financial assets excluded from the scope of IFRS 9</b>                         |                          | 11.6           | -              |
| <b>Total</b>  |                          | <b>1,022.3</b> | <b>1,344.0</b> |

## 6.1 Financial instruments (cont.)

| Financial liabilities by categories and classes                | Note                      | 30/06/2019     | 31/12/2018     |
|--|---------------------------|----------------|----------------|
| <b>Hedging financial instruments</b>                           |                           |                |                |
| Derivatives  | <a href="#">Note 5.10</a> | -              | 0.2            |
| Bank loans and borrowings                                      | <a href="#">Note 4.1</a>  | 442.4          | 468.1          |
| <b>Financial liabilities measured at amortized cost</b>        |                           |                |                |
| Bank loans and borrowings                                      | <a href="#">Note 4.1</a>  | 760.0          | 863.7          |
| Trade payables   |                           | 382.2          | 499.9          |
| Investment liabilities   | <a href="#">Note 5.7</a>  | 306.9          | 287.4          |
| <b>Financial liabilities excluded from the scope of IFRS 9</b> | <a href="#">Note 4.1</a>  | 886.1          | 95.2           |
| <b>Total</b>   |                           | <b>2,777.6</b> | <b>2,214.5</b> |

Impairment losses on trade receivables are presented in [Note 5.5](#) to these Interim Condensed Consolidated Financial Statements.

### Hedge accounting

In the period from 1 January 2019 to 30 June 2019, the Group applied cash flow hedging 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 June 2019, the following hedging instruments were established by the Parent Company:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 30 June 2019, the nominal amount of the hedging instrument was EUR 104.0 million, which is an equivalent of PLN 442.4 million.
- in forward foreign exchange contracts. The hedged cash flows will be realized until June 2021. As at 30 June 2019, the value of the assets on account of measurement of hedging instruments was PLN 6.1 million.

This item also includes measurement of hedging instruments in a subsidiary in the form of forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until May 2020. As at 30 June 2019, the value of the assets on account of measurement of hedging instruments was PLN 1.1 million.

### Fair value hierarchy

As at 30 June 2019, financial instruments measured at fair value were forward FX contracts and investments in equity instruments.

|  | 30/06/2019 |         | 31/12/2018 |         |
|--|------------|---------|------------|---------|
|  | Level 2    | Level 3 | Level 2    | Level 3 |
| <b>Assets</b>  |            |         |            |         |
| Derivatives – forward FX contracts                               | 7.2        | -       | 3.5        | -       |
| Investments in equity instruments - shares in unlisted companies | -          | 7.5     | -          | 6.8     |
| <b>Liabilities</b>   |            |         |            |         |
| Derivatives – forward FX contracts                               | -          | -       | 0.2        | -       |

## 6.1 Financial instruments (cont.)

### Measurement methods for financial instruments carried at fair value

#### a) Forward foreign exchange contracts

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

#### b) Investments in equity instruments

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



#### c) Other financial instruments

For the category of financial instruments which are not measured at fair value as at the balance sheet date, the Group does not disclose fair value because the fair values of these financial instruments as at 30 June 2019 and 31 December 2018 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

|  | 6 months<br>ended<br>30/06/2019 | 6 months<br>ended<br>30/06/2018 |
|--|---------------------------------|---------------------------------|
| <b>As at the beginning of the reporting period</b>                         | <b>6.8</b>                      | <b>6.2</b>                      |
| Sale of a share in an unlisted company                                     | -                               | (0.4)                           |
| Profits / (losses) for the period recognized in other comprehensive income | 0.7                             | -                               |
| <b>As at the end of the reporting period</b>                               | <b>7.5</b>                      | <b>5.8</b>                      |

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, there were no transfers between level 2 and level 3 of the fair value hierarchy.



## 6.1 Financial instruments (cont.)

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

| 6 months ended 30/06/2019                          | 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)                        | (1.4)                         | -                                 | 4.2   | 0.3  | (11.0)   | (17.5)  | (25.4)        |
| FX differences                                     | -                             | -                                 | (2.9)                                       | -  | 1.0  | 1.2   | (0.7)         |
| Impairment losses / revaluation                    | (0.1)                         | -                                 | (0.9)                                       | -  | -  | -   | (1.0)         |
| Transaction costs related to loans                 | -                             | -                                 | -   | -  | (1.1)  | -   | (1.1)         |
| Effect of settlement of cash flow hedge accounting | 2.7                           | -                                 | -   | -  | -  | -   | 2.7           |
| <b>Gross profit / (loss)</b>                       | <b>1.2</b>                    | <b>0.3</b>                        | <b>(0.4)</b>                                | <b>0.3</b>   | <b>(11.1)</b>                                    | <b>(16.3)</b>   | <b>(25.2)</b> |
| Revaluation  | 9.1                           | 0.7                               | -   | -  | -  | -   | 9.8           |
| <b>Other comprehensive income</b>                  | <b>9.1</b>                    | <b>0.7</b>                        | <b>-</b>                                    | <b>-</b>   | <b>-</b>   | <b>-</b>  | <b>9.8</b>    |

In the period of 6 months ended 30 June 2019, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 2.7 million.

In the period of 6 months ended 30 June 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 3.9 million and bank loans in the amount of PLN 5.2 million, recognized as part of the hedge accounting applied by the Group.

| 6 months ended 30/06/2018                          | Hedging financial instruments | Investments in equity instruments | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Financial liabilities excluded from the scope of IFRS 9 | Total         |
|--|-------------------------------|-----------------------------------|---|--|---|---------------|
| Interest income / (expense)                        | (1.5)                         | -                                 | 7.3   | (11.8)   | (2.4)   | (8.4)         |
| FX differences                                     | -                             | -                                 | 7.7   | (3.7)  | (1.7)   | 2.3           |
| Impairment losses / revaluation                    | -                             | -                                 | 1.3   | -  | -   | 1.3           |
| Transaction costs related to loans                 | -                             | -                                 | -   | (0.8)  | -   | (0.8)         |
| (Profit) / loss on the sale of investments         | -                             | 5.0                               | -   | -  | -   | 5.0           |
| Effect of settlement of cash flow hedge accounting | 4.4                           | -                                 | -   | -  | -   | 4.4           |
| <b>Gross profit / (loss)</b>                       | <b>2.9</b>                    | <b>5.0</b>                        | <b>16.3</b>                                 | <b>(16.3)</b>                                    | <b>(4.1)</b>  | <b>(3.8)</b>  |
| Revaluation  | (35.0)                        | -                                 | -   | -  | -   | (35.0)        |
| <b>Other comprehensive income</b>                  | <b>(35.0)</b>                 | <b>-</b>                          | <b>-</b>                                    | <b>-</b>   | <b>-</b>  | <b>(35.0)</b> |

In the period of 6 months ended 30 June 2018, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 4.7 million and financial expenses in respect of interest on finance lease liabilities in the amount of PLN (0.3) million.

In the period of 6 months ended 30 June 2018, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (12.9) million and bank loans in the amount of PLN (22.1) million, recognized as part of the hedge accounting applied by the Group.



## 7. Other notes

### 7.1 Related party transactions

#### Transactions with the State Treasury and its other related parties

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, 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 Interim Condensed Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with material related parties identified as such according to the best knowledge of the Management Board.

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, 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 Interim Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: ENEA, JSW, PGE, Azoty and PGG. The Group's most important other suppliers related to the State Treasury were Orlen Group entities.

#### Transactions with PKP Group related parties

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

|   | 6 months ended 30/06/2019 |                                | 30/06/2019                       |                                |
|---|---------------------------|--------------------------------|----------------------------------|--------------------------------|
|   | Sales to related parties  | Purchases from related parties | Receivables from related parties | Liabilities to related parties |
| Parent Company                                | 0.2                       | 34.4                           | 0.1                              | 478.5                          |
| Subsidiaries/co-subsidiaries – unconsolidated | 3.1                       | 6.4                            | 1.9                              | 1.5                            |
| Associates                                    | 0.1                       | 0.2                            | -                                | -                              |
| Other PKP Group related parties               | 6.8                       | 294.5                          | 2.9                              | 56.6                           |

|   | 6 months ended 30/06/2018 |                                | 31/12/2018                       |                                |
|---|---------------------------|--------------------------------|----------------------------------|--------------------------------|
|   | Sales to related parties  | Purchases from related parties | Receivables from related parties | Liabilities to related parties |
| Parent Company                                | 0.2                       | 34.7                           | 1.4                              | 9.6                            |
| Subsidiaries/co-subsidiaries – unconsolidated | 5.5                       | 7.9                            | 2.6                              | 1.5                            |
| Associates                                    | 1.4                       | 0.2                            | -                                | -                              |
| Other PKP Group related parties               | 5.7                       | 351.4                          | 1.9                              | 63.3                           |

Purchase transactions with the Parent Company (PKP S.A.) pertain to the lease of real estate, supply of utilities and occupational medicine services. As at 30 June 2019, the increase in liabilities toward PKP S.A. was caused by the entry into force of IFRS 16 and the recognition, as of 1 January 2019, of lease liabilities arising from lease and rental agreements concluded with PKP S.A.

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

As at 30 June 2019, in addition to commercial transactions, the Parent Company also had a dividend payable towards PKP S.A. in the amount of PLN 22.2 million.

## 7.1 Related party transactions (cont.)

### Loans granted to / received from related parties

|                                     | 30/06/2019 | 31/12/2018 |
|-------------------------------------|------------|------------|
| Loans received from related parties | 1.4        | 1.4        |

### 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                 |                              |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
|   | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 |
| Short-term benefits                       | 1.3                          | 1.1                          | 2.9                          | 3.8                          |
| Post-employment benefits                  | -                            | 0.4                          | 0.7                          | 1.3                          |
| Termination benefits                      | -                            | 0.1                          | 0.1                          | -                            |
| <b>Total</b>                              | <b>1.3</b>                   | <b>1.6</b>                   | <b>3.7</b>                   | <b>5.1</b>                   |

| Remunerations of Supervisory Board Members | Parent Company               |                              | Subsidiaries                 |                              |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
|  | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 |
| Short-term benefits                        | 0.6                          | 0.5                          | 0.9                          | 0.5                          |
| <b>Total</b>                               | <b>0.6</b>                   | <b>0.5</b>                   | <b>0.9</b>                   | <b>0.5</b>                   |

| Remunerations of other members of the key management personnel | Parent Company               |                              | Subsidiaries                 |                              |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
|  | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 | 6 months ended<br>30/06/2019 | 6 months ended<br>30/06/2018 |
| Short-term benefits  | 3.4                          | 3.1                          | 10.3                         | 10.3                         |
| Post-employment benefits                                       | -                            | 0.4                          | 0.4                          | 0.2                          |
| Termination benefits   | 0.1                          | 0.1                          | 0.1                          | 0.1                          |
| <b>Total</b>   | <b>3.5</b>                   | <b>3.6</b>                   | <b>10.8</b>                  | <b>10.6</b>                  |

In the period of 6 months ended 30 June 2019 and the period of 6 months ended 30 June 2018, 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

|   | 30/06/2019   | 31/12/2018   |
|---|--------------|--------------|
| Contractual liabilities on account of the acquisition of non-financial non-current assets | 843.5        | 538.4        |
| <b>Total</b>  | <b>843.5</b> | <b>538.4</b> |

As at 30 June 2019, the increase in the Group's future investment liabilities resulted mainly from:

- the agreement with Tatravagónka a.s. entered into by the Parent Company in March 2019 for the delivery of 936 container platforms with a total value of PLN 368.4 million, to be delivered by December 2022,
- the January 2019 annex to the agreement with Siemens Mobility Sp. z o.o. entered into by the Parent Company providing for the delivery of additional 5 brand new Siemens VECTRON multi-system locomotives with the provision of auxiliary services. As at 30 June 2019, the total remaining value of the agreement in the part pertaining to the delivery of locomotives was EUR 17.5 million (PLN 74.3 million).

The remaining value of future investment liabilities as at 30 June 2019 pertained to agreements concluded in previous periods and comprised predominantly:

- contracts entered into with NEWAG S.A. for modernization of 60 SM48 locomotives to be performed by May 2021. The contract is currently underway and as at 30 June 2019 its outstanding contractual value was PLN 132.4 million,
- contracts entered into with Pojazdy Szynowe PESA Bydgoszcz S.A. to conduct level five maintenance repairs of 38 ST44 locomotives to be performed by September 2020. The total outstanding value of the contract is PLN 176.3 million.

### 7.3 Contingent liabilities

#### Structure of contingent liabilities

|  | 30/06/2019   | 31/12/2018   |
|--|--------------|--------------|
| Guarantees issued on the Group's order | 97.2         | 125.0        |
| Other contingent liabilities           | 114.8        | 119.8        |
| <b>Total</b>                           | <b>212.0</b> | <b>244.8</b> |

#### Guarantees issued on the Group's order

As at 30 June 2019, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

#### Other contingent liabilities

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

### 7.4 Subsequent events

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

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

In August 2019, the plan, submitted by PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o. ("PKP CARGO CL Małaszewicze"), to merge PKP CARGO CL Małaszewicze and PKP CARGO TERMINALE Sp. z o.o. was accepted to the company's registration files. The merger is scheduled to be effected by way of the acquisition by PKP CARGO TERMINALE Sp. z o.o. as the acquirer of PKP CARGO CL Małaszewicze, as a result of which PKP CARGO CL Małaszewicze will be dissolved (will cease to exist) on the date it is deleted from the register of commercial undertakings.

### 7.5 Approval of the financial statements

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 21 August 2019.



**Parent Company's Management Board**

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Czesław Warsewicz  
President of the Management Board

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Leszek Borowiec  
Management Board Member

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Grzegorz Fingas  
Management Board Member

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Witold Bawor  
Management Board Member

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Zenon Kozendra  
Management Board Member

Warsaw, 21 August 2019



Management Board report  
on the activity  
of the **PKP CARGO** Group  
for H1 2019





**MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP IN THE FIRST HALF OF 2019**

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## 1. Introduction

Dear Stakeholders,

PKP CARGO's performance in H1 2019 was largely affected by reduced volumes of transported aggregates compared to the corresponding period of the previous year. We managed to maintain the upward trend in intermodal transport. Moreover, we used this period to improve the PKP CARGO Group's operational efficiency, as is exemplified by the situation of AWT, which for the first time since its inclusion into PKP CARGO's structures in 2015 has earned significant profits at all levels.

Therefore, when we compare 2019 with previous periods, it turns out that the profitability we generate today is among the highest since our IPO at the Warsaw Stock Exchange. In H1 2019, our EBIT margin reached 4.2%, while in 2018 it was 5.3%, but in 2017 it stood at 3.2%, in 2016 at 3% and in 2015 only at 1.2%.



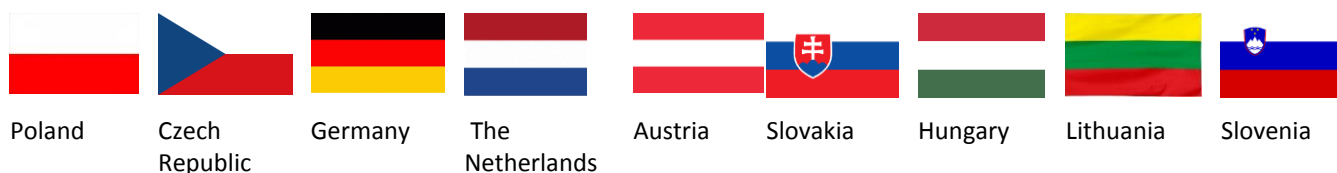
|  |  |
|--|--|
| <b>REVENUE</b><br><b>PLN 2,447 million</b> |  |
| <b>EBITDA</b><br><b>PLN 450 million</b>    |  |
| <b>NET RESULT</b><br><b>PLN 48 million</b> |  |

## 2. Organization of the PKP CARGO Group

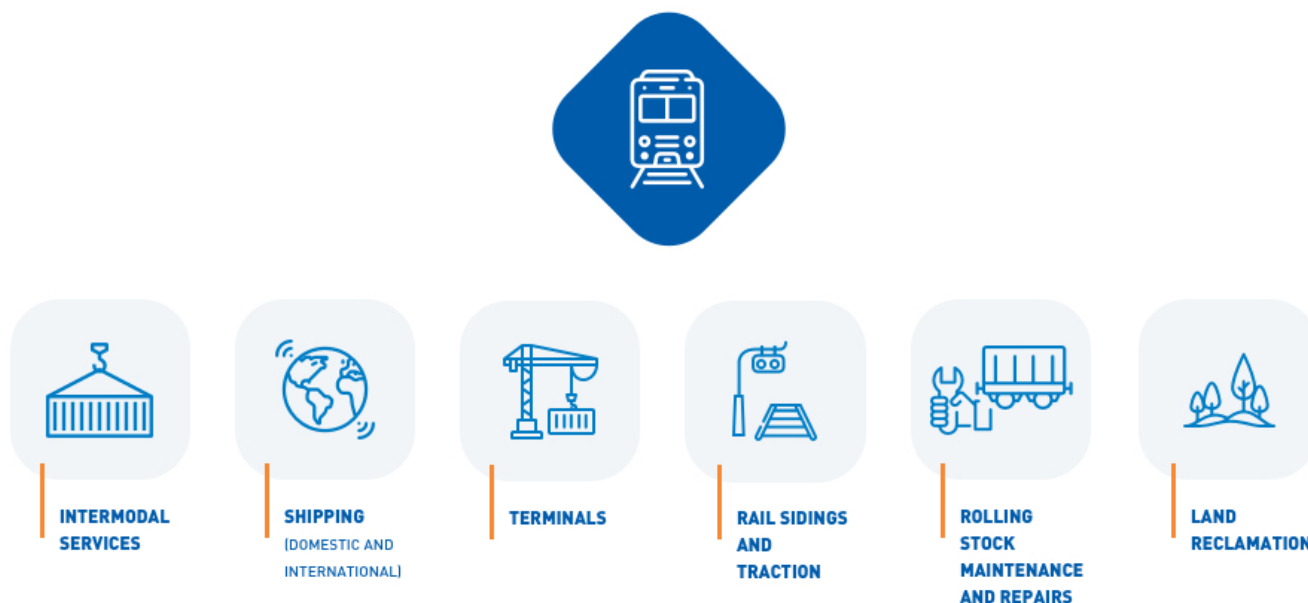
### 2.1 Highlights on the Company and the PKP CARGO Group<sup>1</sup>

The PKP CARGO Group is the biggest in Poland and one of the biggest rail freight operators 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 the Office of Rail Transport – UTK<sup>2</sup>) and it is the second largest operator on the Czech market (according to SZDC<sup>3</sup>).

The PKP CARGO Group holds licenses for the provision of rail freight services in the following 9 EU countries:



The Group (including the Parent Company, AWT 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:



<sup>1</sup> Whenever the Report mentions:

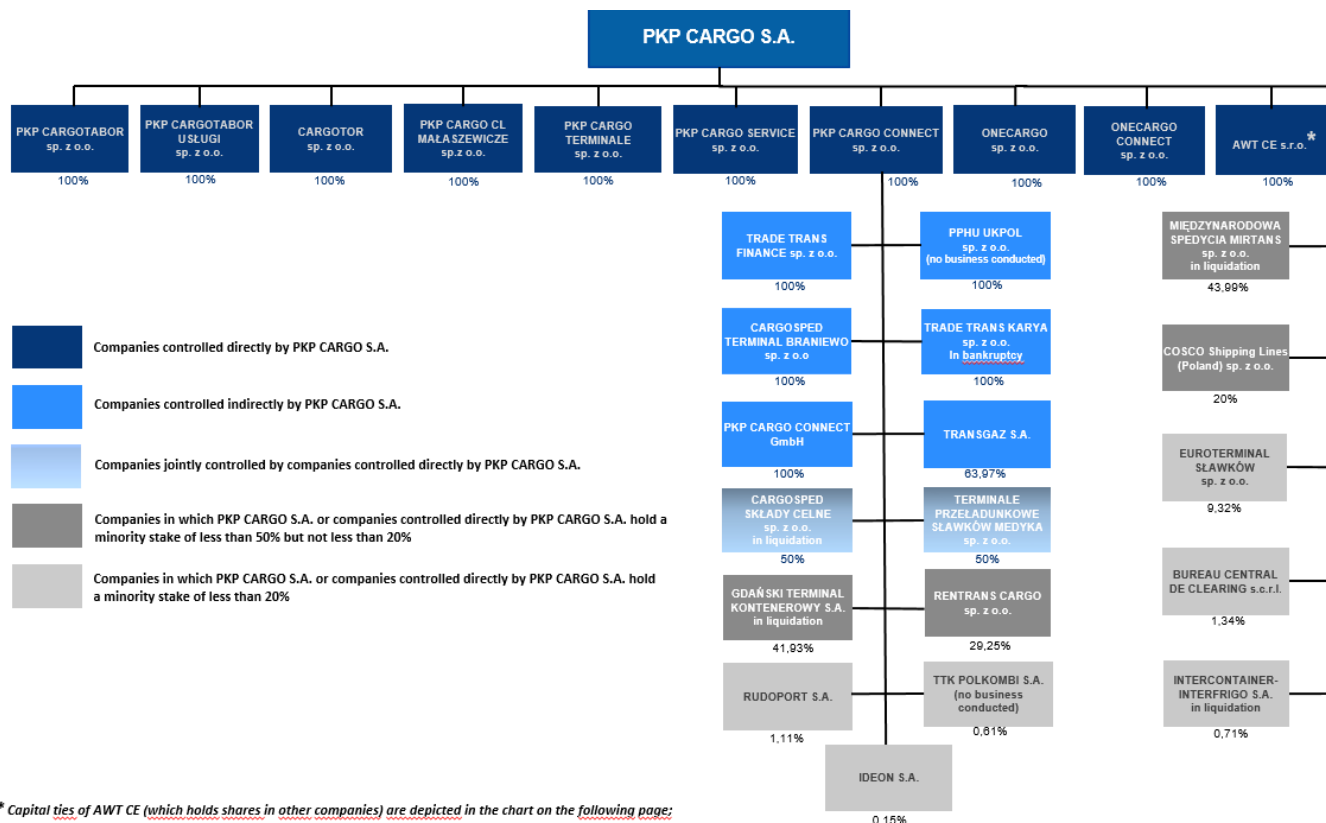
- the Company or the Parent Company, it should be construed to mean PKP CARGO S.A.,
- the PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

<sup>2</sup> Office of Rail Transport

<sup>3</sup> 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 June 2019:

Figure 1 Structure of equity links of PKP CARGO S.A. as at 30 June 2019

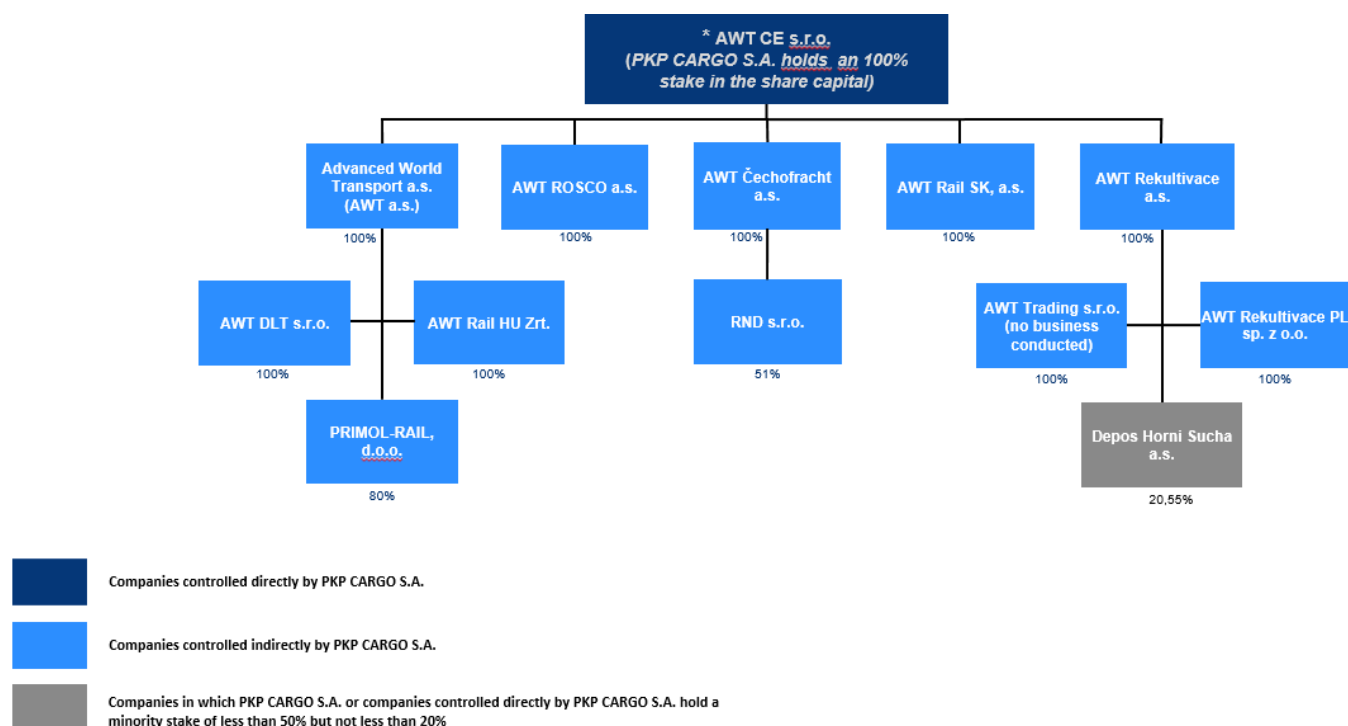


\* Capital ties of AWT CE (which holds shares in other companies) are depicted in the chart on the following page;

Source: Proprietary material



Figure 2 Structure of the AWT Group as at 30 June 2019



Source: Proprietary material

On 29 May 2019, the National Court Register (KRS) registered the new name of PKP CARGO TERMINALE Sp. z o.o. with its registered office in Żurawica (former name: PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o. with its registered office in Żurawica).

On 1 July 2019, AWT CE s.r.o. (at the time wholly owned by PKP CARGO S.A.) was acquired by its subsidiary AWT a.s. (merger by acquisition). As a result of this transaction, AWT a.s. became a direct subsidiary of PKP CARGO S.A., and AWT CE s.r.o. was dissolved (ceased to exist).

On 31 July 2019, the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, entered the merger of PKP CARGO CONNECT sp. z o.o. as the acquirer with Trade Trans Finance sp. z o.o. as the acquiree.

In August of this year, the plan, submitted by PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o. ("PKP CARGO CL Małaszewicze"), to merge PKP CARGO CL Małaszewicze and PKP CARGO TERMINALE Sp. z o.o. was accepted to the company's registration files. The merger is scheduled to be effected by way of the acquisition by PKP CARGO TERMINALE Sp. z o.o. as the acquirer of PKP CARGO CL Małaszewicze, as a result of which PKP CARGO CL Małaszewicze will be dissolved (will cease to exist) on the date it is deleted from the register of commercial undertakings.

## 2.2 Consolidated entities

The Interim Condensed Consolidated Financial Statements of the PKP CARGO Group as at 30 June 2019 encompass PKP CARGO S.A. and 14 subsidiaries consolidated by the full method:

**Table 1 Subsidiaries consolidated by the full method**

| Company name   | Core business  |
|--|--|
| <b>PKP CARGO SERVICE Sp. z o.o.</b>                          | Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.   |
| <b>PKP CARGOTABOR Sp. z o.o.</b>                             | 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.   |
| <b>PKP CARGOTABOR USŁUGI Sp. z o.o.</b>                      | 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.   |
| <b>PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o.</b> | 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.  |
| <b>PKP CARGO TERMINALE Sp. z o.o.</b>                        | Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company 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.   |
| <b>CARGOSPED TERMINAL BRANIEWO Sp. z o.o.</b>                | 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.   |
| <b>CARGOTOR Sp. z o.o.</b>                                   | 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.  |
| <b>PKP CARGO CONNECT Sp. z o.o.</b>                          | 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.       |
| <b>AWT CE s.r.o.</b>   | The parent company in the AWT Group discharging the function of the holding company.   |
| <b>Advanced World Transport a.s.</b>                         | Comprehensive handling of rail freight transport (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"). |
| <b>AWT Rosco a.s.</b>  | Provision of rolling stock necessary for the AWT Group's transportation companies to perform transportation services. The company's operations entail the rental of rail cars and the cleaning of rail and automobile cisterns.  |
| <b>AWT Cechofracht a.s.</b>                                  | International freight forwarding services.   |
| <b>AWT Rekultivace a.s.</b>                                  | 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  |
| <b>AWT Rail HU Zrt</b>                                       | 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 Interim Condensed Consolidated Financial Statements of the PKP CARGO Group prepared as at 30 June 2019.

### 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. PKP CARGO S.A. Articles of Association;
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 491/2013 of the PKP CARGO S.A. Management Board dated 16 November 2013 (as amended) with the consolidated text adopted by Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018;
5. other internal and external regulations.

##### Powers of the Management Board

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. In H1 2019, the President of the Management Board acting individually or two Management Board Members acting jointly or a Management Board Member acting jointly with a commercial proxy were authorized to make declarations of intent.

On 26 June 2019, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted a resolution according to which the Company is represented by two Management Board members acting jointly or by a Management Board member acting jointly with a commercial proxy. This change was entered in the National Court Register on 26 July 2019.

**Table 2 Composition of the PKP CARGO S.A. Management Board from 1 January 2019 to the delivery date of the report**

| Name                      | Position  | Period in office |         |
|---------------------------|---|------------------|---------|
|                           |   | from             | to      |
| <b>Czesław Warszewicz</b> | President of the Management Board                 | 27 March 2018    | to date |
| <b>Leszek Borowiec</b>    | Management Board Member in charge of Finance      | 27 March 2018    | to date |
| <b>Witold Bawor</b>       | Management Board Member in charge of Operations   | 26 October 2017  | to date |
| <b>Grzegorz Fingas</b>    | Management Board Member in charge of Commerce     | 1 April 2016     | to date |
| <b>Zenon Kozendra</b>     | Management Board Member – Employee Representative | 14 July 2016     | to date |

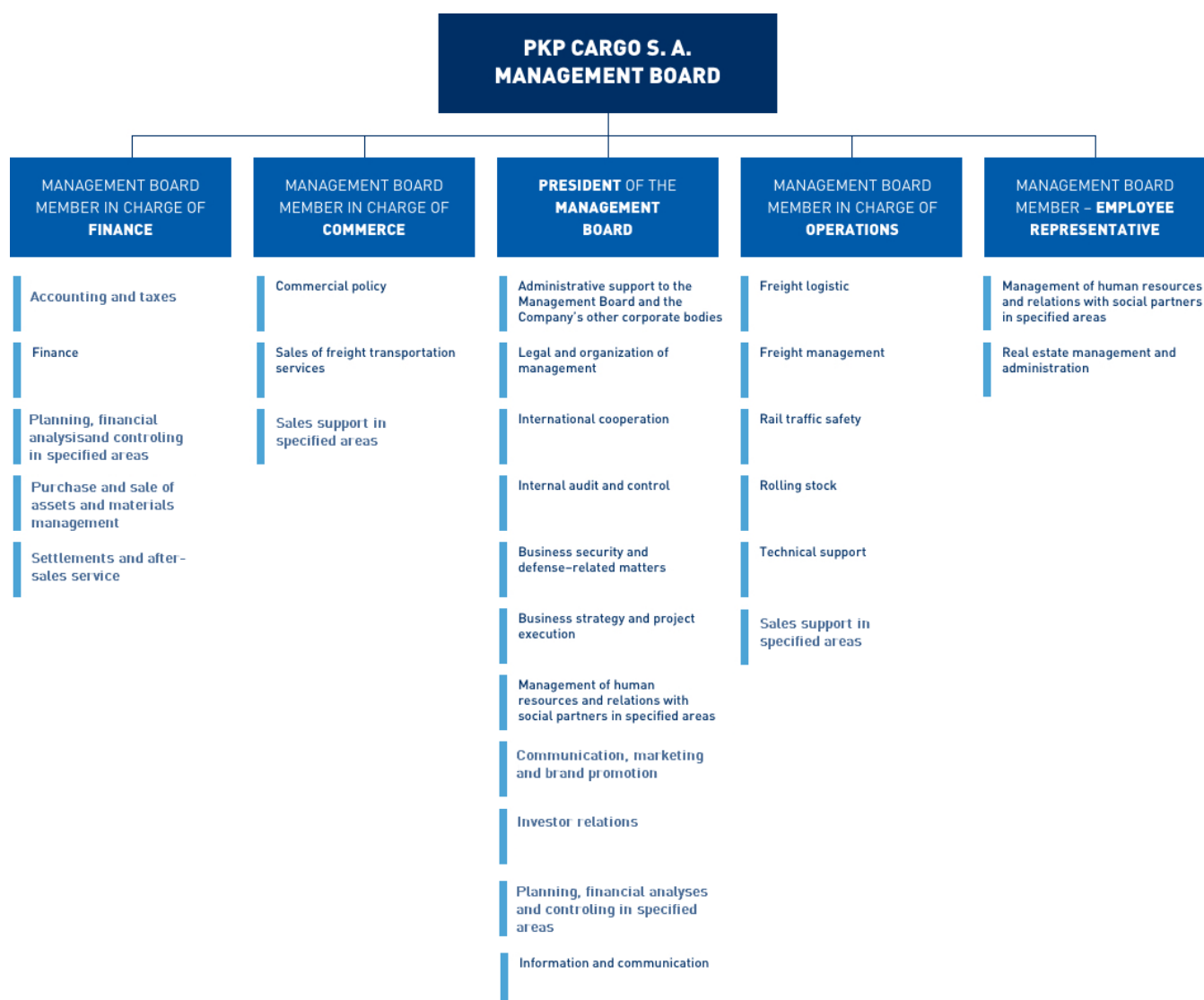
Source: Proprietary material

On 27 May 2019, the Company's Supervisory Board adopted a resolution to appoint the following persons to the PKP CARGO Management Board for the joint 7th term of office:

- Mr. Czesław Warszewicz to the position of President of the Management Board,
- Mr. Leszek Borowiec to the position of Management Board Member in charge of Finance,
- Mr. Grzegorz Fingas to the position of Management Board Member in charge of Commerce,
- Mr. Witold Bawor to the position of Management Board Member in charge of Operations,
- Mr. Zenon Kozendra to the position of Management Board Member – Employee Representative.

The following chart presents the breakdown 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 June 2019.



Source: Proprietary material

The internal allocation of tasks and functions discharged by Management Board members, resulting from the provisions of the Management Board Bylaws, is as follows:

1. President of the Management Board – the scope of the President's activity include directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's activity, in particular:
  - business strategy,
  - business security and internal audit.

Special powers of the President of the Company's Management Board include performance of the Company's defense tasks resulting from the regulations on general defense obligation.

2. Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular:
  - financial management,

- purchase and sale of assets.

Special powers of the Management Board Member in charge of Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.

3. Management Board Member in charge of Commerce – the scope of duties of the Management Board Member in charge of Commerce covers responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's business, in particular:
  - commercial policy,
  - sales of transportation services.
4. Management Board Member in charge of Operations – the scope of activity of the Management Board Member in charge of Operations includes caring for the effective execution of the Company's business and technological processes and overseeing the management of specific areas of the Company's activity, in particular in the following areas:
  - provision of transport services,
  - maintenance of rolling stock.
5. Management Board Member – Employee Representative – the scope of activity of the Employee Representative in the Management Board includes overseeing the management of specific areas of the Company's activity, particularly in the following areas:
  - real estate management and administration,
  - management of human resources and relations with social partners in specified areas.

## SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint 3-year term of office. The number of Supervisory Board members is set by PKP S.A. (in the 6th term: 11 members). 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. The Company's employees are entitled to appoint and dismiss their 3 representatives to the Supervisory Board.

### Powers of the Supervisory Board

The Supervisory Board exercises permanent 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 in H1 2019, included 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.

The table below presents the composition of the Supervisory Board as at the delivery date of this report.

**Table 3 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2019 to the delivery date of the report**

| Name                           | Position                          | Period in office |               |
|--------------------------------|-----------------------------------|------------------|---------------|
|                                |                                   | from             | to            |
| <b>Krzysztof Mamiński</b>      | Supervisory Board Chairman        | 26 March 2018    | to date       |
|                                | Supervisory Board Member          | 6 March 2017     |               |
| <b>Mirosław Antonowicz</b>     | Supervisory Board Member          | 1 June 2017      |               |
|                                | Supervisory Board Deputy Chairman | 27 June 2017     | to date       |
| <b>Krzysztof Czarnota</b>      | Supervisory Board Member          | 20 May 2016      | to date       |
| <b>Zofia Dzik</b>              | Supervisory Board Member          | 11 May 2016      | to date       |
| <b>Raimondo Eggink</b>         | Supervisory Board Member          | 13 April 2015    | 26 June 2019* |
| <b>Dariusz Górski</b>          | Supervisory Board Member          | 26 June 2019*    | to date       |
| <b>Małgorzata Kryszkiewicz</b> | Supervisory Board Member          | 17 December 2015 | to date       |
| <b>Paweł Sosnowski</b>         | Supervisory Board Member          | 7 June 2018      | to date       |
| <b>Jerzy Sośnierz</b>          | Supervisory Board Member          | 1 May 2018       | to date       |
| <b>Tadeusz Stachaczyński</b>   | Supervisory Board Member          | 20 May 2016      | to date       |
| <b>Władysław Szczepkowski</b>  | Supervisory Board Member          | 14 March 2017    | to date       |

\* date of the Ordinary Shareholder Meeting of PKP CARGO S.A. – end of the 6th term/beginning of the 7th term of the PKP CARGO S.A. Supervisory Board

Source: Proprietary material

On 26 June 2019 - date of the Ordinary Shareholder Meeting of PKP CARGO S.A. - the 7th term of the PKP CARGO S.A. Supervisory Board was beginning.

## SUPERVISORY BOARD'S AUDIT COMMITTEE

The PKP CARGO S.A. 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 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). 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 2019 to the delivery date of the report**

| Name                           | Position           | Period in office                 |               |
|--------------------------------|--------------------|----------------------------------|---------------|
|                                |                    | from                             | to            |
| <b>Raimondo Eggink</b>         | Committee Member   | 20 May 2016 – 6th term of office | 26 June 2019* |
|                                | Committee Chairman | 31 May 2016 – 6th term of office | 26 June 2019* |
| <b>Małgorzata Kryszkiewicz</b> | Committee Member   | 20 May 2016 – 6th term of office | 26 June 2019* |
|                                |                    | 1 July 2019 – 7th term of office | to date       |
| <b>Zofia Dzik</b>              | Committee Member   | 20 May 2016 – 6th term of office | 26 June 2019* |
|                                |                    | 1 July 2019 – 7th term of office | to date       |
| <b>Dariusz Górski</b>          | Committee Member   | 1 July 2019 – 7th term of office | to date       |
|                                | Committee Chairman | 1 July 2019 – 7th term of office | 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 Nomination Committee is appointed by the PKP CARGO S.A. Supervisory Board. 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 compensation for the Company's employees, including in particular the Company's Management Board Members and upper level management.

**Table 5 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2019 to the delivery date of the report**

| Name                          | Position             | Period in office                      |               |
|-------------------------------|----------------------|---------------------------------------|---------------|
|                               |                      | from                                  | to            |
| <b>Zofia Dzik</b>             | Committee Chairwoman | 20 May 2016 – 6th term of office      | 26 June 2019* |
|                               |                      | 1 July 2019 – 7th term of office      | to date       |
| <b>Mirosław Antonowicz</b>    | Committee Member     | 27 June 2017 – 6th term of office     | 26 June 2019* |
|                               |                      | 1 July 2019 – 7th term of office      | to date       |
| <b>Władysław Szczepkowski</b> | Committee Member     | 27 November 2017 – 6th term of office | 26 June 2019* |
|                               |                      | 1 July 2019 – 7th term of office      | 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

## STRATEGIC COMMITTEE

The Strategic 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 Strategic Committee supports the Supervisory Board in overseeing the development of the strategy, as well as the appropriate implementation of the strategy and annual and long-term activity plans for the Company and the Group.

**Table 6 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2019 to the delivery date of this report**

| Name                          | Position           | Period in office                   |               |
|-------------------------------|--------------------|------------------------------------|---------------|
|                               |                    | from                               | to            |
| <b>Mirosław Antonowicz</b>    | Committee Member   | 27 June 2017 – 6th term of office  | 26 June 2019* |
|                               |                    | 1 July 2019 – 7th term of office   | to date       |
|                               | Committee Chairman | 28 May 2018 – 6th term of office   | 26 June 2019* |
|                               |                    | 1 July 2019 – 7th term of office   | to date       |
| <b>Raimondo Eggink</b>        | Committee Member   | 23 June 2016 – 6th term of office  | 26 June 2019* |
| <b>Władysław Szczepkowski</b> | Committee Member   | 23 April 2018 – 6th term of office | 26 June 2019* |
|                               |                    | 1 July 2019 – 7th term of office   | to date       |
| <b>Dariusz Górski</b>         | Committee Member   | 1 July 2019 – 7th term of office   | 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         |
| <b>Total</b> |                |                         | <b>44,786,917</b> |

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 June 2019 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. <sup>(1)</sup>                  | 14,784,194        | 33.01%         | 14,784,194        | 33.01%  |
| Nationale-Nederlanden OFE <sup>(2)</sup> | 7,751,187         | 17.31%         | 7,751,187         | 17.31%  |
| Aviva OFE <sup>(3)</sup>                 | 2,338,371         | 5.22%          | 2,338,371         | 5.22%   |
| Other shareholders                       | 19,913,165        | 44.46%         | 19,913,165        | 44.46%  |
| <b>Total</b>                             | <b>44,786,917</b> | <b>100.00%</b> | <b>44,786,917</b> | <b>100.00%</b>  |

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 21 June 2018.

(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 23 May 2019, i.e. the delivery date of the Q1 2019 report to the delivery date of this report, was 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 |
|---|--|
| <b>as at the delivery date of this report</b> |  |
| Czesław Warsewicz                             | 1,500  |
| Leszek Borowiec                               | 0  |
| Grzegorz Fingas                               | 0  |
| Witold Bawor                                  | 46   |
| Zenon Kozendra                                | 46   |
| <b>as at 23 May 2019</b>                      |  |
| Czesław Warsewicz                             | 1,500  |
| Leszek Borowiec                               | 0  |
| Grzegorz Fingas                               | 0  |
| Witold Bawor                                  | 46   |
| Zenon Kozendra                                | 46   |

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 23 May 2019, i.e. the delivery date of the Q1 2019 report to the delivery date of this report, was 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 |
|---|---|
| <b>as at the delivery date of this report</b> |   |
| Krzysztof Mamiński                            | 0   |
| Mirosław Antonowicz                           | 0   |
| Krzysztof Czarnota                            | 70  |
| Zofia Dzik                                    | 0   |
| Dariusz Górski                                | 0   |
| Małgorzata Kryszkiewicz                       | 0   |
| Tadeusz Stachaczyński                         | 0   |
| Władysław Szczepkowski                        | 0   |
| Jerzy Sośnierz                                | 70  |
| Paweł Sosnowski                               | 0   |
| <b>as at 23 May 2019</b>                      |   |
| Krzysztof Mamiński                            | 0   |
| Mirosław Antonowicz                           | 0   |
| Krzysztof Czarnota                            | 70  |
| Zofia Dzik                                    | 0   |
| Raimondo Eggink                               | 0   |
| Małgorzata Kryszkiewicz                       | 0   |
| Tadeusz Stachaczyński                         | 0   |
| Władysław Szczepkowski                        | 0   |
| Jerzy Sośnierz                                | 70  |
| Paweł Sosnowski                               | 0   |

Source: Proprietary material



## 4. Key areas of operation of the PKP CARGO Group

### 4.1 Macroeconomic environment



#### Polish economy

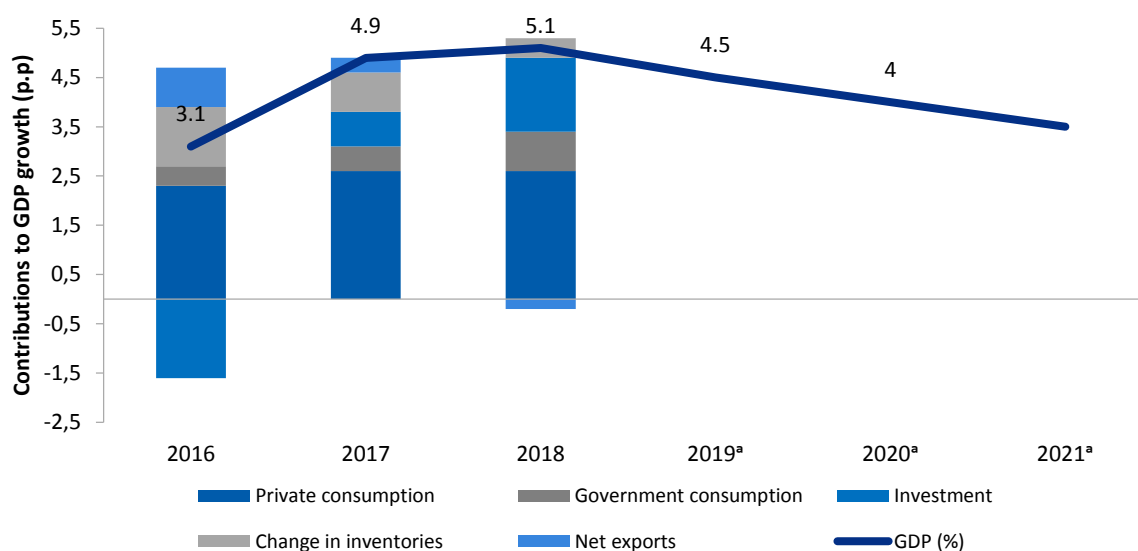
According to data published by the Central Statistical Office in May 2019, in Q1 2019 the rate of economic growth in Poland decreased to 4.7% yoy from 4.9% yoy in Q4 2018<sup>4</sup>. In parallel, the seasonally adjusted quarterly GDP growth rate improved in this period to 1.5% qoq from 0.5% qoq in Q4 2018, which means that despite the prevailing slowdown in the macroeconomic environment, the foundations of the domestic economy remain solid and Poland is still ranked among the fastest growing European Union states<sup>5</sup>. NBP projections published in July 2019 assume that the GDP growth rate will remain close to 4.7% yoy also in Q2 2019, which is also suggested by currently available business activity data (industrial output, construction, real retail sales) for the period April-May 2019<sup>6</sup>.

The key factors driving the economic growth in Poland in Q1 2019 were as follows:

- consumption of households, the growth rate of which declined slightly to 3.9% from 4.2% yoy in Q4 2018. The strong rate of growth in private consumption was driven by the persistently high rate of growth in real wages, continued decrease in the unemployment rate compared to the same period in 2018 and strong consumer sentiment<sup>7</sup>;
- investments, whose rate of growth increased to 12.6% yoy from 8.2% yoy in Q4 2018, i.e. the highest since 2015. In the period under analysis, the growth in capital expenditures in the private sector (including on buildings and structures and transport equipment) was particularly strong, while the public sector (including, in particular, local government entities) demonstrated a significantly lower rate of growth than in the previous quarters<sup>8</sup>.

In Q1 2019, the country's foreign trade balance also exerted a favorable impact on economic growth. Even though both exports and imports had a lower yoy growth rate than in Q4 2018, the magnitude of the slowdown in exports was lower. This translated into a positive contribution of net exports to GDP in Q1 2019. In contrast, inventories brought a negative contribution to GDP for the second quarter in a row<sup>9</sup>.

Figure 4 Real GDP growth rate in Poland in 2016-2018, together with its decomposition, and 2019-2021 forecasts – data not adjusted for seasonality



a – macroeconomic forecasts of the National Bank of Poland – July 2019; data without decomposition

Source: Proprietary material based on the data of the Central Statistical Office of Poland and the National Bank of Poland

<sup>4</sup> Central Statistical Office of Poland

<sup>5</sup> Central Statistical Office of Poland, Eurostat

<sup>6</sup> National Bank of Poland

<sup>7</sup> Central Statistical Office of Poland

<sup>8</sup> Central Statistical Office of Poland

<sup>9</sup> Central Statistical Office of Poland

Despite the inflow of advantageous data from the real economy, business tendency indicators (published by GUS and NBP) suggest a deterioration of sentiments in H1 2019 and, along with the weak economic climate, fuel market speculation about a possible gradual decline in Poland's GDP growth rate in the coming quarters. At the same time, data suggest that private investment in Q1 of this year was stronger, the upcoming fiscal impulse (driven, among other factors, by the extension of the Family 500+ benefit program) and the Polish economy's resilience to the slowdown observed in foreign economies translated into an upward revision of domestic GDP forecasts for 2019-2021 prepared by NBP economists<sup>10</sup>.

According to GDP projections presented in July 2019, NBP analysts expect that in 2019 the average annual rate of GDP growth in Poland will reach 4.5% (compared to 4.0% assumed in the projection published in March 2019), followed by a drop to an average of 4.0% (compared to 3.7% forecasted earlier) in 2020 and 3.5% (unchanged compared to the previous projections) in 2021<sup>11</sup>. According to NBP economists, the key components of economic growth in the coming quarters will be: household consumption (main growth drivers: favorable situation on the labor market, availability of cheap consumer loans and the impact of fiscal changes already introduced and announced by the government, to be distributed over a longer period), public consumption (primary growth driver: assumed high annual average growth rate in wages of public sector employees in 2020) and investment demand (main growth drivers: continuation of a positive rate of growth in absorption of EU structural funds in 2019, high level of manufacturing capacity utilization, shortages of labor providing an incentive for investments in productivity improvements, availability of cheap loans to fund capital expenditures, strong demand for housing)<sup>12</sup>. According to NBP economists, net exports will somewhat suppress the rate of economic growth within the projection horizon due to the slowdown in global trade (resulting in weaker exports) coupled with a continuation of strong domestic demand (a relatively high rate of growth in imports)<sup>13</sup>.

The stronger than expected increase in food prices and core inflation (including regulated prices and services) in Q2 2019 also caused NBP economists to revise upward the future path of consumer price inflation (CPI) in Poland. According to analysts working for the National Bank of Poland, due to the postponed inflationary effect of current demand and wage pressures, food price increases (including meat and cold cuts as a result of the African Swine Fever (ASF) epidemic in China) and the expected increase in electricity prices in 2020, the average annual CPI inflation rate will be 2.0% in 2019 (compared to 1.7% yoy according to March 2019 forecasts), 2.9% in 2020 (compared to 2.7% yoy according to March 2019 forecasts) and 2.6% in 2021 (compared to 2.5% yoy according to March 2019 forecasts).<sup>14</sup>



### Czech economy

According to data published by the Czech Statistical Office, in Q1 2019 the country's rate of economic growth decreased to 2.8% yoy from 3.1% yoy in Q4 2018<sup>15</sup>. In figures adjusted for the impact of seasonal factors, the GDP growth rate in the Czech Republic improved slightly to 2.8% yoy compared to 2.7% yoy in Q4 2018, which was much less, however, than in the corresponding quarter of 2018 (4.2% yoy)<sup>16</sup>.

The key factor driving the economic growth in the Czech Republic in Q1 2019 was domestic demand, in particular:

- private consumption whose rate of growth increased to 2.8% yoy from 2.5% yoy in Q4 2018, a stable increase in wages and employment, a record low unemployment rate and an increase in social benefits (including pensions) introduced at the beginning of 2019<sup>17</sup>;
- capital expenditures, which, however, grew at a mere 3.3% yoy, down from 6.5% yoy in Q4 2018.<sup>18</sup> The growth in capital expenditures in the period under analysis was driven predominantly by strong demand for housing coupled with increased expenditures on infrastructure and public utilities (co-financed under EU structural funds).

In Q1 2019, GDP growth was also favorably affected by consumption of the public sector and the balance of foreign trade (despite the slowdown experienced in the macroeconomic environment, which translated into a significant decline in the rate of year-on-year growth in exports and imports)<sup>19</sup>.

<sup>10</sup> National Bank of Poland

<sup>11</sup> National Bank of Poland

<sup>12</sup> National Bank of Poland

<sup>13</sup> National Bank of Poland

<sup>14</sup> National Bank of Poland

<sup>15</sup> Czech Statistical Office, seasonally unadjusted data

<sup>16</sup> Czech Statistical Office

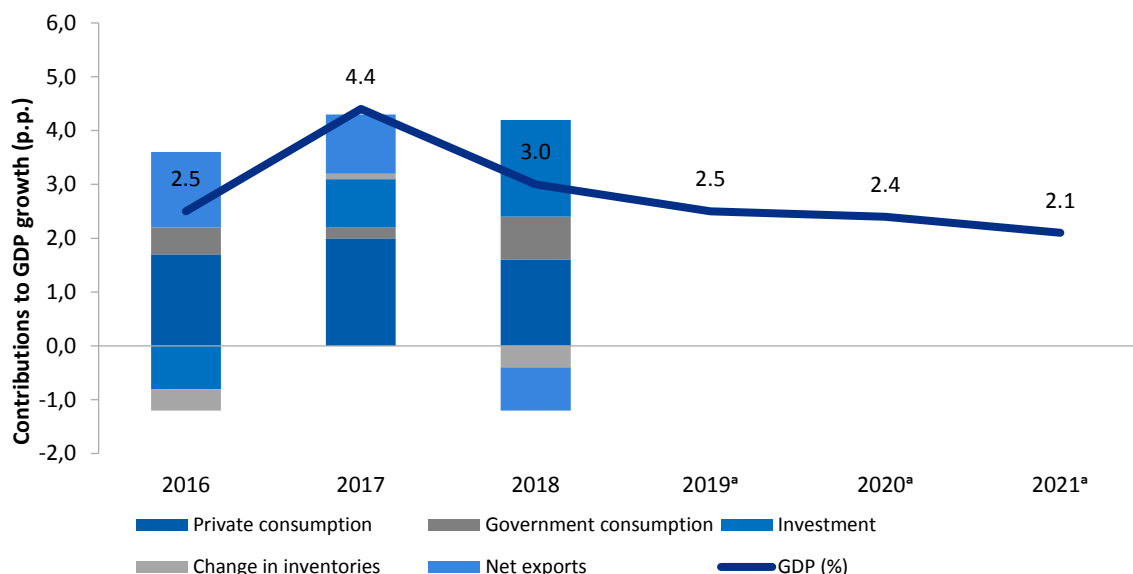
<sup>17</sup> Czech Statistical Office

<sup>18</sup> Czech Statistical Office

<sup>19</sup> Czech Statistical Office



Figure 5 Real GDP growth rate in the Czech Republic in 2016-2018, together with its decomposition, and 2019-2021 forecasts – data not adjusted for seasonality



a Central forecast from the projection survey of the Czech Republic's Ministry of Finance – May 2019, data without decomposition

Source: Proprietary material based on data from the Czech Statistical Office and the Czech Republic's Ministry of Finance

According to the results of the projection survey carried out by the Czech Republic's Ministry of Finance in May 2019, analysts predict a gradual weakening of economic growth in the Czech Republic in 2019-2021. They expect the average annual rate of growth in GDP to reach 2.5% in 2019, 2.4% in 2020 and 2.1% in 2021, which remains roughly consistent with the Ministry's long-term projections for 2019-2020 published in April 2019<sup>20</sup>. According to the surveyed analysts, household consumption will remain the primary driver of economic growth within the forecast horizon, supported by, among other factors, continuing strong wage increases and robust demand for labor. In their opinion, public consumption and capital expenditures will also contribute to growth in GDP, although the rate of growth in these components of GDP will reach levels much lower than those recorded in 2018<sup>21</sup>. In 2019, net exports will drive down the GDP growth rate (due to the economic slowdown in the euro area and the associated strong decline in the rate of growth in exports).

The surveyed analysts also expect to see an increase in the average annual rate of consumer price inflation from 2.1% in 2018 to 2.4% in 2019<sup>22</sup>. The higher inflation path for 2019 results from both base factors (strong pressure on wage increases) and increases in regulated prices coupled by greater prices of food. In the subsequent quarters, however, the CPI rate should decline towards the inflation target set by the Czech Central Bank (2.0%), reaching an average of 2.0% in 2020 and 1.9% in 2021. Among the factors that will reduce the inflation rate will be the weakening of demand and wage pressures in the economy, the strengthening of the Czech koruna and a lower rate of increase in regulated prices (electricity, heating)<sup>23</sup>.

<sup>20</sup> Czech Republic's Ministry of Finance

<sup>21</sup> Czech Republic's Ministry of Finance

<sup>22</sup> Czech Republic's Ministry of Finance

<sup>23</sup> Czech Central Bank

## Industry in Poland

In H1 2019, the rate of growth in total industrial output sold<sup>24</sup> was +5.1% yoy (compared to +6.2% yoy in the corresponding period of 2018).<sup>25</sup> However, the rate of growth in industrial output in Q2 2019 was weaker than in Q1 (+4.1% yoy compared to +6.1% yoy), in line with the decline in the business tendency indicators for the sector in the same period published by the Central Statistical Office. In H1 2019, the sector's growth rate was driven by the industrial processing segment, which accounts for nearly 90% of total output sold (+5.3% yoy). An increase in yoy output was also recorded in the mining and quarrying segment (+5.7% yoy), generation and supply of electricity (+1.9% yoy) and water supply with sewage and waste management (+9.6% yoy)<sup>26</sup>.

In H1 2019, the increase in output sold in annual terms was recorded in 27 (out of 34) industry sectors.<sup>27</sup> Among the most significant branches of industry (from the perspective of the PKP CARGO Group's potential business), the highest growth in industrial output sold was recorded in: production of rubber and plastic products (+7.2%, of which plastic products +8.2%), production of chemicals and chemical products (+6.8% yoy), metal products (+6.4% yoy), products from other non-metallic commodities (+6.1% yoy, of which concrete, cement and plaster products +7.3% yoy) and wood and wood products (+2.9% yoy). In the same period, a decline in sold industrial output was recorded in sectors related to the extraction of hard coal and lignite (-5.9% yoy) and production of metals (-0.4% yoy)<sup>28</sup>.

The current value of the Purchasing Managers' Index (PMI) indicates the possibility of a further deterioration in the standing of the domestic industrial sector in the coming months. Since November 2018, this index has been below the 50.0 mark, which is equivalent to a technical recession in the industrial processing sector. In H1 2019, Poland's PMI diminished to 48.5 from 50.4 in H2 2018 and from 53.9 in H1 2018<sup>29</sup>. In Q2 2019, the country's PMI stood at 48.7 compared to 48.2 in Q1, although it should be noted that June 2019 brought the index down to 48.4 points. i.e. the lowest level since February 2019. In June, projections regarding future output volumes among surveyed companies deteriorated once again. They are currently at their lowest level since December 2012<sup>30</sup>.

In H1 2019, a decrease in the business tendency indicator published by the Central Statistical Office for the industrial processing sector was also observed (down to 6.7 from 7.8 in H2 2018 and from 16.2 in H1 2018)<sup>31</sup>.

- Other factors significantly affecting the condition of the industries of key importance from the PKP CARGO Group's point of view in H1 2019 included:

### Mining industry



- Decrease in hard coal output in the first 6 months of 2019 by 1.0 million tons yoy, i.e. down 3.2% yoy (output at 30.8 million tons compared to 31.8 million tons in January-June 2018). In 6M 2019, the best month in terms of mining output volume was March with a result of 5.4 million tons, following which monthly production gradually decreased to 4.7 million tons in June (which was also the lowest level of mining output recorded in the history of data published by the Industrial Development

Agency)<sup>32</sup>.

- Since July 2017, a downward yoy trend in hard coal sales has been observed (except for the summer months of 2018: July and August). In May and June 2019, the volume of sales was the lowest in the history of data published by the Industrial Development Agency and stood at 4.3 million tons (-14.7% yoy) and 4.4 million tons (-12.3% yoy), respectively.<sup>33</sup> Since March 2019, sales volumes of coal by mines have been lower than output volumes (in total, between March and June 2019, the difference between output and sales reached 2.0 million tons). In 6M 2019, sales of hard coal stood at 29.0 million tons, down 2.2 million tons yoy (-7.2% yoy)<sup>34</sup>.
- Hard coal inventories as at the end of June 2019 stood at 4.0 million tons or 1.7 million tons more (+77.5% yoy) than in the corresponding period of 2018. After a series of declines at the turn of 2018 and 2019, since March 2019 inventories have been increasing significantly from month to month: they reached 2.4 million tons in March, 2.8 million tons in

<sup>24</sup> Enterprises employing more than 9 persons

<sup>25</sup> Central Statistical Office of Poland

<sup>26</sup> Central Statistical Office of Poland

<sup>27</sup> Central Statistical Office of Poland

<sup>28</sup> Central Statistical Office of Poland

<sup>29</sup> Markit IHS

<sup>30</sup> Markit IHS

<sup>31</sup> Central Statistical Office of Poland

<sup>32</sup> Industrial Development Agency (ARP)

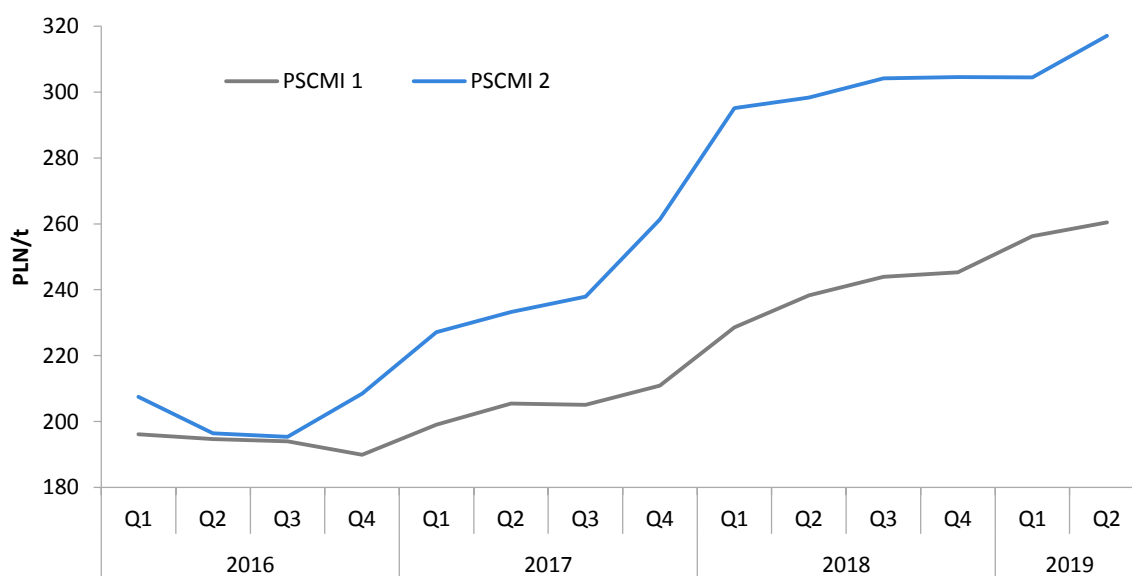
<sup>33</sup> Data have been published since January 2007.

<sup>34</sup> Industrial Development Agency (ARP)

April, 3.8 million tons in May and 4.0 million tons in June.<sup>35</sup> This was the highest level of inventories stockpiled in storage yards since August 2016. The volume of inventories was largely affected by lower volumes of hard coal sales. The increase in inventories in recent months was also the result of delays in the collection of coal ordered by power plants (of the commodity already paid for by utility companies but not collected).

- Decrease in hard coal imports in the first 5 months of 2019 by 5.2% yoy to 7.1 million tons. The commodity was imported predominantly from Russia (-5.7% yoy to 4.8 million tons, accounting for 66.9% of total imports), Australia (+66.2% yoy to 0.7 million tons) and the United States (-41.6% yoy to 0.4 million tons).<sup>36</sup> In 2018, a record volume of 19.7 million tons of coal was imported to Poland (including 13.5 million tons from Russia).
- Decline in the average quarterly price of coal in the ARA ports to USD 73.2 per ton in H1 2019 from USD 88.6 per ton in H1 2018 (-17.3% yoy). In Q2 2019, the average price was USD 66.0 per ton, which indicates a decrease both in relation to Q1 2019 (-18.1% qoq) and Q2 2018 (-26.3% yoy), chiefly due to the continuing historically high levels of inventories stockpiled in ports<sup>37</sup>. The gradual decline in ARA coal prices was also affected by reduced demand for this commodity, which in turn was the result of increased levels of energy generated from renewable sources and natural gas (continuation of low gas prices in Europe)<sup>38</sup>.
- In contrast to global trends, the price of Polish coal keeps increasing, and domestic coal indices for commercial and industrial power plants are at their highest levels since 2013. In 6M 2019, hard coal for the power industry was on average more expensive by 10.7% than the year before (PSCMI 1 was PLN 258.3 per ton on average). Hard coal for the heating industry was more expensive in January-June 2019 by 4.7% yoy (the average value of PSCMI 2 was PLN 310.8 per ton in this period)<sup>39</sup>.
- Slight decrease in domestic electricity consumption in H1 2019 by -0.1% yoy<sup>40</sup>.
- Decrease in total electricity output in H1 2019 by 1.0% yoy, including by hard coal-fired commercial power plants by -2.1% yoy and lignite-fired by 11.4% yoy, with a concurrent significant increase in the significance of electricity generated from other sources, including wind farms by 26.0% yoy and gas-fired power plants by 18.5% yoy<sup>41</sup>.
- Decline in the share of hard coal in the national energy mix to 48.6% in H1 2019 from 49.2% in Q1 2018 (-0.5 p.p. yoy)<sup>42</sup>.

Figure 6 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

<sup>35</sup> Industrial Development Agency (ARP)

<sup>36</sup> Eurostat

<sup>37</sup> Wirtualny Nowy Przemysł [Virtual New Industry]

<sup>38</sup> Industrial Development Agency (ARP)

<sup>39</sup> Industrial Development Agency (ARP)

<sup>40</sup> Polskie Sieci Elektroenergetyczne

<sup>41</sup> Polskie Sieci Elektroenergetyczne

<sup>42</sup> Polskie Sieci Elektroenergetyczne



### Construction industry

- Increase in construction and assembly output<sup>43</sup> by 6.6% yoy in H1 2019, compared to an increase by 23.7% in H1 2018. The rate of growth in capital expenditure works (6.7% yoy) was slightly higher than that of renovation works (6.3% yoy)<sup>44</sup>.
- Increase in construction and assembly output in H1 2019 recorded in all branches of the construction sector, the strongest contributor being enterprises specializing in specialized construction projects (by 8.5% yoy). Increase in output by entities involved in civil engineering projects by 7.5% yoy, while the branch of the sector related to the construction of buildings recorded the lowest growth in output by 4.2% yoy<sup>45</sup>.
- Significant drivers of growth in sold output of the construction sector in H1 2019 were, among others, housing projects (increase in output volume for newly built houses by 8.3% yoy)<sup>46</sup> and infrastructural investments executed under the National Railway Program (sales of construction and assembly output for rail infrastructure projects increased by 28.8% yoy)<sup>47</sup>.
- In the same period, however, the rate of growth in road construction projects executed under the National Road and Motorway Construction Program dwindled as a result of the termination of certain contracts by the General Directorate for National Roads and Motorways (GDDKiA) and attempts by some contractors to renegotiate contracts signed in earlier years (due to significant increases in the costs of materials and wages, eating away the margins generated by contractors). As a consequence, in 6M 2019, construction and assembly output related to motorways, expressways and streets declined by 1.1% yoy<sup>48</sup>.



### Steel industry

- Increase in global steel production in H1 2019 to 925.1 million tons (+4.9% yoy)<sup>49</sup>.
- In H1 2019, the Chinese metallurgical industry produced 492.2 million tons of steel (+9.9% yoy).<sup>50</sup>
- Decline in steel production in the European Union in H1 2019 to 84.7 million tons (-2.5% yoy).<sup>51</sup>
- According to the World Steel Association, global demand for steel in 2019 will be 1,735 million tons (up by approx. +1.3% yoy) and in 2020 will increase to 1,752 million tons (or +1.0 % yoy).<sup>52</sup> Demand for steel in the European Union is expected to reach 170.2 million tons in 2019 and 172.2 million tons in 2020, a rate of grow of +0.3% yoy and +1.2% yoy, respectively. This means that despite the poorer economic performance overall, demand for steel continue to increase, albeit at a slower rate than in 2017 and 2018.
- Decline in crude steel output in Poland by an average of -8.4% yoy to 4.9 million tons and in the volume of manufactured hot-rolled products by an average -6.5% yoy to 4.9 million tons, with a concurrent increase in the production of steel pipes by +8.4% yoy to 0.4 million tons.<sup>53</sup>
- Slight decline in real revenue from sales of metals H1 2019 to PLN 30.5 billion (-0.4% yoy) and increase in total revenue from sales of metal products, which reached PLN 54.9 billion (+6.4% yoy).<sup>54</sup>
- Drop in coke output in Poland in H1 2019 by -4.5% yoy to 4.5 million tons.<sup>55</sup>
- Postponement of the temporary suspension of operation of the blast furnace and steel plant in Kraków (originally scheduled for September 2019 by ArcelorMittal Poland).
- high commodity prices, the currently prevailing climate policy – increasing costs of CO<sub>2</sub> emission allowances and insufficient measures taken to protect the European market against the inflow of steel from non-EU countries (which directly translates into a major increase in imports from third countries). Demand for steel has declined noticeably as

<sup>43</sup> Enterprises employing more than 9 people, Central Statistical Office of Poland

<sup>44</sup> Central Statistical Office of Poland

<sup>45</sup> Central Statistical Office of Poland

<sup>46</sup> Central Statistical Office of Poland

<sup>47</sup> Central Statistical Office of Poland

<sup>48</sup> Central Statistical Office of Poland

<sup>49</sup> World Steel Association

<sup>50</sup> Puls Biznesu

<sup>51</sup> World Steel Association

<sup>52</sup> World Steel Association

<sup>53</sup> Central Statistical Office of Poland

<sup>54</sup> Central Statistical Office of Poland

<sup>55</sup> Central Statistical Office of Poland

a result of deteriorating market conditions and high production costs caused mainly by elevated energy prices (in Poland, they are among the highest in Europe, e.g. 50% higher than in Germany). The excess production capacity in the steel sector currently stands at over 400 million tons<sup>56</sup>.

## Industry in the Czech Republic

During the first 5 months of 2019, industrial output in the Czech Republic increased by an average of 1.4% yoy compared to 2.6% yoy in the same period of 2018<sup>57</sup>. Following a brief period when the Czech industrial sector declined to a condition close to stagnation in Q1 2019, in April and May 2019 the rate of growth in output increased beyond 3.0% yoy. The improvement in the condition of the industrial sector reflected a greater volume of new orders, in particular placed by foreign customers (after their sharp decrease in Q1 2019 caused by the economic slowdown in the euro area). On average, in 5M 2019, new orders increased by 4.6% yoy compared to 2.6% yoy in the corresponding period of 2018, of which domestic orders increased by 6.4% yoy and export orders by 3.8% yoy<sup>58</sup>.

In 5M 2019, the segments that contributed to the increase in output were the industrial processing segment (+1.3% yoy) and the electricity production and water and gas supply segment (+3.7% yoy)<sup>59</sup>. In turn, mining output and extraction of raw materials declined (-3.1% yoy). At the same time, a decrease in output was recorded in the majority of key industrial sectors (from the perspective of transportation services provided by members the PKP CARGO Group), including in wood and wood products (-9.1% yoy), hard coal and lignite mining (-4.3% yoy), products from other non-metallic commodities (-2.9% yoy), metals (-2.1% yoy) and chemicals and chemical products (-1.4% yoy). In 5M 2019, the production of cars (+1.9% yoy) and metal products (+1.8% yoy) increased<sup>60</sup>.

However, the latest data on business sentiments reflected by the PMI suggest a possible deterioration in the situation of the Czech industrial sector in the coming months. The PMI for the Czech Republic has been steadily decreasing since July 2018. In Q2 2019, it was 46.4 on average, compared to 48.3 in Q1 2019 and 56.8 points in Q2 2018<sup>61</sup>. At the same time, since December 2018, the PMI has been below the 50.0 threshold delineating the conventionally accepted boundary between recovery and recession in the industrial sector. In June 2019, the PMI decreased to 45.9, its lowest level since July 2009. The decline in the index was driven by all its key components, including the current output subindex (at its lowest since December 2012) and the subindex of new orders, both domestic and foreign (having recorded its largest decline since 2009)<sup>62</sup>.

The activities of the PKP CARGO Group companies on the Czech freight transport market are focused on the transport of hard coal, coke, aggregates and other construction materials as well as intermodal transport (in particular, of automotive products). As a result, the situation in related sectors of the industry (mining, construction, steel mills and the production of motor vehicles) translated strongly into the operating performance of the PKP CARGO Group companies on the Czech market. In H1 2019 (and, in particular, in Q2 2019), the most important drivers shaping the condition of the industries mentioned above included:

- continuation of the downward trend in hard coal mining (in H1 2019, a drop in output to 1.5 million tons (-27.7% yoy), consisting of a fall in mining output in Q1 2019 by 31.6 % yoy to 0.8 million tons and in Q2 2019 by 23.2% yoy to 0.8 million tons)<sup>63</sup>;
- in January-May 2019, increased hard coal imports by 11.0% yoy to 1.6 million tons (in the corresponding period of 2018, imports reached 1.4 million tons) and lower exports of this commodity by 22.8% yoy to 0.6 million tons (in the corresponding period of 2018, exports stood at 0.8 million tons)<sup>64</sup>;
- decrease in lignite extraction by 1.6% yoy to 19.1 million tons (down by 0.3 thousand tons yoy)<sup>65</sup>;
- in January-May 2019, decreased lignite imports by 24.4% yoy to 0.1 million tons (in the corresponding period of 2018, imports reached 0.2 million tons) and lower exports of this commodity by -24.8% yoy to 0.3 million tons (in the corresponding period of 2018, exports stood at 0.4 million tons)<sup>66</sup>;

<sup>56</sup> Wirtualny Nowy Przemysł [Virtual New Industry]

<sup>57</sup> Czech Statistical Office

<sup>58</sup> Czech Statistical Office

<sup>59</sup> Czech Statistical Office

<sup>60</sup> Czech Statistical Office

<sup>61</sup> Markit IHS

<sup>62</sup> Markit IHS

<sup>63</sup> Ministry of Industry and Trade of the Czech Republic

<sup>64</sup> Ministry of Industry and Trade of the Czech Republic

<sup>65</sup> Ministry of Industry and Trade of the Czech Republic

<sup>66</sup> Ministry of Industry and Trade of the Czech Republic

- drop in coke output in H1 2019 by 3.0% yoy to 1.2 million tons (in H1 2018, coke output was 1.2 million tons)<sup>67</sup>;
- decrease in steel output (in 6M 2019, the volume of crude steel output fell by -1.3% yoy to 2.4 million tons from 2.5 million tons in the corresponding period of 2018)<sup>68</sup>;
- construction and assembly output in January-May 2019 increased by 6.7% yoy on average, of which civil engineering output improved by 12.2% yoy and construction of buildings progressed by 4.8% yoy<sup>69</sup>;
- slight yoy decline in the automotive sector's output: in January-May 2019, Czech manufacturers produced 622.1 thousand vehicles of all kinds (cars, trucks, buses and motorcycles), or -0.4% less than in the corresponding period of 2018<sup>70</sup> (2018 was a record-breaking year in terms of the number of machines produced, thus the relative decline in yoy output in the period under analysis in 2019 was caused by the 'high base' effect).

## 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, especially for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and AWT a.s.

### 4.2.1 Rail transport market in Poland

In H1 2019, there were 71 active rail operators on the rail transport market in Poland (including PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o.)<sup>71</sup>. They transported a total of 118.9 million tons of cargo (-4.0% yoy) and achieved a freight turnover of 28.2 billion tkm (-3.1% yoy). The H1 2019 performance was not as good as that generated in January-June 2018, but it should be noted that in terms of both freight volume and freight turnover it was still significantly better than H1 in 2015-2017. The deterioration in yoy performance resulted largely from the high statistical base effect (in 2018, the highest volume of transport was recorded since the outbreak of the economic crisis in 2008). At the same time, in H1 2019, the average haul of cargo increased by 2 km to 238 km (+0.9% yoy)<sup>72</sup>.

In the period January-May 2019, a yoy decrease in freight volume of cargo transported by rail was recorded for most cargo categories<sup>73</sup>. The main factors that adversely affected the transport of freight by rail during this period included:

- Decrease in freight volume of hard coal by 5.1% yoy to 37.9 million tons, which was caused, among other factors, by a weaker overall demand for this commodity, continuation of high inventory levels stockpiled in storage yards and by power plants and cogeneration plants, and a sharp decline in imports. Other reasons included repairs of CHP power units and modernization projects executed on PKP PLK's network (including repairs of rail lines connecting the network with power plants).
- Decrease in freight volume of aggregates, sand and gravel by 6.7% yoy to 20.2 million tons, chiefly as a result of a significantly weaker demand generated by key customers: contractors working on large infrastructure projects executed under the National Road and Motorway Construction Program 2023 and the National Railway Program. The decline in demand for aggregates and construction materials was a direct result of the termination of certain contracts by the General Directorate for National Roads and Motorways (GDDKiA) and attempts by some companies to renegotiate contracts signed in earlier years, which resulted in a temporary suspension of or delays in the execution of certain large infrastructural investments.
- Decrease in freight volume of iron ore by 9.8% yoy to 4.7 million tons, partly due to the overall decrease in demand for steel and steel products and temporary problems of a legal nature between PKP and the Ukrainian Railways in Q1 2019, which culminated in a temporary suspension of iron ore transport services from Ukraine.

However, the following volumes increased yoy in 5M 2019:

<sup>67</sup> Ministry of Industry and Trade of the Czech Republic

<sup>68</sup> Worldsteel.org

<sup>69</sup> Czech Statistical Office, seasonally adjusted data

<sup>70</sup> AutoSAP

<sup>71</sup> 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. Moreover, there are companies operating on the market under an international license.

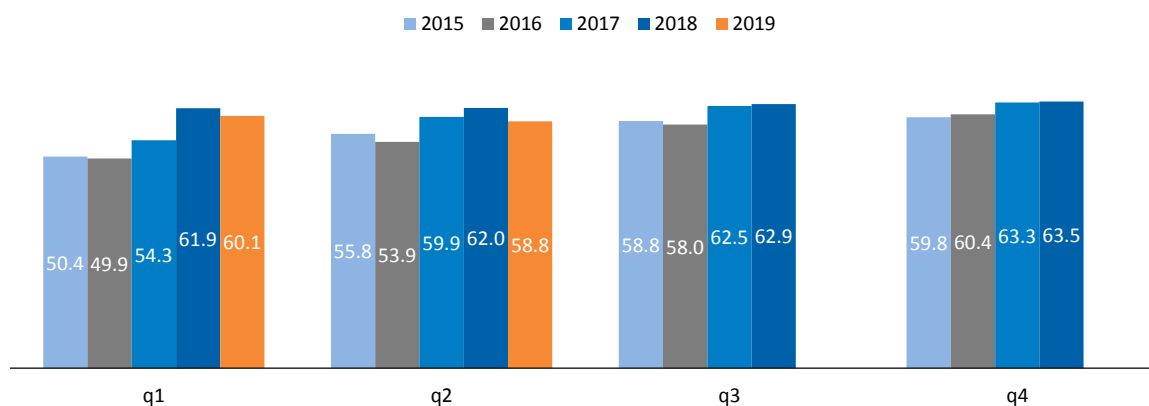
<sup>72</sup> Office of Rail Transport

<sup>73</sup> Central Statistical Office of Poland – data for the first 5 months of 2019



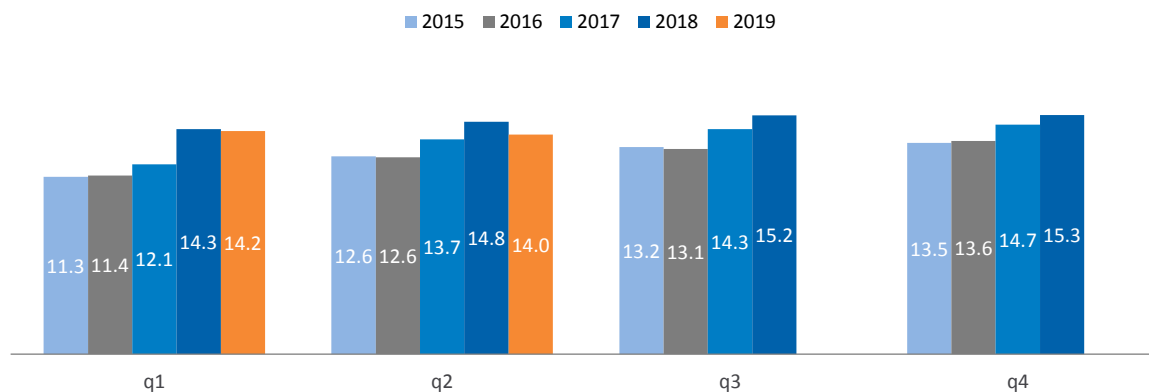
- transport of chemicals and chemical products, by 5.0% yoy to 4.3 million tons, caused by, among other factors, the increase in the sector's sold production, primarily fertilizers, in Poland;
- transport of coke, briquettes and refined petroleum products, by 0.8% yoy to 11.3 million tons, partly due to the persistently high demand for liquid fuels in the domestic economy and the resulting increase in sales volumes of these products;
- transport of wood and wood products, by 1.2% yoy to 0.9 million tons, partly due to the high production volumes in segments of the economy related to the wood and paper industry.

Figure 7 Rail freight volumes in Poland (in million tons) in individual quarters of 2015-2019



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

Figure 8 Rail freight turnover in Poland (billion tkm) broken down by quarter in 2015-2019

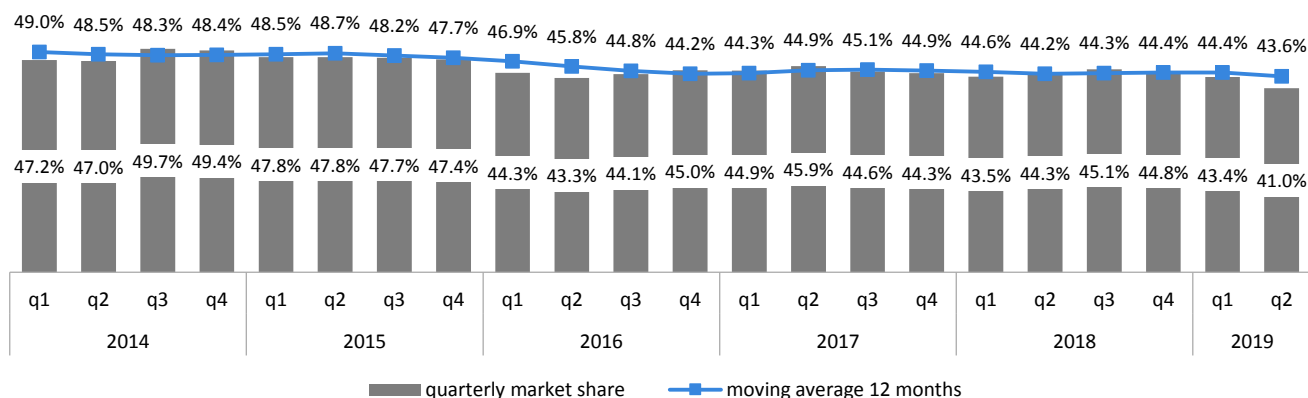


Source: Proprietary material based on the Office of Rail Transport's data

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

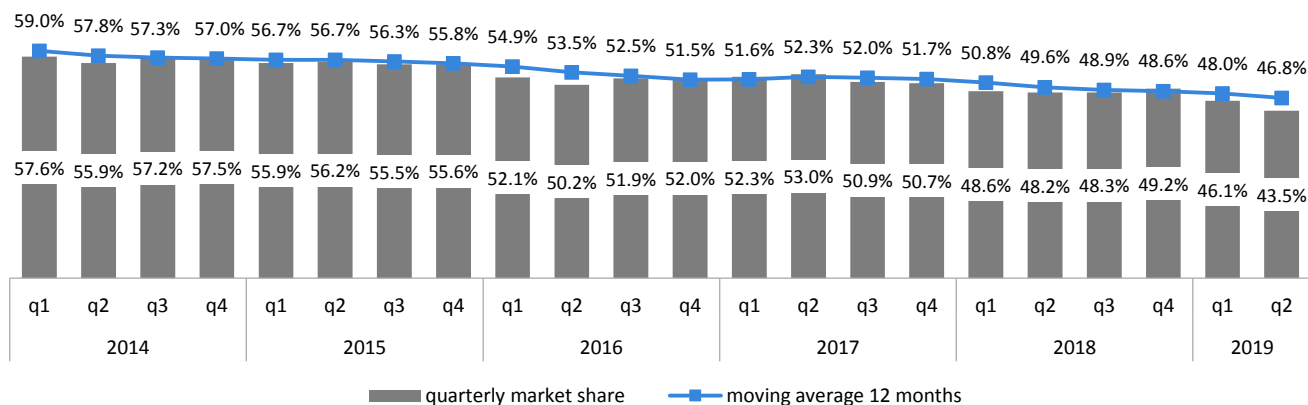
In H1 2019, the PKP CARGO Group<sup>74</sup> retained its strong leading position on the rail freight transport market in Poland with a 42.2% market share (-1.7 p.p. yoy) in terms of freight volume and a 44.8% market share in terms of freight turnover (-3.6 p.p. yoy). The respective market shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 40.8% (-2.2 p.p. yoy) and 44.5% (-3.6 p.p. yoy)<sup>75</sup>.

Figure 9 Share of the PKP CARGO Group in freight volume in 2014-2019 in Poland



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

Figure 10 Share of the PKP CARGO Group in total freight turnover in Poland in 2014-2019

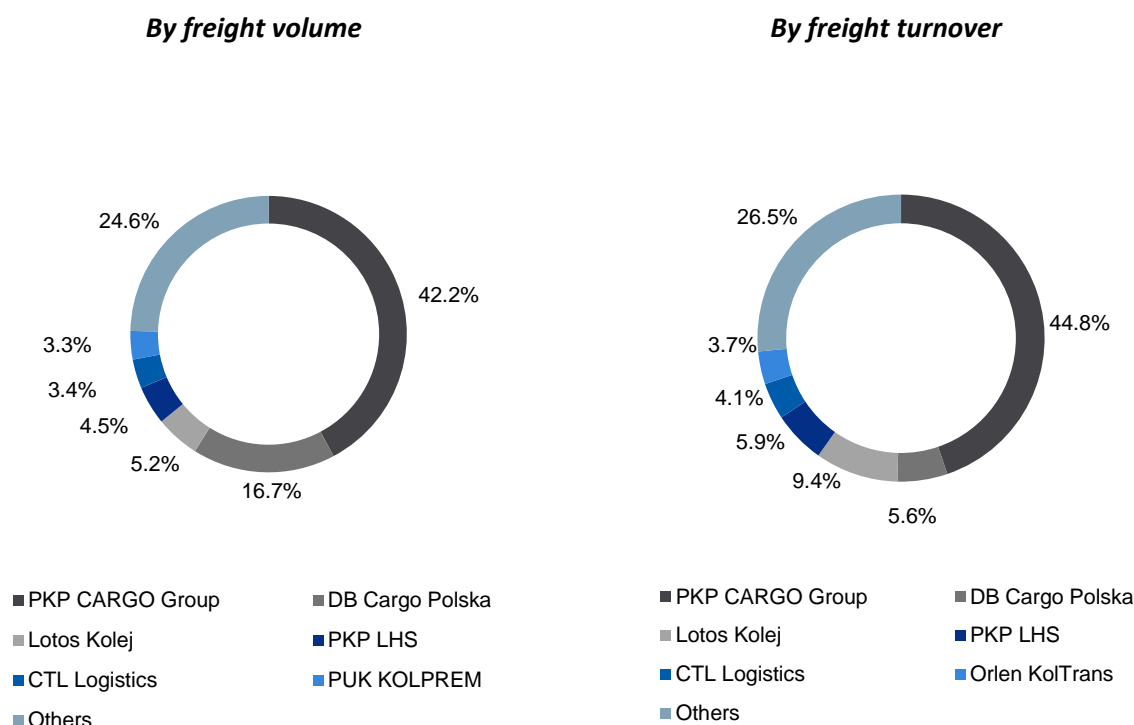


Source: Proprietary material based on the Office of Rail Transport's data

<sup>74</sup> The freight volume of the PKP CARGO Group also takes into account the volumes transported by AWT a.s. in Poland.

<sup>75</sup> Office of Rail Transport

Figure 11 Market shares of the largest rail operators in Poland in H1 2019



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 transport market: DB Cargo Polska, Lotos Kolej, PKP LHS, CTL Logistics, PUK Kolprem, Orlen KolTrans and Freightliner PL<sup>76</sup>.

In H1 2019, the PKP CARGO Group's competitors transported a total of 68.7 million tons of freight (-1.2% yoy). In the same period, the largest volumes were transported by: DB Cargo Polska (19.9 million tons, down 6.4% yoy), Lotos Kolej (6.1 million tons, +0.3% yoy) and PKP LHS (5.4 million tons, -3.7% yoy)<sup>77</sup>.

In H1 2019, freight turnover of the PKP CARGO Group's competitors stood at 15.6 billion tkm (+3.6% yoy), most of which was generated by Lotos Kolej (2.6 billion tkm or +1.6% yoy), PKP LHS (1.7 billion tkm or -7.5% yoy) and DB Cargo Polska (+1.6 billion tkm or -0.8% yoy)<sup>78</sup>. In the situation of the observed decrease in freight volume, the increase in freight turnover recorded by competing carriers resulted predominantly from the sizeable extension of their average haul. The average haul recorded by the PKP CARGO Group's competitors in H1 2019 increased by 10.6 km yoy to 227.1 km (+4.9% yoy)<sup>79</sup>.

The PKP CARGO Group's competitors on the rail transport market which in H1 2019 suffered the largest decreases in market share in terms of freight volume were CTL Logistics (-0.9 p.p. yoy, freight volume down by ¼ yoy), DB Cargo Polska (-0.4 p.p. yoy) and CD Cargo Poland (-0.2 p.p. yoy). In terms of freight turnover, the largest decreases in market share were suffered by the following operators: CTL Logistics (-0.9 p.p. yoy, freight turnover down by over 20% yoy), CD Cargo Poland (-0.4 p.p. yoy, freight turnover down by nearly 20% yoy) and PKP LHS (-0.3 p.p. yoy)<sup>80</sup>.

At the same time, in H1 2019, a continuing upward trend in the market share of small rail operators (each with a market share below 2%) was recorded. In 6M 2019, their combined share in the rail freight transport market was 22.2% (+2.2 p.p. yoy) in terms of freight volume and 19.3% (+4.0 p.p. yoy) in terms of freight turnover<sup>81</sup>.

<sup>76</sup> Office of Rail Transport

<sup>77</sup> Proprietary material based on Office of Rail Transport data

<sup>78</sup> Proprietary material based on Office of Rail Transport data

<sup>79</sup> Proprietary material based on Office of Rail Transport data

<sup>80</sup> Proprietary material based on Office of Rail Transport data

<sup>81</sup> Proprietary material based on Office of Rail Transport data, January 2019.

### 4.2.3 Rail freight transport market in the Czech Republic

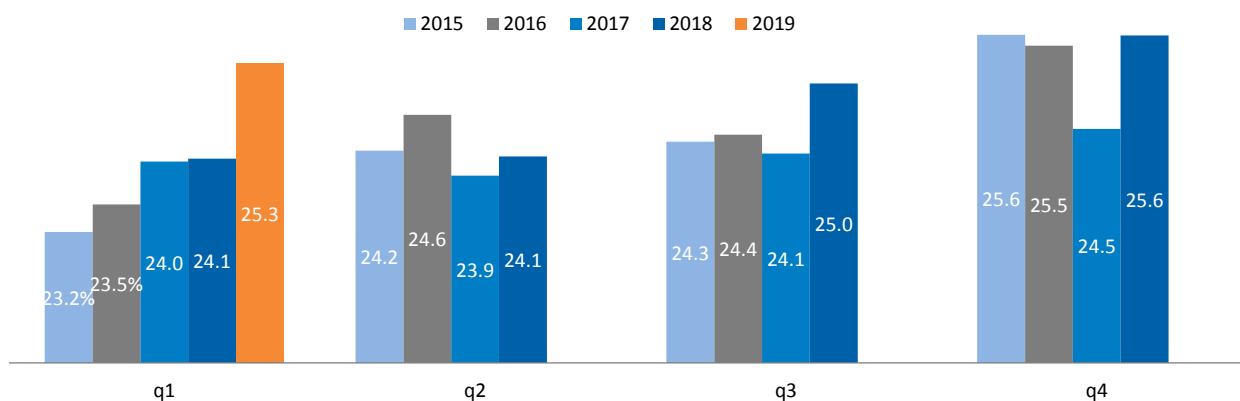
In Q1 2019, a total of 119.5 million tons of cargo (+3.6% yoy) and 12.8 billion tkm of freight turnover (-11.2% yoy) were transported in the Czech Republic<sup>82</sup>. In this period, a yoy increase in freight volume was recorded in all transport segments except for aviation, whereas freight turnover increased on a yoy basis only for rail transport and inland waterway transport. The decline in freight turnover of the whole market coupled with a simultaneous increase in freight volume resulted from a sharp decrease in the average haul to 106.9 km (-14.3% yoy)<sup>83</sup>. This was caused predominantly by road transport, for which the average haul shrunk in Q1 2019 by as much as 21.5% yoy down to 87.1 km<sup>84</sup>.

In Q1 2019, road transport retained its position as the undisputed leader in the freight transport market in the Czech Republic, but its market share in terms of freight volume declined to 75.5% (-0.3 p.p. yoy), was the lowest since Q1 2017<sup>85</sup>. At the same time, due to the very sharp plunge in the average haul mentioned above, the share of road transport as measured by freight turnover shrank to a much larger extent, namely to 61.6% (-5.9 p.p. yoy), having reached its lowest level ever. Also worth noting is the fact that in Q1 2019 the commercial road transport segment recorded a yoy decrease in both freight turnover (sharper than in the case of overall road transport) and freight volume<sup>86</sup>.

In Q1 2019, freight turnover in the Czech Republic reached 4.3 billion tkm (+5.8% yoy)<sup>87</sup>. This means that rail was the only segment of the freight land transport market that recorded an increase in freight turnover on a yoy basis. The increase in the yoy rate of growth in freight turnover was driven by an increase in freight volume transported by rail to 25.3 million tons (+5.0% yoy) with a concurrent rise in the average haul to 168.4 km (+0.7% yoy). As a result, the share of rail transport in the Czech transport market increased in Q1 2019 to 21.2% (+0.3 p.p. yoy) in terms of freight volume and 33.4% (+5.4 p.p. yoy) in terms of freight turnover, predominantly at the expense of road transport. Accordingly, the share of the rail segment measured by freight turnover reached the highest level ever.

Among all land transport segments of the Czech market, rail transport has by far the longest average haul. In Q1 2019, the average haul of the rail transport segment was twice that of the road transport segment<sup>88</sup>.

Figure 12 Quarterly rail freight transport in the Czech Republic by freight volume in 2015-2019 (million tons)



\* Data for Q2 2019 will be available at the turn of Q3 and Q4 2019.

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

<sup>82</sup> Ministry of Transport of the Czech Republic

<sup>83</sup> Ministry of Transport of the Czech Republic

<sup>84</sup> Ministry of Transport of the Czech Republic

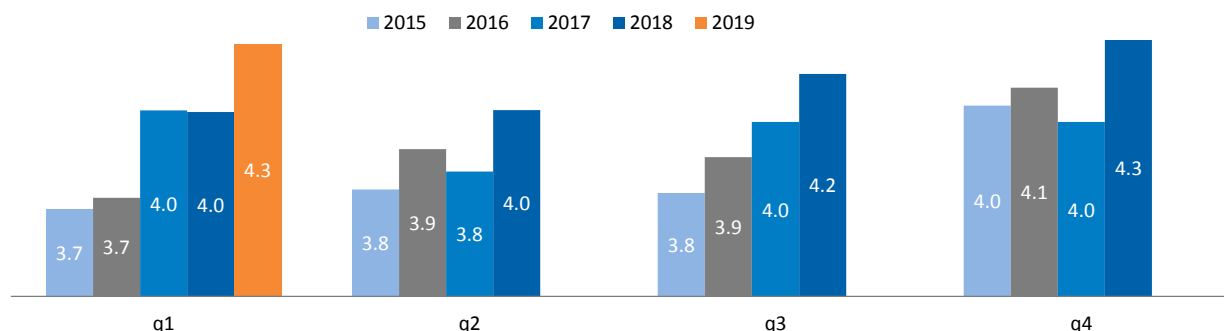
<sup>85</sup> Ministry of Transport of the Czech Republic

<sup>86</sup> Ministry of Transport of the Czech Republic

<sup>87</sup> Ministry of Transport of the Czech Republic

<sup>88</sup> Ministry of Transport of the Czech Republic

Figure 13 Quarterly rail freight transport in the Czech Republic by freight turnover in 2015-2019 (billion tkm)



\* Data for Q2 2019 will be available at the turn of Q3 and Q4 2019.

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

#### 4.2.4 Position of the AWT Group in the rail transport market in the Czech Republic

According to information published by SŽDC (Czech rail infrastructure manager), there are currently 105 rail operators on the Czech freight rail transport market with a license for the carriage of cargo, including the following PKP CARGO Group companies: PKP CARGO S.A. and Advanced World Transport a.s. (AWT)<sup>89</sup>.

In H1 2019, AWT a.s. transported a total of 4.9 million tons of cargo (-5.8% yoy) and achieved freight turnover of 0.6 billion tkm (-5.7% yoy)<sup>90</sup>. AWT's average haul in this period was 118.1 km and stood at the same level as in H1 2018. In 6M 2019, AWT's share in the Czech rail freight market decreased to 7.2% (-0.6 p.p. yoy) in terms of freight turnover, although at the same time the company maintained its position of the third largest operator on the market despite the decline in market share<sup>91</sup>.

The factors suppressing the yoy growth in AWT's transport performance in H1 2019 included smaller volumes of transported aggregates than in the corresponding period of 2018 (-69.6% yoy to 0.2 million tons), coke and lignite (-14.2% yoy to 0.9 million tons) and crude oil and petrochemical products (-13.4% yoy to 0.3 million tons) compared to the corresponding period of 2018<sup>92</sup>. In turn, in 6M 2019, the volume of transported hard coal increased significantly on a yoy basis (+13.2% to 2.1 million tons), which resulted predominantly from a higher turnover of this commodity in international traffic (import, export and transit) with a simultaneous decreasing domestic output related to the ongoing restructuring processes in the Czech mining sector.<sup>93</sup> An increase in yoy freight volumes in H1 2019 was also recorded, among others, in metals and metal products (+108.7% to 0.1 million tons), chemicals and chemical products (+14.5% to 0.3 million tons) and the intermodal freight segment (+3.2% to 0.7 million tons)<sup>94</sup>.

<sup>89</sup> SŽDC

<sup>90</sup> own statistics prepared by AWT a.s.

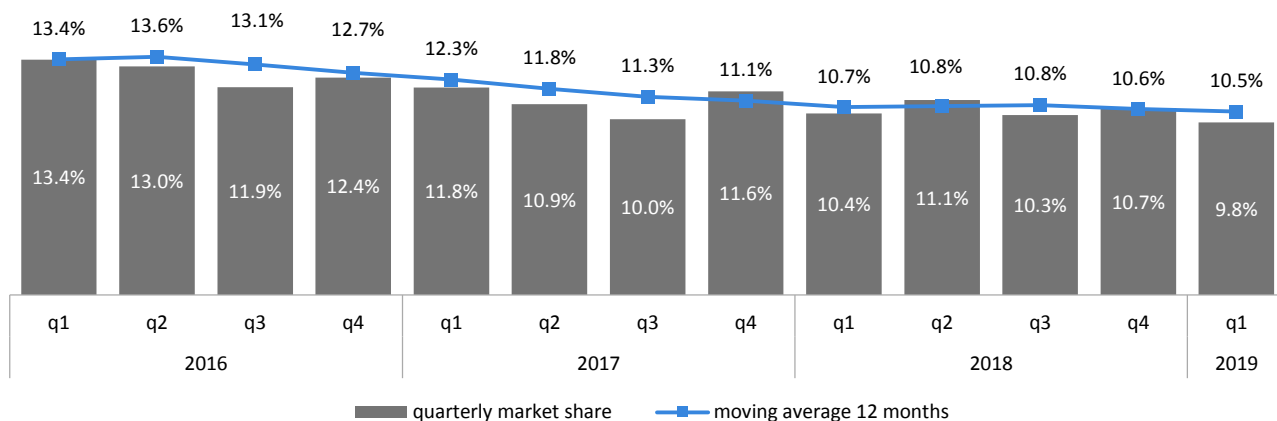
<sup>91</sup> SŽDC

<sup>92</sup> own statistics prepared by AWT a.s.

<sup>93</sup> own statistics prepared by AWT a.s.

<sup>94</sup> own statistics prepared by AWT a.s.

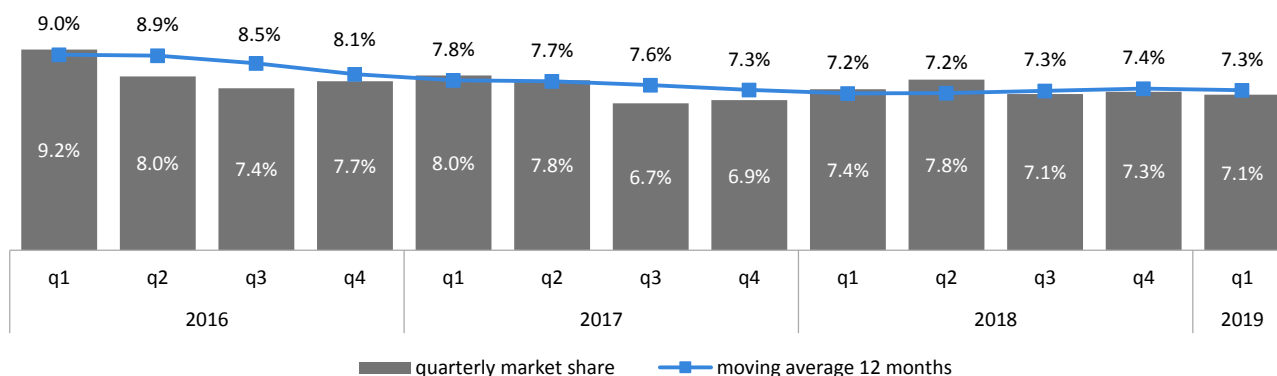
Figure 14 AWT a.s.'s quarterly market shares in total freight volume in the Czech Republic in 2016-2019



\* Data for Q2 2019 will be available at the turn of Q3 and Q4 2019.

Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

Figure 15 AWT a.s.'s quarterly market shares in terms of freight turnover in the Czech Republic in 2016-2019

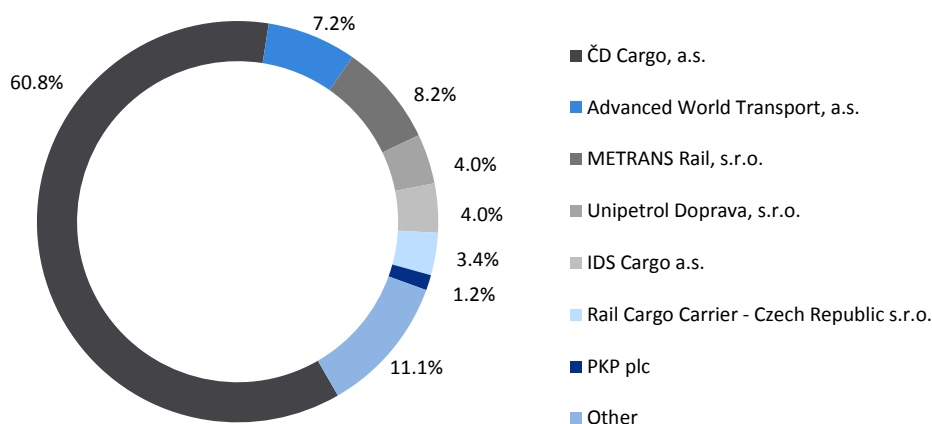


\* Data for Q2 2019 will be available at the turn of Q3 and Q4 2019.

Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.



Figure 16 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in H1 2019 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

In H1 2019, ČD Cargo a.s. remained the undisputed leader in the Czech rail freight market, although at the same time its market share dropped 4.6 p.p. yoy to 60.8%.<sup>95</sup> On a yoy basis, the market shares of the following members of the PKP CARGO Group declined as well: AWT a.s. (-0.6 p.p. to 7.2%) and PKP CARGO S.A. (-0.2 p.p. to 1.2%). Other operators identified by SŽDC recorded a yoy increase in the market share in H1 2019. The most successful of them were: IDS Cargo (+1.3 p.p. to 4.0%) and Metrans Rail (+0.7 p.p. to 8.2%), with the latter company strengthening its runner-up position on the whole rail freight market in the Czech Republic. A very large yoy increase in market share in H1 2019 was also recorded by other carriers treated by SŽDC as a single category of unspecified entities (+2.8 p.p. to 9.5%)<sup>96</sup>.

The decline in the market share of PKP CARGO S.A. in the Czech freight transport market it was a direct result of its yoy decrease in freight volume. In H1 2019, the Company recorded yoy decreases in the volumes of transported hard coal and lignite from Poland, ores in transit from Ukraine and Polish ports and intermodal transport, predominantly in transit between Slovakia and Russia. At the same time, the Company recorded yoy increases in the volumes of transported wood from ports, including in transit to Slovakia<sup>97</sup>.



<sup>95</sup> SŽDC

<sup>96</sup> SŽDC

<sup>97</sup> PKP CARGO S.A.'s own statistics

#### 4.2.5 PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group in H1 2018 and 2019 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and the AWT Group. Transport services are rendered by 5 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., AWT a.s., AWT Rail HU Zrt. and AWT Rail SK a.s.

In 2019, Primol Rail d.o.o. (an 80% stake in which is held by AWT 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 11 Freight turnover of the PKP CARGO Group in H1 2018 and Q2 2018 and 2019**

| Item   | H1 2019       | H1 2018       | Change<br>H1 2019/<br>H1 2018 |               | H1 2019                 | H1 2018     | Q2<br>2019    | Q2<br>2018   | Change<br>Q2 2019/<br>Q2 2018 |               |
|--|---------------|---------------|-------------------------------|---------------|-------------------------|-------------|---------------|--------------|-------------------------------|---------------|
|  | (million tkm) |               | %                             |               | percentage of total (%) |             | (million tkm) |              | %                             |               |
| Solid fuels <sup>1</sup>                           | 5,064         | 5,436         | -371                          | -6.8%         | 37%                     | 35%         | 2,350         | 2,641        | -291                          | -11.0%        |
| <i>of which hard coal</i>                          | 4,289         | 4,665         | -376                          | -8.1%         | 31%                     | 30%         | 1,947         | 2,260        | -312                          | -13.8%        |
| Aggregates and construction materials <sup>2</sup> | 2,710         | 3,383         | -674                          | -19.9%        | 20%                     | 22%         | 1,354         | 1,822        | -469                          | -25.7%        |
| Metals and ores <sup>3</sup>                       | 1,638         | 1,904         | -266                          | -14.0%        | 12%                     | 12%         | 762           | 952          | -190                          | -19.9%        |
| Chemicals <sup>4</sup>                             | 1,075         | 1,124         | -49                           | -4.4%         | 8%                      | 7%          | 549           | 561          | -12                           | -2.2%         |
| Liquid fuels <sup>5</sup>                          | 484           | 523           | -38                           | -7.4%         | 4%                      | 3%          | 239           | 284          | -45                           | -16.0%        |
| Timber and agricultural produce <sup>6</sup>       | 536           | 688           | -152                          | -22.1%        | 4%                      | 4%          | 254           | 317          | -63                           | -19.9%        |
| Intermodal transport                               | 1,931         | 1,916         | 14                            | 0.8%          | 14%                     | 12%         | 944           | 1,014        | -70                           | -6.9%         |
| Other <sup>7</sup>                                 | 291           | 371           | -80                           | -21.6%        | 2%                      | 2%          | 159           | 190          | -31                           | -16.6%        |
| <b>Total</b>                                       | <b>13,728</b> | <b>15,345</b> | <b>-1,617</b>                 | <b>-10.5%</b> | <b>100%</b>             | <b>100%</b> | <b>6,610</b>  | <b>7,782</b> | <b>-1,172</b>                 | <b>-15.1%</b> |

Source: Proprietary material

Freight turnover in the category 'aggregates and construction materials' for Q1 2019 was adjusted from 1,427 million tkm to 1,356 million tkm due to incorrect data provided to the Company by AWT Rail HU Zrt.

**Table 12 PKP CARGO Group's freight volume in H1 and Q2 2018 and 2019**

| Item   | H1 2019        | H1 2018     | Change<br>H1 2019/<br>H1 2018 |              | H1 2019                 | H1 2018     | Q2 2019        | Q2 2018     | Change<br>Q2 2019/<br>Q2 2018 |               |
|--|----------------|-------------|-------------------------------|--------------|-------------------------|-------------|----------------|-------------|-------------------------------|---------------|
|  | (million tons) |             | %                             |              | percentage of total (%) |             | (million tons) |             | %                             |               |
| Solid fuels <sup>1</sup>                             | 26.8           | 28.1        | -1.3                          | -4.7%        | 49%                     | 47%         | 12.6           | 13.8        | -1.2                          | -8.5%         |
| <i>of which hard coal</i>                            | 24.1           | 25.3        | -1.2                          | -4.7%        | 44%                     | 43%         | 11.3           | 12.5        | -1.2                          | -9.6%         |
| Aggregates and construction materials <sup>2 *</sup> | 10.3           | 12.1        | -1.9                          | -15.3%       | 19%                     | 20%         | 5.3            | 6.6         | -1.3                          | -19.9%        |
| Metals and ores <sup>3</sup>                         | 5.4            | 6.4         | -1.1                          | -16.8%       | 10%                     | 11%         | 2.5            | 3.2         | -0.8                          | -23.2%        |
| Chemicals <sup>4</sup>                               | 3.3            | 3.5         | -0.2                          | -5.1%        | 6%                      | 6%          | 1.6            | 1.7         | -0.1                          | -3.6%         |
| Liquid fuels <sup>5</sup>                            | 1.7            | 1.8         | -0.1                          | -3.5%        | 3%                      | 3%          | 0.8            | 1.0         | -0.1                          | -15.5%        |
| Timber and agricultural produce <sup>6</sup>         | 1.9            | 1.9         | 0.0                           | 1.8%         | 4%                      | 3%          | 0.9            | 0.9         | 0.0                           | 0.9%          |
| Intermodal transport                                 | 4.7            | 4.4         | 0.3                           | 6.5%         | 8%                      | 7%          | 2.3            | 2.3         | 0.0                           | -1.0%         |
| Other <sup>7</sup>                                   | 1.1            | 1.3         | -0.2                          | -15.6%       | 2%                      | 2%          | 0.6            | 0.7         | -0.1                          | -14.0%        |
| <b>Total</b>   | <b>55.2</b>    | <b>59.6</b> | <b>-4.4</b>                   | <b>-7.4%</b> | <b>100%</b>             | <b>100%</b> | <b>26.6</b>    | <b>30.1</b> | <b>-3.6</b>                   | <b>-11.8%</b> |

Source: Proprietary material

In H1 2019, the average haul of freight transported by rail by the PKP CARGO Group was 249 km (-3.4% yoy).

Table 13 PKP CARGO Group's average haul in H1 and Q2 2018 and 2019

| Item   | H1 2019    | H1 2018    | Change<br>H1 2019/<br>H1 2018 |              | Q2 2019    | Q2 2018    | Change<br>Q2 2019/<br>Q2 2018 |              |
|--|------------|------------|-------------------------------|--------------|------------|------------|-------------------------------|--------------|
|  | (km)       |            | %                             |              | (km)       |            | %                             |              |
| Solid fuels <sup>1</sup>                           | 189        | 193        | -4                            | -2.2%        | 186        | 191        | -5                            | -2.7%        |
| <i>of which hard coal</i>                          | 178        | 184        | -6                            | -3.5%        | 172        | 180        | -9                            | -4.7%        |
| Aggregates and construction materials <sup>2</sup> | 264        | 279        | -15                           | -5.4%        | 257        | 277        | -20                           | -7.2%        |
| Metals and ores <sup>3</sup>                       | 305        | 296        | 10                            | 3.4%         | 306        | 293        | 12                            | 4.2%         |
| Chemicals <sup>4</sup>                             | 321        | 319        | 2                             | 0.7%         | 336        | 331        | 5                             | 1.5%         |
| Liquid fuels <sup>5</sup>                          | 284        | 296        | -12                           | -4.0%        | 296        | 297        | -2                            | -0.6%        |
| Timber and agricultural produce <sup>6</sup>       | 277        | 362        | -85                           | -23.5%       | 274        | 345        | -71                           | -20.6%       |
| Intermodal transport                               | 413        | 436        | -24                           | -5.4%        | 419        | 446        | -26                           | -5.9%        |
| Other <sup>7</sup>                                 | 261        | 281        | -20                           | -7.1%        | 275        | 283        | -8                            | -2.9%        |
| <b>Total</b>                                       | <b>249</b> | <b>258</b> | <b>-9</b>                     | <b>-3.4%</b> | <b>249</b> | <b>258</b> | <b>-10</b>                    | <b>-3.7%</b> |

Source: Proprietary material

<sup>1</sup> Includes hard coal, coke and lignite.

<sup>2</sup> Includes all kinds of stone, sand, bricks and cement.

<sup>3</sup> Includes ores and pyrites, as well as metals and metal products.

<sup>4</sup> Includes fertilizers and other chemicals.

<sup>5</sup> Includes crude oil and petrochemical products.

<sup>6</sup> Includes grain, potatoes, sugar beets, other produce, wood and wooden products.

<sup>7</sup> Includes other freight

The following were key factors affecting the volume of transport in various cargo categories in H1 2019:



#### SOLID FUELS

- transport services to a power plant and a cogeneration plant of the leading energy group in Poland taken over from competition (affecting a decrease in the average haul by changing the structure of freight routes);
- increased quantum of the AWT Group's transport services – acquisition of new contracts, including from the Czech Republic to Hungary and from Poland to the Czech Republic;
- lower yoy output and sales of hard coal and coke;
- decline in electricity generation in hard coal-fired commercial power plants;
- lower coal imports from Russia – no sales markets, full cargo yards;
- overhauls of cogeneration plants and power plants as well as rail infrastructure and unloading infrastructure at client sites;
- impact of anti-smog resolutions on the market for the sale of solid fuels;
- copious track closures caused by renovation of major railway routes – continuation of work conducted in 2018;
- decrease in the average commercial speed in Poland translating into an extended rolling stock circulation.



#### AGGREGATES AND CONSTRUCTION MATERIALS

- execution of railway capital expenditure projects co-financed with European funds from the financial perspective for 2014-2020 as part of the National Railway Program;
- decrease in demand for transport of aggregates due to adverse weather conditions and slower execution of contracts caused by higher prices of construction materials and labor as well as deterioration of the financial liquidity of contractors;
- failure of attempts at reaching an agreement between the investor and the contractors for sections of the A1, S3, S5 and S7 roads demanding indexation of contracts – termination of contracts by GDDKiA;
- reduced deliveries of limestone to German power plants caused by warm weather and a large supply of wind energy;
- take-over of a portion of transport services by a carrier owned by the corporate group of one of the clients (having obtained a rail operator license);
- reduced volume of transport services rendered by the AWT group due to lower output by the OKD mines;

- limitations related to the capacity of rail lines.
- shorter haul resulting from a change in the transport structure of aggregates (greater share of volumes transported over shorter distances)



#### METALS AND ORES

- drop in steel output in Poland;
- lower imports of iron ores – delay in signing the Polish-Ukrainian agreement on rail transport services between PKP and UZ;
- failure of a sinter strand and tipper at one of key clients and production problems in a steel mill in Ukraine;
- suspension of iron ore transport services from Ukraine to Kraków due to ArcelorMittal Poland's decision to shut down a blast furnace – decision suspended in July 2019;
- lower volume of slag transported from steel mills due to unfavorable weather conditions;
- lower volume of transported metals – weaker demand for finished products, provision of a portion of metal transport services using containers (intermodal transport), high volume of scrap inventories;
- no shipments from Huta Częstochowa – filing for bankruptcy.



#### INTERMODAL TRANSPORT

- higher percentage of cargo that used to be transported in conventional ways and is now transported in containers (e.g. wood – in the form of timber shavings, timber chips, bituminous coal, metals, paper);
- transport between seaports and terminals located in the country's interior;
- periodic shutdowns in plants receiving wood chips transported in containers;
- diversification of services involving the transport of automotive parts in containers – ordering a portion of such services from competitors;
- increased quantum of the AWT group's transport services – new transport services provided, including on routes from acquisition of new contracts, including from Germany to the Czech Republic and from Poland to Slovenia;
- lower volume of services related to the handling of cargo connections on the China-Europe-China route within the framework of the "New Silk Road" caused by a lower rate of economic growth in China.



#### CHEMICALS

- decline in transport of hydrocarbons in imports from the east;
- lower sulfur exports (problems with sales experienced by the customer), partly offset by higher volume of sulfur transported domestically;
- lower exports of sodium hydroxide to seaports due to manufacturing problems on the client's side.
- completion of repairs of the soda manufacturing installation after a breakdown in December 2018.



#### LIQUID FUELS

- transport of imported commodities from the Mazeikiu Refinery in Lithuania;
- 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);
- lower volumes of transported imports – overhaul of a refinery in Slovakia;
- lower average haul resulting from a change in the structure of the AWT group's freight routes – decline in the share of transported volumes from Germany.



#### TIMBER AND AGRICULTURAL PRODUCE

- higher imports of wood chips from Belarus;
- higher imports of timber through seaports as a result of the ban on timber exports introduced by Belarus, which contributed to the decline in the average haul;
- higher volumes of transported agricultural products: upturn in the transport of molasses to the Czech Republic and sugar exports to Romania;
- increase in grain transport volumes: maize from Ukraine and barley in import through seaports;

- malt transport services in imports from the Czech Republic;
- decline in the average haul caused by a change in the structure of freight routes: no rapeseed transport over longer distances, coupled with an increase of malt transport volumes over short distances.

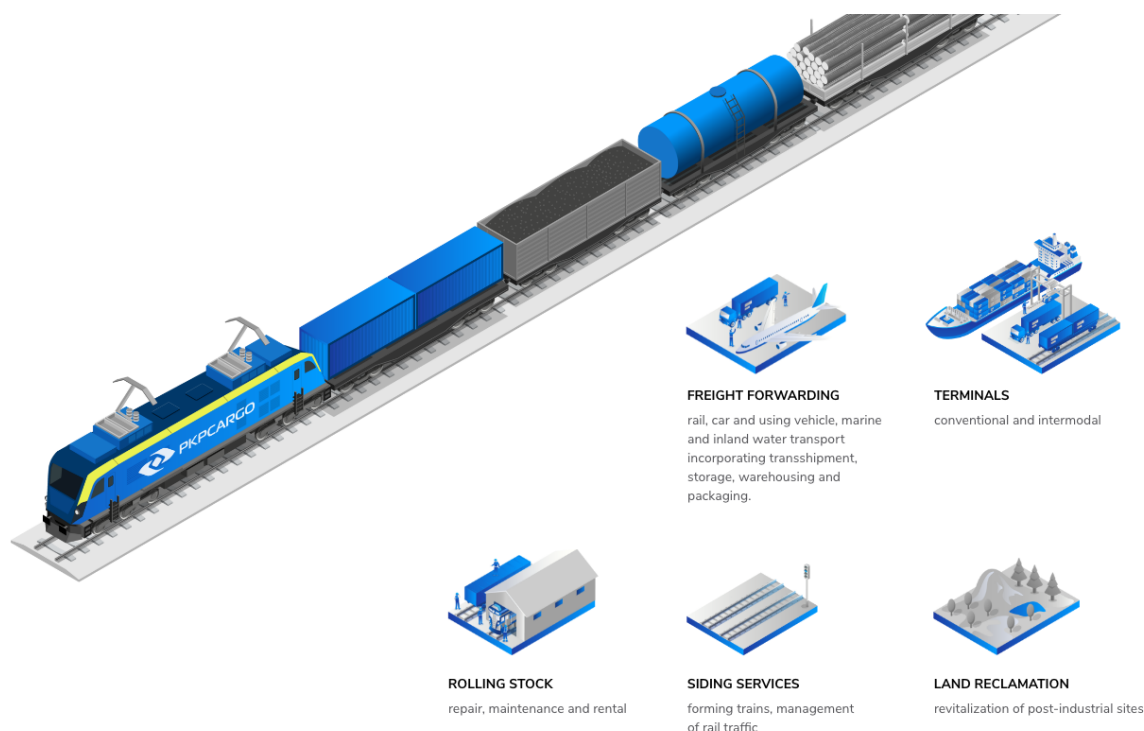


#### OTHER

- lower quantities of clay and salt transported from Ukraine – lower demand for the commodity and delay in signing the Polish-Ukrainian agreement on the provision of rail transport services between PKP and UZ;
- absence of ferry services from Sweden via Świnoujście to Austria and Hungary;
- reduction in the quantity of transported prefabricated products made of cement and concrete – stagnation on the market for construction materials;
- termination of rail transport by PSA/Opel.

### 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 Interim 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 6M 2019 and 2018 is provided below.

Figure 17 Headcount in the Company and the PKP CARGO Group in H1 and Q2 2018 and 2019, respectively





## 4.5 PKP CARGO Group's investments

In 6M 2019, the PKP CARGO Group incurred capital expenditures of PLN 552.0 million, up 82.4% compared to the corresponding period of 2018. 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, in the same period, the PKP CARGO Group acquired rights to use assets worth PLN 51.1 million resulting from the entry into force of IFRS 16. Total expenditures of the PKP CARGO Group in the first 6 months of 2019 reached PLN 603.1 million.

In this period, the majority of the PKP CARGO Group's capital expenditures 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 purchases of wagons – in total PLN 529.0 million (or 95.8% of total capital expenditures). Moreover, expenditures were incurred on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 4.4 million, investment construction activity in the amount of PLN 9.1 million, purchases of other machinery and other workshop and office equipment for PLN 9.5 million as well as right-of-use assets for PLN 51.1 million, chiefly related to rolling stock (PLN 41.2 million).

A detailed summary of the PKP CARGO Group's capital expenditures in H1 2019 compared to the corresponding period of last year is presented in the following table.

**Table 14 Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in H1 2019 as compared to H1 2018 (millions of PLN)**

| Item   | 6 months of<br>2019 | 6 months of<br>2018 | Change<br>yoy | Change yoy<br>in % |
|--|---------------------|---------------------|---------------|--------------------|
| Investment construction activity                       | 9.1                 | 18.7                | -9.6          | -51.3%             |
| Locomotive upgrades                                    | 169.1               | 17.2                | 151.9         | 883.1%             |
| Purchase of wagons                                     | 47.4                | 1.4                 | 46.0          | 3285.7%            |
| Workshop machinery and equipment                       | 7.2                 | 2.9                 | 4.3           | 148.3%             |
| ICT development  | 4.4                 | 3.4                 | 1.0           | 29.4%              |
| Other  | 2.3                 | 0.4                 | 1.9           | 475.0%             |
| Components in overhaul, including:                     | 312.5               | 258.7               | 53.8          | 20.8%              |
| <i>Repairs and periodic inspections of locomotives</i> | 84.2                | 63.3                | 20.9          | 33.0%              |
| <i>Repairs and periodic inspections of wagons</i>      | 228.3               | 195.4               | 32.9          | 16.8%              |
| <b>Total</b>   | <b>552.0</b>        | <b>302.7</b>        | <b>249.3</b>  | <b>82.4%</b>       |
| Right-of-use assets, of which related to:              | 51.1                |                     |               |                    |
| <i>Real properties</i>                                 | 2.1                 |                     |               |                    |
| <i>Locomotives</i>                                     | 30.0                |                     |               |                    |
| <i>Wagons</i>  | 11.2                |                     |               |                    |
| <i>Other rights</i>                                    | 7.8                 |                     |               |                    |
| <b>Total</b>   | <b>603.1</b>        |                     |               |                    |

Source: Proprietary material

## 4.6 Key information and events

### January

- Execution of agreements for transport of hard coal and limestone sorbents with a total maximum weight of 16.7 million tons with PGE Group companies. The agreements were entered into for the period from 1 January 2019 to 31 December 2021. The estimated maximum net value of the agreements during their terms is PLN 541.2 million (gross value of PLN 665.7 million).
- Extraordinary Shareholder Meeting of the Company.
- A contract with companies from the Siemens Consortium for the supply of 5 Vectron multi-system locomotives.
- The Supervisory Board's adoption of: the consolidated text of the Articles of Association of PKP CARGO S.A., the "Rules and regulations for appointing members of the PKP CARGO S.A. Management Board" and the "Rules and regulations for running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal".
- Due to the end of the term of office: initiation of the recruitment procedure for the positions of President and Members of the PKP CARGO S.A. Management Board.

### February

- Judgment of the Regional Court of first instance on payment for expenditures incurred by Eurologistyka Wschód sp. z o.o. in liquidation (PLN 2.1 million).
- Registration of amendments to the Company's Articles of Association.

### March

- Posting of an impairment loss on the AWT Group's assets. The total value of this impairment loss in the consolidated financial statements for 2018 is approx. PLN 51.2 million (PLN 41.5 million PLN taking into account the tax effect).
- Publication of the Management Board's recommendation to distribute the profit earned in 2018.
- Consent to draw down an obligation to purchase of 936 flat wagons for the provision of intermodal transport services.
- Signing of a contract with Tatravagónka a.s. for the delivery of 936 new flat wagons for the provision of intermodal transport services. The purchase is co-financed with EU funds under the Infrastructure and Environment Operational Program for 2014-2020, Action 3.2.
- Registration of the Collective Bargaining Agreement for Employees of PKP CARGO SERVICE sp. z o.o.

### April

- Signing of a letter of intent on cooperation between ORLEN Paliwa and PKP CARGO. ORLEN Paliwa will ensure reliable supplies of the highest quality fuels and will strengthen PKP CARGO's infrastructure by enabling efficient and economical refueling of rolling stock.
- Execution of a memorandum of agreement by parties to the Company Collective Bargaining Agreement for employees hired by PKP CARGO S.A. Units.
- Signing of a Collective Bargaining Agreement in PKP CARGO CONNECT.
- Consent to incur liabilities to enter into credit facilities with Bank Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego under which investment loans will be provided to the company.
- Settlement of the legal dispute regarding VAT paid on OKD's receivables (PLN 1.8 million) on account of insolvency, for the time being pertaining to AWT Recultivace. A significant portion of the VAT on OKD's receivables is still held by AWT a.s.
- The District Court for the Capital City of Warsaw decided to add to the registry files the merger plan for PKP CARGO CONNECT sp. z o.o. and TRADE TRANS FINANCE sp. z o.o.
- Appointment of Supervisory Board members representing employees on the date of the Ordinary Shareholder Meeting. The following individuals will be appointed: Krzysztof Czarnota, Jerzy Sośnierz and Tadeusz Stachaczyński.
- Signing of a letter of intent between PKP CARGO S.A. and Agencja Rozwoju Przemysłu S.A. (Industrial Development Agency) to establish a joint investment venture involving the launch of business consisting of the production and repairs of wagons for the transportation of freight for the needs of PKP CARGO.
- Signing of a letter of intent in Duisburg between PKP CARGO S.A. and Duisburger Hafen AG, the operator of the Duisburg river port. The parties will cooperate on the expansion of intermodal connections between Poland and Germany.

### May

- Receipt of a notification on the sale of a stake in PKP CARGO by the MetLife OPF and a change in its shareholding to a level below 5%.
- Publication of estimated selected financial and operating data of the PKP CARGO Group for Q1 2019.
- Signing of agreements with Pekao S.A. and BGK for investment loans of up to PLN 500 million.
- Following a recruitment procedure, on 27 May 2019, the Company's Supervisory Board adopted a resolution to appoint the following persons to the PKP CARGO Management Board for the joint 7th term of office: Mr. Czesław Warszewicz to the position of President of the Management Board, Mr. Leszek Borowiec to the position of Management Board Member in charge of Finance, Mr. Grzegorz Fingas to the position of Management Board Member in charge of Commerce, Mr. Witold Bawor to the position of Management Board Member in charge of Operations, Mr. Zenon Kozendra to the position of Management Board Member – Employee Representative.
- Name of PKP CARGO CENTRUM LOGISTYCZNE MEDYKA – ŻURAWICA Sp. z o.o. changed to PKP CARGO TERMINALE Sp. z o.o.

## June

- Updated dates for a joint investment venture – execution of a new letter of intent with the Industrial Development Agency.
- Appointment by PKP S.A. (a Company shareholder) to the Supervisory Board in its 7th term of office Mr. Krzysztof Mamiński, Mr. Mirosław Antonowicz, Mr. Władysław Szczepkowski, Mr. Paweł Sosnowski and Ms. Małgorzata Kryszkiewicz.
- Execution of a Memorandum of Agreement by parties to the Collective Bargaining Agreement. In the Memorandum of Agreement, the Parties decided that a wage increase will be implemented as of 1 August 2019. The Company has estimated that the cost of the increase till the end of 2019 will amount to approx. PLN 45.0 million.
- Extraordinary Shareholder Meeting of the Company.
- Appointment of members fulfilling the independence criteria to the PKP CARGO S.A. Supervisory Board of a new term of office – Ms. Zofia Dzik and Mr. Dariusz Górski.

## July

- Collection of three new Vectron MS locomotives from Siemens Mobility by PKP CARGO S.A.
- Registration of amendments to the Company's Articles of Association.
- Signing of 2 contracts with PGNiG Termika S.A. for the transport of coal to the client's plants and for the provision of rail siding services. Under these contracts, the Company will transport approx. 1.97 million tons of steam coal in the period from 1 January 2020 to 31 December 2020.
- Publication of the PKP CARGO Group's Integrated Report for 2018.
- Merger of PKP CARGO CONNECT sp. z o.o. as the acquirer with Trade Trans Finance sp. z o.o. as the acquiree.
- As at 30 June 2019, the Parent Company estimated the adjustment of the costs of electricity for the first half of 2019 in connection with the entry into force of the Act of 13 June 2019 Amending the Act on Amendments to the Excise Tax Act and Certain Other Acts, the Energy Efficiency Act and the Act on Biocomponents and Liquid Biofuels (Journal of Laws of 2019, Item 1210), equalizing the electricity prices for businesses for the first half of 2019 with the prices prevailing in the first half of 2018. As a result of the adjustment, the costs of traction energy decreased by PLN 34.9 million, the cost of non-traction energy by PLN 1.3 million and trade liabilities by PLN 36.2 million. The Parent Company expects to make the financial settlements with the electricity suppliers in the second half of 2019.

## August

- Acceptance to the registration files of the merger plan between PKP CARGO CL Małaszewicze and PKP CARGO TERMINALE Sp. z o.o. submitted by PKP CARGO CL Małaszewicze.



## 4.7 Description of key threats and risks



### Risks related to the economic and market environment

#### Risk resulting from the macroeconomic situation

Poland and the Czech Republic are significant players in European and global trade. In recent years, gradual internationalization of economies has been observed. According to estimates of the International Monetary Fund (IMF), approx. 70% of European exports are integrated within the international supply chain (which is a much larger share than that of, say, the United States or Asian countries)<sup>98</sup>. As a consequence, in addition to macroeconomic domestic factors, the situation in the international environment exerts a direct impact on the economic situation and standing of the industrial sector in Poland and the Czech Republic, and thus on the transport performance of the PKP CARGO Group.

In H1 2019, the balance of risks for the global economy deteriorated. This was reflected in the IMF's forecasts for the global economy published in April 2019, according to which the rate of global GDP growth in 2019 and 2020 will be noticeably below the 2018 figure<sup>99</sup>. Among the risk factors that may noticeably affect the rate of GDP growth across the world and thus also in Poland and the Czech Republic are:

- slowdown in global industrial activity (the aggregate PMI for the global industrial sector points to the sharpest slowdown since 2012; in June 2019, recession readings (below 50.0 points) were demonstrated for 18 out of the 30 countries surveyed, including China, Japan, Germany and Russia<sup>100</sup>;
- potential escalation of the trade war between the United States on one side and China and the EU on the other side. In May 2019, the United States decided to increase tariffs on Chinese goods from 10% to 25% (goods with a total value of approx. USD 200 billion)<sup>101</sup>. As a reciprocal measure, China imposed retaliatory duties. Even though after a G20 working meeting held at the end of June of this year, representatives of the United States and China announced the suspension of further increases in tariffs for three months and declared their return to negotiations aimed at reaching a compromise solution, the final results of their talks are difficult to predict<sup>102</sup>. At the same time, in May 2019, the United States announced that customs duties on imports of automobiles and their parts (which might be a strong punch for the economy of various EU countries, especially Germany), if any, will be introduced no earlier than in mid-October 2019<sup>103</sup>;
- possibility of the United Kingdom leaving the UE without an agreement ("hard brexit"). In April 2019, the United Kingdom obtained the EU's consent to postpone its exit from the Community until 31 October 2019. At the same time, the elections held in May 2019 resulted in a decisive victory for the Brexit party opting for the country's rapid exit from the EU;
- heightened geopolitical tensions across the world (including a conflict between the United States and Iran in the vicinity of the Strait of Hormuz that may potentially have a major impact on the supplies and prices of oil and, consequently, also other commodities)<sup>104</sup>;
- insufficient labor supply in Poland and the Czech Republic, which in the face of moderate productivity growth significantly hinders the possibility of a rapid growth in output. The shortages of labor in these economies may be exacerbated by the legislation adopted in June 2019 by the Bundestag which, starting in 2020, will enable citizens of non-EU countries to engage in legal work in Germany. Despite the continuing high demand for labor, in May 2019 employment in Poland recorded the sharpest monthly decline since 2012, when the Polish economy was facing a severe economic slowdown<sup>105</sup>.

#### Risks associated with the situation on the rail transport market in the main cargo categories

Bulk cargo, such as hard coal, coke, aggregates or iron ore, plays a key role in the transport services provided by the PKP CARGO Group. During the first 4 months of 2019, their total share in the total freight volume transported by the PKP CARGO Group

<sup>98</sup> International Monetary Fund

<sup>99</sup> International Monetary Fund

<sup>100</sup> Markit PMI, bankier.pl

<sup>101</sup> money.pl

<sup>102</sup> bankier.pl

<sup>103</sup> wnp.pl website

<sup>104</sup> nettg.pl

<sup>105</sup> bankier.pl



was over 70%<sup>106</sup>. The economic situation in the mining, metallurgy and construction sectors exerts a direct impact on the volumes available for transport by the PKP CARGO Group, and thus on its operating and financial performance.

Among the factors that may adversely affect the situation in industries of key importance for the PKP CARGO Group's business in the coming quarters are:

- projected decrease in the share of hard coal in Poland's energy mix (the expected increase in demand for energy is scheduled to be covered by gas, renewable energy and other energy sources)<sup>107</sup>;
- EU's restrictive climate policy (including a gradual increase in CO<sub>2</sub> emission fees resulting in a lower competitiveness of hard coal as an energy source)<sup>108</sup>;
- lack of extension of coal mining capacity (after the planned commissioning of the power unit at the Ostrołęka Power Plant in 2023, any future investments will only serve the purpose of maintaining the production capacity of the existing units)<sup>109</sup>;
- problems with hard coal supply (in Poland, capital expenditures on mining walls are predominantly of a replacement nature; in the Czech Republic, the current restructuring plan for the mining sector calls for a gradual phase-out of OKD's coal mines);
- build-up of infrastructural investments executed under the National Road and Motorway Construction Program and the National Railway Program, resulting from the termination of contracts signed previously by GDDKiA and the current difficulties in completing new tenders<sup>110</sup>. The build-up of investments may lead, among other unfavorable consequences, to difficulties in the delivery of the required volumes of aggregates and other construction materials to construction sites and, as a consequence, translate into further delays;
- persisting low margins generated by companies operating in the construction sector (resulting from increasing prices of construction materials and labor costs), which may affect their financial liquidity and, as a consequence, the pace of execution of infrastructural investments<sup>111</sup>;
- another deregulation of electricity prices for medium and large companies (in June 2019, the Sejm adopted an amendment to the act freezing electricity prices, according to which medium and large companies will be forced to purchase electricity at market prices starting from July 2019). This may result in a sharp increase in their operating costs, especially in energy-intensive industries (such as the steel industry, the chemical industry and the cement production industry). Although the amendment to the act provides for the possibility of applying for a subsidy for electricity consumed by companies, the amount of aid permitted by the EU is limited<sup>112</sup>;
- decrease in the output of the domestic and European steel industry caused, among other factors, by the economic slowdown and the increase in electricity prices<sup>113</sup>. Combined with the restrictive EU climate policy, increasing energy prices reduce the competitiveness and deteriorate the profitability of European steel producers. This, coupled with higher steel imports from third countries (including the CIS), will likely reduce the output of steel and steel products and thus also reduce demand for coke.

Faced with these risks, the PKP CARGO Group has adopted a long-term development strategy and is taking action to enable an efficient response to the changing market situation and trends prevailing on the transportation market. The PKP CARGO Group strives for a gradual diversification of transport types (e.g. through investments in specialized rolling stock intended for the provision of intermodal transport services) and further optimization of its transportation process (which, despite the requirement to use detours and the lower operating speed on PK's network, enables the timely completion of contracts).

<sup>106</sup> Own statistics prepared by the PKP CARGO Group

<sup>107</sup> Poland's Energy Policy until 2040

<sup>108</sup> [bankier.pl](http://bankier.pl), [wysokienapiecie.pl](http://wysokienapiecie.pl)

<sup>109</sup> [wnp.pl](http://wnp.pl) website

<sup>110</sup> [rynekinfrastruktury.pl](http://rynekinfrastruktury.pl)

<sup>111</sup> [money.pl](http://money.pl)

<sup>112</sup> [forbes.pl](http://forbes.pl)

<sup>113</sup> [wnp.pl](http://wnp.pl) website

### Risk associated with the rail freight sector

Even though the rail freight market in Poland is regulated, it enjoys a relatively high level of competition. In H1 2019, there were 71 licensed rail operators in Poland, including members of the PKP CARGO Group, specifically PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.<sup>114</sup> Additionally, transport services on the Polish market may also be provided by entities holding an international license (including, among others, AWT a.s., which is also a member of the PKP CARGO Group).

For years, the number of operators on the domestic market has been steadily increasing, tapping into the liberalization of regulations governing the business of market players. At the same time, market deconcentration is observed: recently, the market importance of large operators has been diminishing, mainly for the benefit of small companies (each with a market share below 2%). In 5M 2019, their combined share in the rail freight transport market increased to 21.7% (+2.0 p.p. yoy) in terms of freight volume and to 19.0% (+4.1 p.p. yoy) in terms of freight turnover<sup>115</sup>.

The market segment that has seen the highest growth in recent quarters is intermodal transport. The number of carriers operating in this sector is increasing rapidly. They are also investing heavily in rolling stock and expansion of terminals (such investments being co-financed under the EU structural funds)<sup>116</sup>. As a result, further intensification of the competitive struggle in this market segment (considered one of the most promising segments for the rail transport industry) may be expected. Moreover, new companies also keep appearing in other market sectors, including subsidiaries of groups operating in the construction sector (Budokrusz, Budimex), or providing transport services of other bulk cargo<sup>117</sup>. Accordingly, it cannot be ruled out that within the next few years the number of operators on the Polish market will increase even further, also due to the entry of other companies operating under an international license into the domestic market.

Due to the intensifying competition on the Polish and Czech rail markets, the actions taken by the PKP CARGO Group are aimed at constantly improving the quality of transport services provided (e.g. development of cross-border cooperation in key transport corridors and continued investments in specialized rolling stock) and offering comprehensive logistic services to clients operating in various industries.

### Road transport constitutes increasing competition for the Group

Road transport plays the leading role in freight transport in Poland, accounting for over 85% of the country's total freight volume and over 80% of total freight turnover<sup>118</sup>. Whereas in 2018 rail transport recorded an increase in freight volume by 4.1% yoy, the volume of freight transported by road increased even more, i.e. by 7.2% yoy. In terms of freight turnover, rail and road transport experienced the same yoy rate of growth (+8.4% yoy). The share of road transport in the Polish transport market increased in this period to 85.5% (+0.4 p.p. yoy) in terms of freight volume and 80.9% (+0.7 p.p. yoy) in terms of freight turnover<sup>119</sup>.

In recent years, road transport services have covered the majority of freight volume appearing on the Polish and Czech markets, translating into a gradual increase in its share in the total freight volume of these countries. The increase in significance of road transport is to a large extent a consequence of its competitive advantages compared to other branches of land transport of cargo, such as in particular:

- relatively low barriers to entry and fixed costs incurred at the initial phase of business. A license for the carriage of cargo is granted by the Ministry of Infrastructure at the request of the applicant. In addition to conditions of a qualitative nature (no court convictions, permanent residence in the EU, certificate confirming professional competences), the applicant is required to provide a form of financial security for a minimum amount of EUR 9,000 (per vehicle)<sup>120</sup>;
- widespread access to infrastructure and gradual expansion of a high-quality road network in Poland (National Road and Motorway Construction Program until 2023) and the Czech Republic. According to GDDKiA data, 60 km of expressways were put to use in Poland in 2019 and a further 360 km should be completed by the end of this year<sup>121</sup>. In the following years, the motorway and expressway network should continue to grow gradually, ultimately reaching 2,000 km of motorways (compared to the currently completed 1,620 km) and 5,650 km of expressways (compared to the currently completed 2,040 km).<sup>122</sup> Also in the Czech Republic, a program aimed at the development of high-quality roads is underway, for which financing received under the EU structural funds is used. To date, a total of 1,266 km of

<sup>114</sup> Office of Rail Transport

<sup>115</sup> Proprietary material based on Office of Rail Transport data

<sup>116</sup> Center for EU Transport Projects

<sup>117</sup> Office of Rail Transport

<sup>118</sup> Proprietary material based on Central Statistical Office data

<sup>119</sup> Proprietary material based on Central Statistical Office data

<sup>120</sup> money.pl

<sup>121</sup> Proprietary material based on GDDKiA data, as at 1 July 2019

<sup>122</sup> GDDKiA



motorways have been completed, and 64 km more remains in progress. Ultimately, the motorway network in the Czech Republic is expected to reach a total length of 2,117 km, i.e. nearly 70% more than today<sup>123</sup>;

- low costs of access to road infrastructure (the ViaToll toll collection system applies only to a minority of roads managed by GDDKiA);
- ability to easily adjust the volumes, and thus deliver both short-haul and long-haul transport services. In road transport, relatively small volumes of transported cargo are sufficient to reach the breakeven point (low fixed costs). As a result, transport over relatively short distances becomes cost-effective, which remains commercially unattainable for other modes of transport;
- high speed (compared to other modes of transport) and possibility of door-to-door deliveries.

Moreover, freight volume has been growing rapidly in recent years, and as a result the market share of road transport keeps increasing even in branches traditionally dominated by rail transport, such as the carriage of hard coal or coke. Even though the share of these cargo categories in the total volume of cargo transported by trucks remains marginal (at a level of 1-1.5%), in absolute terms these numbers are significant (approx. 20% hard coal and 30% coke transported in Poland)<sup>124</sup>.

The measures taken by the PKP CARGO Group are aimed at the railway achieving the position of a means of transport that would be complementary to road transport (e.g. long-distance transportation of high volumes of bulk cargo by rail and their handling by trucks as part of the so-called last-mile services). The PKP CARGO Group is also growing its business rapidly in the sectors that dominate the rail transport market in Western Europe and offer high growth potential (e.g. intermodal transport). Furthermore, the competitive position of rail transport should improve noticeably after the completion of modernization works on PKP's network executed under the National Railway Program. The current works on rail infrastructure often necessitate the use of detours, resulting in reducing the average operating speed of trains (poorer timeliness, slower turnover of the rolling stock).



### Risks in the operations conducted

#### Risk associated with the rail infrastructure

At present, PKP S.A. is implementing the National Railway Program aimed at improving the competitiveness of rail freight transport, among its various other objectives. New investments will make it possible to increase speed and throughput on the routes, to improve access to seaports and to develop cargo transport. The works will consist of modernization, construction and development of rail infrastructure as well as of investments into services related with the growing marine transport connected with rail transport. These works may entail temporary delays in cargo deliveries to PKP CARGO S.A.'s clients.

#### Risk associated with changes of legal regulations

##### *Technical specifications for interoperability Noise (NOI TSI)*

On 31 January 2019, EU Member States at a meeting of the Railway Interoperability and Safety Committee adopted amendments to the Noise TSI. In the course of work, Poland negotiated a so-called special case permitting the continued operation of wagons with rimmed wheels, which make up a significant part of PKP CARGO S.A.'s wagon fleet. These vehicles will be permitted to be operated in domestic traffic regardless of the line status until the end of 2036. They will also be permitted to enter the Czech Republic and Slovakia without restrictions until the end of 2026. This will help the Company avoid significant costs associated with adapting its rolling stock to the new requirements.

The said amendments were introduced into the EU legal order on 16 June 2019 in connection with the adoption of Commission Implementing Regulation (EU) 2019/774 of 16 May 2019 amending Regulation (EU) No 1304/2014 as regards application of the technical specification for interoperability relating to the subsystem 'rolling stock – noise' to the existing freight wagons (Official Journal of the EU No. 139I, p. 89).

##### *Rail Transport Act*

The Company monitors the introduction of draft amendments to the Rail Transport Act on issues related to the implementation of Directive (EU) 2016/2370 of the European Parliament and of the Council of 14 December 2016 amending Directive 2012/34/EU as regards the opening of the market for domestic passenger transport services by rail and the governance of the

<sup>123</sup> Proprietary material based on data obtained from motorway.cz

<sup>124</sup> Central Statistical Office of Poland – data for 2017 – commercial road transport

rail infrastructure, i.e. resolution of a matter related to the disbursement of dividends by a subsidiary acting as an infrastructure manager.

#### *EU Emissions Trading Scheme (EU ETS)*

The increasing prices of CO<sub>2</sub> emission allowances were among the reasons for the decision made by ArcelorMittal Poland (AMP) to plan a temporary suspension in September 2019 of the commodity production operations of AMP's steel mill in Kraków, specifically the blast furnace and the steel plant. However, the plan has been postponed due to the need to analyze and evaluate the existing situation.

#### *Conditions for the conduct of rail traffic and signaling*

On 23 May 2019, certain provisions of the Regulation of the Minister of Infrastructure of 26 April 2019 amending the Regulation on General Terms for the Conduct of Rail Traffic and Signaling (Journal of Laws of 2019, Item 964) entered into force. They introduced, among other issues, the requirement for two-person train driver crews in non-modernized single-cabin locomotives (SM31, SM42, SM48). The provisions of this Regulation have been implemented into the Company's internal regulations governing the rules for route learning by train crew members.

#### *Train driver's certificates*

The provisions of the Regulation of the Minister of Infrastructure and Development of 10 February 2014 on Train Driver's Certificates (Journal of Laws of 2014 Item 212, as amended), regarding training with the use of a traction unit simulator, entered into force on 1 January 2019. As a result, the Transportation Management Department at Company's Head Office adjusted the provisions of the Company's internal regulations regarding employee training in the context of rail traffic safety. The principles for organizing and conducting training courses for train drivers using simulators of rail vehicles, which are delivered by an external provider of training services using simulators, were also adopted.

#### *The risk of high dependence of the client base on the limited number of industries and business entities operating therein as well as structural changes in the operations of the key clients.*

Bulk cargo continues to play a dominant role in the PKP CARGO Group's transportation services. The main recipients of such freight are clients operating in several industries: power generation, mining, metallurgy and construction. These industries are also characterized by a high degree of concentration of their production (high fixed costs being the primary reason for such concentration). At the same time, commercial contracts entered into by the PKP CARGO Group are usually long-term and enable the Group to plan ahead any upcoming large volumes of bulk cargo. In certain cases, it is also possible to change the contracted freight volume – either decrease or increase it, if necessary. As a consequence, this can both mean the necessity to obtain additional resources in order to transport extra cargo or translate into the necessity to reduce the scale of the PKP CARGO Group's actual transport. In the light of the large scale of contracted volumes and growing competition on the rail freight market in Poland, it is increasingly more difficult to find new business partners that might help close the gap resulting from the transport services agreed upon yet not provided.

The PKP CARGO Group's operational and financial performance is also affected by transformations in the structure of entities purchasing its services. They may include the establishment of subsidiaries whose line of business is rail transport of goods produced by the parent company. Currently, more than 10 such operators are active on the Polish market, including in the fuels, ores, chemicals, coal and construction sectors. In the majority of cases, their rolling stock potential is insufficient to fully satisfy the transport needs of their parent company. However, it cannot be ruled out that the significance of such operators will gradually increase in the coming years, which would result in lower volumes ordered for transport by external entities, including the PKP CARGO Group. At the same time, subsidiaries may develop competitive operations on the domestic market (provide services to entities outside their own corporate group), using sectoral know-how and rolling stock matching, and as a result also cause a reduction in the volumes available for transport by the PKP CARGO Group.

The PKP CARGO Group's long-term strategy is focused on the gradual improvement in the quality, efficiency and competitiveness of its offer of transport services. The measures taken reduce the risk of potential diversification of rail operators by key accounts. At the same time, the PKP CARGO Group is taking action aimed at diversifying its transport services (e.g. by rapidly developing its intermodal transport segment) and becoming a comprehensive logistics operator.

#### *Risk associated with a shortage of trained personnel*

The risk associated with a shortage of trained personnel in the Company is constantly monitored. Actions are taken with a view to ensuring appropriate number of employees with required skills so as to support proper performance of the business processes.

Activities are continued resulting from the execution of a professional adaptation program adjusted to the needs and expectations of various professional groups: administrative employees, non-administrative employees working in the Company's facilities and managerial staff. For employees in positions directly associated with the transport process, training sessions are conducted to enable them to obtain required professional qualifications.

The rail transport industry and in particular positions associated with rail transport safety require ongoing update of knowledge and acquisition of skills. This objective is achieved through obligatory training courses delivered in the form of e.g. periodic knowledge updates, tutorials and examinations, since 2019 also using rail vehicle simulators. The effect of the continuous training process is obtainment of licenses and improvement of qualifications by the personnel.

Moreover, training organized in the form of e-learning courses, training in the development of soft skills and foreign language training are all continued and developed in the Company.

All these actions minimize the risks associated with a shortage of appropriately trained personnel.

### Risk of collective disputes and strike

The social dialog carried out by the PKP CARGO S.A. Management Board with the Trade Unions in accordance with the principle of partnership resulted in making certain arrangements in June of this year, which meant that in H1 2019 the Trade Unions did not initiate any collective dispute or strike in the Company. As a consequence of these actions, the risk of such events occurring in the remaining six months of the financial year has been reduced to a minimum.

### Risk of increase of salaries

On 19 June 2019, the PKP CARGO S.A. Management Board and the Trade Unions operating in the Company agreed on a wage increase, to come into effect as of 1 August 2019, for the Company's employees. Furthermore, taking into account the Company's current situation and financial performance, in September of this year the parties to the agreement will commence talks on the possibility of additional payments for employees in 2019.



## Financial risks

### Liquidity risk

The Group is exposed to liquidity risk following from the ratio of current assets to net current liabilities (current liabilities without short-term provisions).

In H1 2019, the Group's liquidity remained at the level that ensured timely payment of all due and payable liabilities. To ensure an additional source of funds required to secure its financial liquidity, the Group used external financing sources, such as a current account overdraft facility.

Information on credit facilities undrawn as at 30 June 2019 is presented in [Note 4.1](#) to the Consolidated Financial Statements. Moreover, to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 30 June 2019, 8 Group companies.

### Market risk

The Group is exposed to market risks associated with changes of the exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short- and medium-term. The Group manages the market risk following from the aforementioned factors on the basis of internal procedures which define the rules of measurement of individual exposures, parameters and time horizon.

The principles of market risk management are implemented through assigned organizational units under the supervision of the PKP CARGO S.A. Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivative instruments are used only to limit the risk of cash flow changes. Transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures and execution of appropriate documentation.

### FX risk

PKP CARGO S.A. and its subsidiaries are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. PKP CARGO S.A.'s receivables expressed in foreign currencies are short-term receivables, and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities of up to 2031.

According to the Financial Risk Management Policy adopted by the PKP CARGO Group, in Q2 2019 PKP CARGO S.A. and PKP CARGO CONNECT sp. z o.o. used FX risk hedging transactions for the EUR/PLN currency pair.

Forward transactions are used to manage FX risk in the years 2019-2021.

In Q2 2019, PKP CARGO S.A. and PKP CARGO CONNECT sp. z o.o. applied hedge accounting to their EUR/PLN cash flows generated under investment loans denominated in EUR and executed FX forward transactions. As a result of these actions, no financial income and no financial expenses (FX gains or losses) are generated by virtue of valuation (reduced variability of the financial result).

#### Interest rate risk

Most financial investments made by the Group include bank deposits concluded mainly for a period of 1-3 months, depending on the Group's liquidity needs.

In addition, the Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates.

In Q2 2019, interest on financial liabilities was accrued according to fixed and variable interest rates and reference rates, plus the financing entity's margin, i.e. based on the following reference rates: WIBOR 1M, WIBOR 3M, EURIBOR 3M, EURIBOR 6M and PRIBOR 3M.

#### Credit risk

Conducting its commercial activity the Group sells services to business entities with a deferred payment date, which may lead to the risk of counterparties defaulting with meeting the deadlines for payment of the amounts due for the provided services. To minimize the credit risk, the Group manages the risk through a prevailing client creditworthiness assessment procedure. This assessment is carried out for all clients who use a deferred payment date. As part of its internal policy, the Company makes application of the deferred term of payment conditional on acceptability of the business partner's condition and positive history of cooperation.

Receivables from business partners are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered.

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from their customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is presented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through securities established in favor of the Group (in the form of, inter alia, bank/insurance guarantees, guarantee deposits).

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

### 5.1 Rules for preparing the interim financial statements

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The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2019 and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2019 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 the standalone and consolidated financial statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757, as amended).

The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2019 and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2019 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these financial statements, there are no circumstances indicating any substantial threat to PKP CARGO S.A.'s and the Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2019 and the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the 6 months ended 30 June 2019 have been prepared in accordance with the historical cost principle, except for derivatives measured at fair value and investments in equity instruments.

The accounting policies and calculation methods adopted for the preparation of the Interim Condensed Consolidated Financial Statements for the 6 months ended 30 June 2019 are consistent with the policies described in the PKP CARGO Group's consolidated financial statements for the year ended 31 December 2018 prepared in accordance with EU IFRS, taking into account the changes resulting from the entry into force of IFRS 16 'Leases', as described in [Note 1.3](#) to the Interim Condensed Consolidated Financial Statements for the 6 months ended 30 June 2019.

### 5.2 Position of the corporate governing body and an opinion of the regulatory authority supervising the issuer regarding the reservations expressed in the financial statements review report by the audit firm or regarding such entity's refusal to issue a financial statements review report

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The audit firm issued an unqualified audit report.

### 5.3 Key economic and financial figures of PKP CARGO Group

#### 5.3.1. Financial highlights of the PKP CARGO Group and PKP CARGO S.A.

Table 15 Financial highlights of the PKP CARGO Group

| PKP CARGO Group   | PLN million <sup>125</sup> |                      | EUR million         |                      |
|---|----------------------------|----------------------|---------------------|----------------------|
|   | 6 months of<br>2019        | 6 months of<br>2018* | 6 months of<br>2019 | 6 months of<br>2018* |
| <b>Exchange rates (PLN/EUR)</b>   |                            |                      | <b>4.2880</b>       | <b>4.2395</b>        |
| Operating revenue   | 2,446.8                    | 2,509.9              | 570.6               | 592.0                |
| Profit / loss on operating activities                                       | 101.9                      | 133.2                | 23.8                | 31.4                 |
| Profit / loss before tax  | 68.0                       | 112.8                | 15.9                | 26.6                 |
| Net profit / loss   | 47.9                       | 89.6                 | 11.2                | 21.1                 |
| Total comprehensive income attributable to the owners of the parent company | 45.0                       | 78.1                 | 10.5                | 18.4                 |
| Weighted average number of shares   | 44,786,917                 | 44,786,917           | 44,786,917          | 44,786,917           |
| Weighted average number of shares used to calculate diluted profit          | 44,786,917                 | 44,786,917           | 44,786,917          | 44,786,917           |
| Earnings / losses per share   | 1.10                       | 2.00                 | 0.26                | 0.47                 |
| Diluted earnings / losses per share   | 1.10                       | 2.00                 | 0.26                | 0.47                 |
| Net cash flow from operating activities                                     | 355.5                      | 392.8                | 82.9                | 92.7                 |
| Net cash flow from investing activities                                     | -305.6                     | -482.2               | -71.3               | -113.7               |
| Net cash flow from financing activities                                     | -170.0                     | -165.8               | -39.6               | -39.1                |
| Movement in cash and cash equivalents                                       | -120.1                     | -255.2               | -28.0               | -60.2                |
|   | <b>30.06.2019</b>          | <b>31.12.2018</b>    | <b>30.06.2019</b>   | <b>31.12.2018</b>    |
| <b>Exchange rates (PLN/EUR)</b>   |                            |                      | <b>4.2520</b>       | <b>4.3000</b>        |
| Non-current assets  | 6,176.8                    | 5,187.2              | 1,452.7             | 1,206.3              |
| Current assets  | 1,311.9                    | 1,619.1              | 308.5               | 376.5                |
| Non-current assets classified as held for sale                              | 5.2                        | -                    | 1.2                 | -                    |
| Share capital   | 2,239.3                    | 2,239.3              | 526.6               | 520.8                |
| Equity attributable to the owners of the parent company                     | 3,464.1                    | 3,483.5              | 814.7               | 810.1                |
| Non-current liabilities   | 2,624.5                    | 1,969.1              | 617.2               | 457.9                |
| Current liabilities   | 1,405.3                    | 1,353.7              | 330.5               | 314.8                |

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2019 prepared according to EU IFRS.

\* Restatement of data is described in detail in [Note 1.4 to the CFS](#)<sup>126</sup>

<sup>125</sup> 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.

<sup>126</sup> Any reference to a Note in the Management Board Report on the Activity of the PKP CARGO Group should be construed as a Note to the Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the period of 6 months ended 30 June 2019 prepared according to EU IFRS, unless indicated otherwise.



Table 16 Financial highlights of PKP CARGO S.A.

| PKP CARGO S.A.   | PLN million         |                     | EUR million         |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | 6 months of<br>2019 | 6 months of<br>2018 | 6 months of<br>2019 | 6 months of<br>2018 |
| <b>Exchange rates (PLN/EUR)</b>                                    |                     |                     | <b>4.2880</b>       | <b>4.2395</b>       |
| Operating revenue  | 1,839.1             | 1,888.8             | 428.9               | 445.5               |
| Profit / loss on operating activities                              | 66.4                | 144.3               | 15.5                | 34.0                |
| Profit / loss before tax   | 70.8                | 157.1               | 16.5                | 37.1                |
| Net profit / loss  | 57.1                | 129.2               | 13.3                | 30.5                |
| Comprehensive income   | 54.6                | 101.7               | 12.7                | 24.0                |
| Weighted average number of shares                                  | 44,786,917          | 44,786,917          | 44,786,917          | 44,786,917          |
| Weighted average number of shares used to calculate diluted profit | 44,786,917          | 44,786,917          | 44,786,917          | 44,786,917          |
| Earnings / losses per share  | 1.27                | 2.88                | 0.30                | 0.68                |
| Diluted earnings / losses per share                                | 1.27                | 2.88                | 0.30                | 0.68                |
| Net cash flow from operating activities                            | 325.6               | 348.9               | 75.9                | 82.3                |
| Net cash flow from investing activities                            | -266.8              | -449.3              | -62.2               | -106.0              |
| Net cash flow from financing activities                            | -147.5              | -146.2              | -34.4               | -34.5               |
| Movement in cash and cash equivalents                              | -88.7               | -246.6              | -20.7               | -58.2               |
|  | <b>30.06.2019</b>   | <b>31.12.2018</b>   | <b>30.06.2019</b>   | <b>31.12.2018</b>   |
| <b>Exchange rates (PLN/EUR)</b>                                    |                     |                     | <b>4.2520</b>       | <b>4.3000</b>       |
| Non-current assets   | 5,707.1             | 4,902.5             | 1,342.2             | 1,140.1             |
| Current assets   | 836.2               | 1,079.8             | 196.7               | 251.1               |
| Non-current assets classified as held for sale                     | 4.7                 | -                   | 1.1                 | -                   |
| Share capital  | 2,239.3             | 2,239.3             | 526.6               | 520.8               |
| Equity   | 3,302.4             | 3,314.6             | 776.7               | 770.8               |
| Non-current liabilities  | 2,164.3             | 1,652.6             | 509.0               | 384.3               |
| Current liabilities  | 1,081.3             | 1,015.1             | 254.3               | 236.1               |

Source: Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2019, prepared in accordance with 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 Interim Condensed Standalone Financial Statements of the PKP CARGO S.A. Group and the Interim Condensed Consolidated Financial Statements of PKP CARGO S.A. for the period of 6 months ended 30 June 2019:

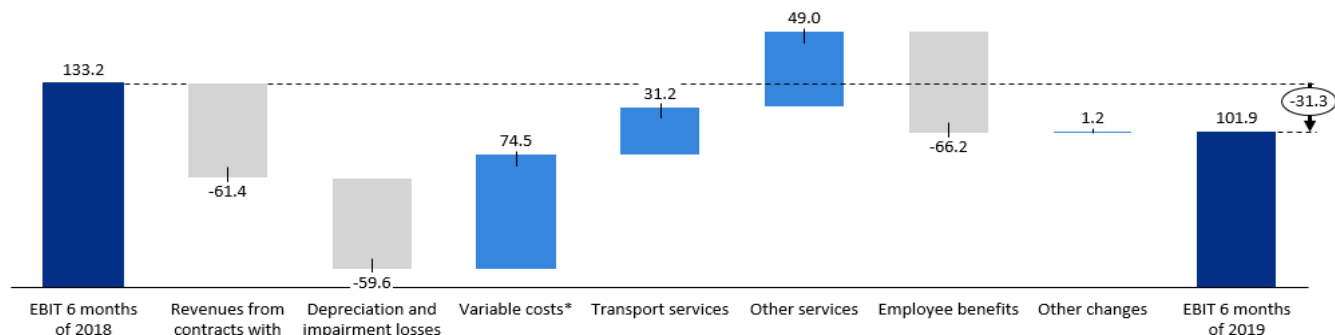
- exchange rate on the last day of the reporting period: 30 June 2019: EUR 1 = PLN 4.2520; 31 December 2018: EUR 1 = PLN 4.3000;
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 30 June 2019: EUR 1 = PLN 4.2880, 1 January – 30 June 2018: EUR 1 = PLN 4.2395.

### 5.3.2. Analysis of selected financial highlights of the PKP CARGO Group

#### Statement of comprehensive income of PKP CARGO Group

In the period of the first 6 months of 2019, EBIT reached PLN 101.9 million, having gone down by PLN 31.3 million compared to the corresponding period of the previous year (-23.5%).

Figure 18 EBIT in 6M 2019 as compared to the corresponding period in 2018 (PLN million)



Source: Proprietary material

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

The implementation of IFRS 16 has affected the structure of the statement of profit or loss. In 6M 2019, due to the implementation of the new standard, depreciation increased by PLN 54.3 million, the operating result increased by PLN 8.6 million and the pre-tax result fell by PLN 6.1 million. Owing to the application of the new standard, EBITDA went up by approximately PLN 62.9 million (**Note 1.3 to the CFS**).

The following is the explanation of the most significant changes affecting EBIT in the first 6 months of 2019 as compared to the first 6 months of 2018:

- decrease in revenue from contracts with customers (chiefly revenue from transportation services and freight forwarding services) resulted predominantly from lower transport performance (decrease in freight volume by 7.4%) coupled with an increase in transport rates partially compensating for the decrease in freight volume. 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"**;
- increase in depreciation and impairment losses, chiefly due to the introduction of IFRS 16 as of 1 January 2019 (for details on the entry into force of IFRS 16 on 1 January 2019, see **Note 1.3 to the CFS**). Without the standard application effect, depreciation and impairment losses increase by PLN 5.3 million as a result of an increase in capital expenditures (related predominantly to rolling stock);
- decrease in variable costs (energy consumption, traction fuel and infrastructure access services), as a result of a 10.5% decrease in freight turnover and the reduced price list of PKP PLK for the 2018/2019 train timetable. Furthermore, in its June 2019 result, the Parent Company recognized the effect of compensation for higher electricity prices in the amount of PLN 34.9 million. The decrease in traction fuel costs was caused by a lower freight turnover at an increasing unit cost of traction fuel;
- lower costs of transport services due to a greater use of own resources and a decrease in freight turnover;
- decrease in the costs of other services, chiefly in the line item of costs of rents and fees for the use of real properties and rolling stock, mainly as a result of the entry into force of IFRS 16 on 1 January 2019 and lower fees for wagon parking charges as a result of a 7.4% decrease in freight volume;
- increase in employee benefits resulting primarily from wage increases in member companies of the PKP CARGO Group (the increase that had the largest impact on the costs of employee benefits was granted on 1 September 2018). The wage increases and changes in actuarial assumptions scheduled to take effect on 1 August 2019 also translated into an increase in provisions for employee benefits by PLN 4.8 million. At the same time, the PKP CARGO Group recorded an increase in the average headcount by 409 FTEs. This is associated with the long-term approach adopted to hiring

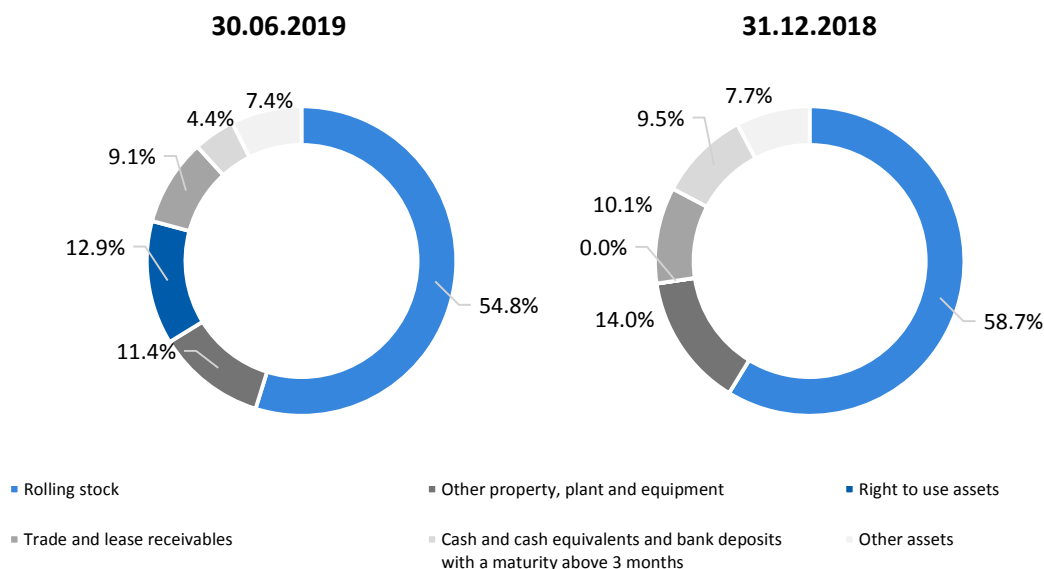
more people for employee teams that are crucial for the PKP CARGO Group's operations as they are the ones who handle the freight volumes and maintain the rolling stock in proper technical condition. Detailed changes in the headcount level are presented in section 4.4 "Headcount".

## Statement of financial position of the PKP CARGO Group

### ASSETS

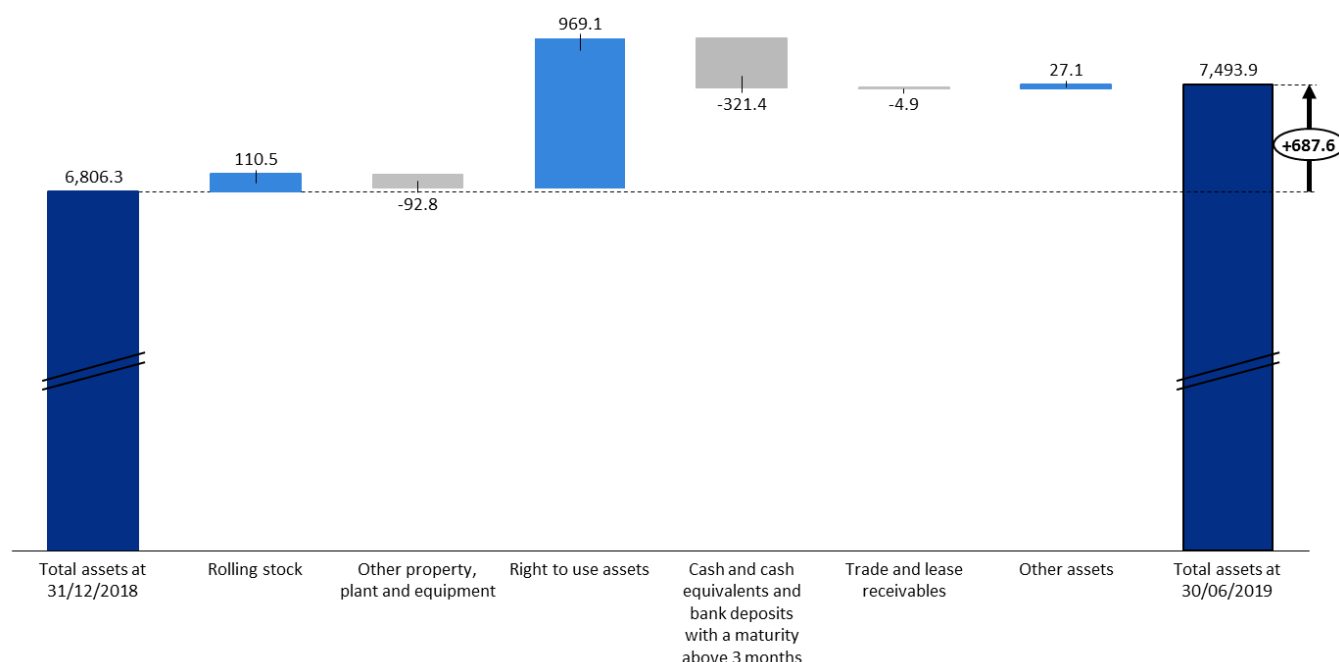
The biggest share in the asset structure as at 30 June 2019 was held by rolling stock, which accounted for 54.8% of total assets, compared to 58.7% as at 31 December 2018. A significant change in the asset structure compared to 31 December 2018 occurred in right-of-use assets, which as at 30 June 2019 accounted for 12.9% of total assets. Trade and lease receivables accounted for 9.1% of total assets as at 30 June 2019, as compared to 10.1% as at 31 December 2018, forming a significant component of current assets.

Figure 19 Structure of assets – as at 30 June 2019 and 31 December 2018



Source: Proprietary material

Figure 20 Movement in the Group's assets in the first 6 months of 2019 (in PLN million)



Source: Proprietary material

The implementation of IFRS 16 has also affected the structure of the statement of financial position. As a result of the implementation of IFRS 16 with effect as of 1 January 2019 (for assets as at 31 December 2018), material changes were made to the following items, among others: rolling stock (presentation shift by PLN 160.9 million to right-of-use assets) and other property, plant and equipment (presentation shift by PLN 50.0 million to right-of-use assets). Furthermore, all assets resulting from the application of IFRS 16 are recognized in right-of-use assets in the amount of PLN 1,002.8 million. The value of debt liabilities also increased by PLN 701.5 million as of 1 January 2019. Details on movements in the statement of financial position resulting from the implementation of IFRS 16 are described in [Note 1.3 to the CFS](#).

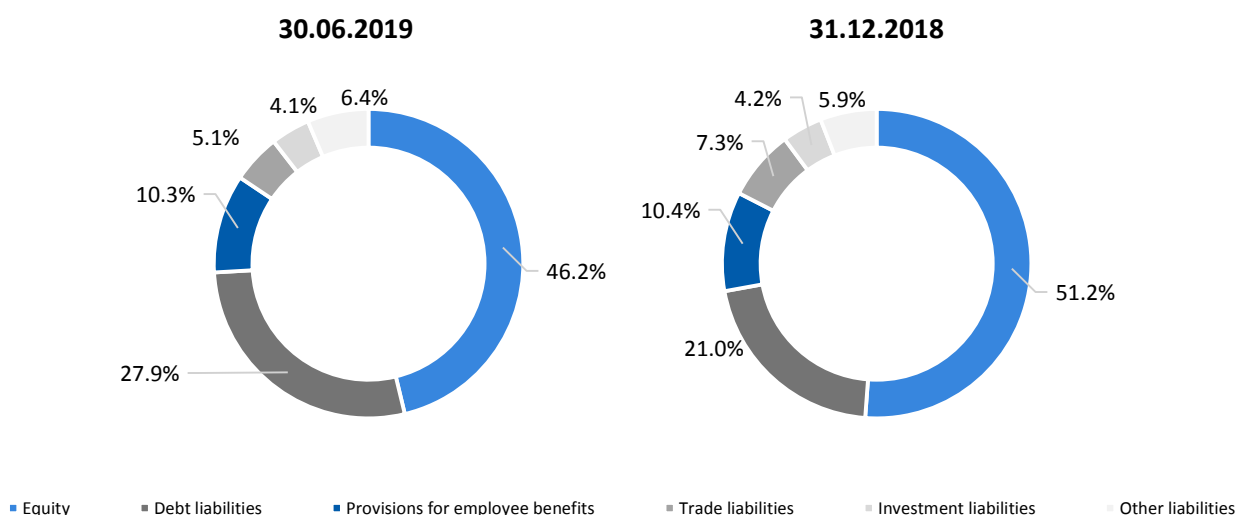
The following is the explanation of the most significant changes affecting the value of assets as at 30 June 2019 as compared to 31 December 2018:

- The increase in the value of rolling stock by PLN 110.5 million was associated with incurring capital expenditures on rolling stock (predominantly periodic repairs of P4 and P5 rolling stock, periodic inspections of P3 rolling stock and modernization of locomotives). Total capital expenditure on rolling stock reached PLN 529.0 million. Depreciation of rolling stock during 6M 2019 was PLN 239.0 million. Details on movements pertaining to rolling stock resulting from the implementation of IFRS 16 are described in [Note 5.1. to the CFS](#);
- The decrease in the value of other property, plant and equipment by PLN 92.8 million resulted predominantly from the implementation of IFRS 16 (the presentation change described above) and depreciation of other property, plant and equipment in the first 6 months of 2019 in the amount of PLN 45.0 million. Details on movements pertaining to other property, plant and equipment resulting from the implementation of IFRS 16 are described in [Note 5.1. to the CFS](#);
- The 'right-of-use assets' line item of PLN 969.1 million as at 30 June 2019 was a result of the application of IFRS 16 as of 1 January 2019. Details on movements pertaining to right-of-use assets resulting from the implementation of IFRS 16 are described in [Note 5.2. to the CFS](#);
- The decrease in cash and cash equivalents and deposits over 3 months by PLN 321.4 million was mainly attributable to expenditures on the purchase of non-financial non-current assets and loan liabilities;
- The increase in the value of other assets by PLN 27.1 million resulted from an increase in income tax receivables by PLN 18.7 million, advances for the purchase of non-financial non-current assets by PLN 14.5 million, Company Social Benefits Fund costs settled over time by PLN 9.6 million and travel benefits by PLN 7.9 million, with a simultaneous decrease in the value of VAT settlements by PLN 24.7 million.

## EQUITY AND LIABILITIES

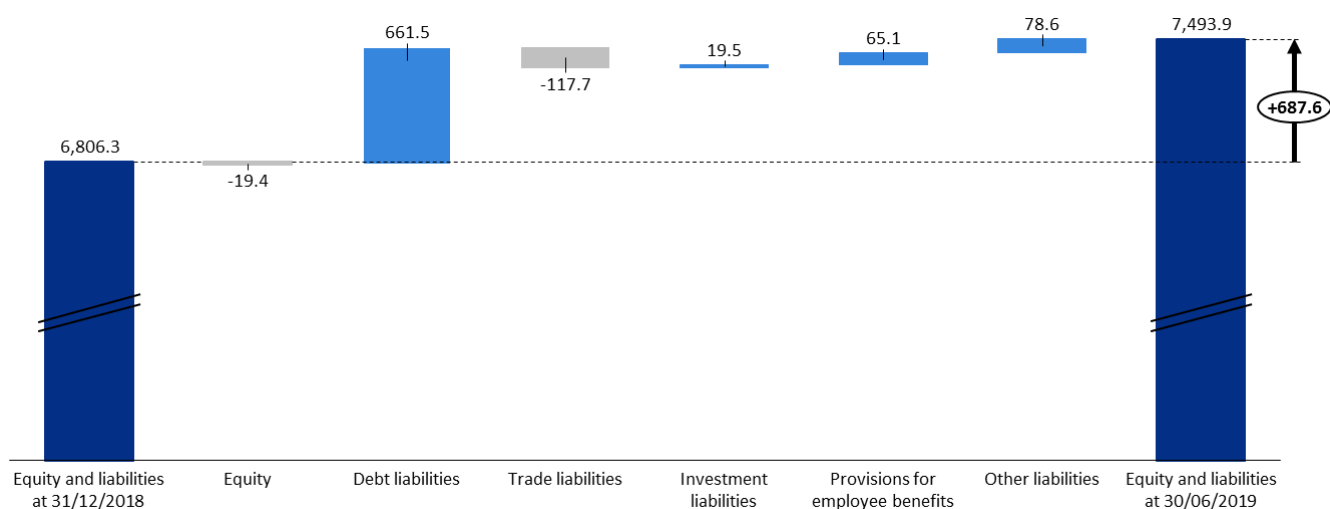
The largest share in the structure of the Group's equity and liabilities as at 30 June 2019 was attributable to equity, which accounted for 46.2% of the sum of equity and liabilities, compared to 51.2% as at 31 December 2018. Debt liabilities accounted for 27.9% of total equity and liabilities, compared to 21.0% as at 31 December 2018, which is related to the introduction of IFRS 16 as of 1 January 2019.

Figure 21 Structure of the Group's equity and liabilities as at 30 June 2019 and 31 December 2018



Source: Proprietary material

Figure 22 Movement in the Group's equity and liabilities in the first 6 months of 2019 (in PLN million)



Source: Proprietary material

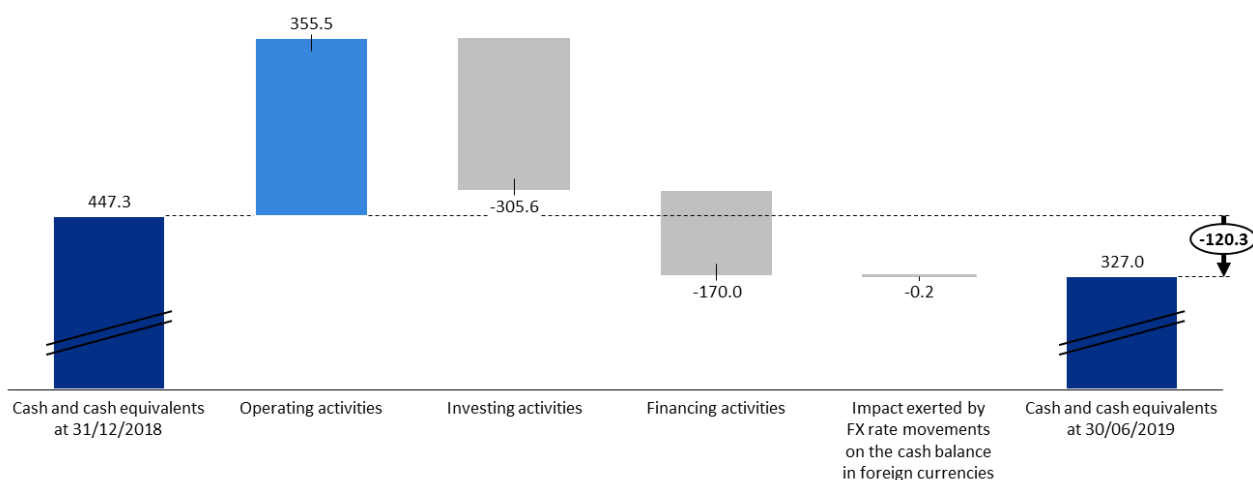
The following is the explanation of the most significant changes affecting the value of capital and liabilities assets as at 30 June 2019 as compared to 31 December 2018:

- The decrease in equity resulted chiefly from a resolution of the Parent Company's Ordinary Shareholder Meeting regarding the disbursement of a dividend for 2018 in the amount of PLN 67.2 million, along with the achievement of a positive financial result for the first 6 months of 2019 in the amount of PLN 47.9 million;
- The increase in the value of debt liabilities by PLN 661.5 million resulted chiefly from the implementation IFRS 16 as of 1 January 2019 along with the repayment of bank loans, borrowings and leases in the amount of PLN 185.6 million. Details on movements resulting from the implementation of IFRS 16 are described in [Note 1.3. to the CFS](#);
- The decrease in trade liabilities by PLN 117.7 million was caused mainly by a fall in the value of operating expenses. The estimation of the effect of compensation for the increase in electricity prices also had a significant impact on the reduced trade liabilities. As a result of the related adjustment, the Parent Company's trade liabilities decreased by PLN 36.2 million. Details on the compensation for higher electricity prices are presented in [Note 1.5. to the CFS](#);
- The increase in capital expenditure liabilities by PLN 19.5 million resulted from an increase in liabilities related to rolling stock by PLN 61.6 million with a simultaneous decrease in liabilities related to the purchase and modernization of real properties by PLN 17.0 million and other capital expenditure liabilities by PLN 25.1 million;
- The increase in provisions for employee benefits by PLN 65.1 million was chiefly the result of an update in actuarial provisions as a result of changes in the provision calculation parameters (decrease in the discount rate from 3.0% to 2.7%, increase in wage rates underlying the calculation of provisions and increase in headcount) and an increase in the value of the provision for unused vacation time;
- The increase in other liabilities was caused mainly by the disbursement of a dividend for 2018 in the amount of PLN 67.2 million.

### Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 30 June 2019 decreased by PLN 120.3 million compared to 31 December 2018.

Figure 23 Cash flows of the PKP CARGO Group in the first 6 months of 2019 (in PLN million)



Source: Proprietary material

- Net cash flow from operating activities were generated on the result before tax of PLN 68.0 million and depreciation and impairment losses of PLN 348.2 million. Moreover, the largest change contributing to the decrease in cash flows from operating activities was an increase in the value of working capital by PLN 49.6 million. Another factor influencing the cash flow from operating activities is income tax, paid in the amount of PLN 23.6 million.
- The negative cash flows from investing activities directly affected capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 522.7 million. A positive effect on the value of cash flows from investing activities was exerted by the PLN 200.0 million termination of bank deposits with a maturity of over 3 months.
- In the first 6 months of 2019, cash flow from financing activities resulted chiefly from the repayment of loans and borrowings, lease expenditures and interest payments on finance leases of PLN 212.2 million. A positive contribution to the value of cash flows from financial activities was provided by subsidies to rolling stock in the amount of PLN 45.5 million.



### 5.3.3 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 6M 2019 compared to the corresponding period of the previous year.

**Table 17 Key financial and operating ratios of the PKP CARGO Group in 6M 2019 as compared to the corresponding period of 2018<sup>127</sup>**

| Item   | 6 months of<br>2019 | 6 months of<br>2018* | Change      | % change     |
|--|---------------------|----------------------|-------------|--------------|
|  |                     |                      | 2019 - 2018 | 2019/2018    |
| EBITDA margin <sup>1</sup>   | 18.4%               | 16.8%                | 1.6 p.p.    | 9.5%         |
| Net profit margin <sup>2</sup>   | 2.0%                | 3.6%                 | -1.6 p.p.   | -45.2%       |
| Net financial debt to EBITDA ratio <sup>3</sup>  | 1.5                 | 1.2                  | 0.3         | 32.0%        |
| <i>Net financial debt to EBITDA ratio adjusted for the impact of IFRS 16<sup>3</sup></i> | <i>1.1</i>          | <i>1.2</i>           | <i>-0.1</i> | <i>-5.0%</i> |
| ROA <sup>4</sup>   | 1.9%                | 2.3%                 | -0.4 p.p.   | -17.3%       |
| ROE <sup>5</sup>   | 4.1%                | 4.5%                 | -0.4 p.p.   | -8.4%        |
| Average distance covered per locomotive (km/day) <sup>6</sup>                            | 227.9               | 250.8                | -22.9       | -9.1%        |
| Average gross train tonnage per operating locomotive (tons) <sup>7</sup>                 | 1,448.0             | 1,455.0              | -7.0        | -0.5%        |
| Average running time of train locomotives (hours per day) <sup>8</sup>                   | 14.8                | 15.7                 | -0.9        | -5.7%        |
| Freight turnover per employee (thousands tkm/employee) <sup>9</sup>                      | 579.6               | 659.3                | -79.7       | -12.1%       |

Source: Proprietary material

\* restatement of data is described in detail in [Note 1.4 to the CFS](#)

To assess the performance of the PKP CARGO Group, the following basic financial indicators may be applied: EBITDA margin, net profit margin, ROA, ROE, net financial debt to EBITDA ratio (for comparison purposes, the net financial debt to EBITDA ratio is adjusted for the impact of IFRS 16), and the following basic operational indicators: average daily mileage, average daily running time of locomotives, average train weight per locomotive and freight turnover per employee, which reflect the freight volume and the degree of utilization of traction vehicles.

At the stage of preparation of its prospectus, the PKP CARGO Group came to the conclusion that these indicators will reflect to the fullest possible extent the nature of the Group's operations, ensure a sufficiently long period enabling the comparison of data and permit the assessment of key performance parameters. Among the selected indicators, strong emphasis has been put on those that pertain to profitability and operational efficiency and enable the assessment of changes in profitability and

<sup>127</sup> 1. Calculated as the ratio of the operating result plus amortization/depreciation and impairment losses to total operating revenue.

2. Calculated as the ratio of net profit to total operating revenue.

3. Net financial debt to EBITDA ratio calculated as the ratio of net financial debt (constituting the sum of (i) non-current debt liabilities, (ii) current debt liabilities, minus (i) cash and cash equivalents, (ii) deposits with a maturity above 3 months and projected EBITDA for 2019 (the result on operating activities plus amortization/depreciation and impairment losses). Adjusted for the impact of IFRS 16, the ratio of net financial debt to EBITDA was calculated based on the above definition, taking into account the elimination of both the profit and loss account items and balance sheet items affected by IFRS 16. Additionally, EBITDA was presented for the last 12 months. Details on the calculation of the net financial debt to EBITDA ratios are presented in [Note 4.1 to the CFS](#).

4. Calculated as the ratio of net profit/loss for the last 12 months to total assets.

5. Calculated as the ratio of net profit for the last 12 months to equity.

6. Calculated as the ratio of vehicle-kilometers (i.e. distance covered by PKP CARGO Group's vehicles in the given period) to vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period).

7. Calculated as the ratio of gross ton-kilometers and train-kilometers in train work to the locomotives driving the train (in dual traction or pushing the train in the given period).

8. Calculated as the ratio of vehicle-hours (i.e. number of hours of work of PKP CARGO 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).

9. Calculated as the ratio of the Group's freight turnover to the average headcount (in FTEs) in the Group in the given period.

the use of rolling stock on various levels. Furthermore, one of the most important solvency ratios has been presented, which is also an indicator that is commonly used by banks (as a banking covenant in loan agreements).

- The key profitability ratios, namely the net profit/loss margin, ROA and ROE, were lower on a yoy basis due to poorer financial performance, as described in section [5.3.2 Analysis of selected financial highlights of the PKP CARGO Group](#). An improvement was recorded in the EBITDA margin as a result of the implementation of IFRS 16 since 1 January 2019. Adjusting this figure for the impact of the newly introduced standard, the EBITDA margin also deteriorated. The net financial debt to EBITDA ratio adjusted for the impact of IFRS 16 improved as a result of an increase in EBITDA;
- The deterioration of the average daily mileage of locomotives, the average gross tonnage of trains and the average daily operating time of locomotives was caused by a decrease in freight volumes and commercial speed (track closures and obstacles on the PKP PLK network);
- The decrease in the freight turnover per employee ratio was caused by a fall in freight turnover by 10.5% yoy coupled with an increase in the headcount by 1.8% yoy.



## 5.4 Factors that will affect financial performance in the next quarter



### Economic situation in Europe

- Freight turnover is strongly correlated not only with the rate of growth in GDP but also with periods of business cycle peaks and troughs and long-term fluctuations in various industrial sectors.
- At present, the entire cargo transport industry (including cargo transport by rail) is also affected by relations with business partners.



### Situation on the energy fuel market

- 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 transportation market

- The decrease in the freight volumes of aggregates, coal, ores and metal products was caused by the suspension of or delay in certain some large infrastructural investments, considerable inventories of coal, overhauls of certain power units and a slowdown in steel output. Acceleration of works at road and rail construction sites is expected. The power sector will also have to replenish its coal inventories. The volume of transportation services that will be ordered by clients from the metal sector remains unknown.



### Situation on the intermodal transport market

- Handling of transports over the New Silk Road line.
- Increase in the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia.



### Condition of rail infrastructure

- The railway network used in Poland is of low quality.
- Hindrances and the necessity to route railway traffic using detours.
- Railway track closures recently had and will continue to have in the coming years a direct negative impact on the throughput of the lines and stations used.



### Rail infrastructure access charges

- In H1 2019, they represented approx. 12.3% of the PKP CARGO Group's operating expenses.
- As regards domestic and foreign infrastructure, no significant changes are expected to take place in the coming quarter.



### Energy price levels

- The Parent Company and the Group companies are exposed to significant fluctuations in energy prices.



#### Technical regulations related to rolling stock

- The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity.
- In light of the aging nature of the available rolling stock and the limited capacities of repair plants, the future may bring a temporary misalignment between the quantities and types of the available rolling stock and the actual needs of the transportation market.



#### Restructuring of OKD a.s.

- The approved restructuring plan of OKD Nástupnická a.s. remains in effect, although an extension of the mining phase-out period can be expected. The Lazy mine is expected to be shut down at the end of 2019.
- In accordance with the restructuring plan, all coal mining operations by OKD Nástupnická a.s. should be gradually phased out by 2024. However, coal mining operations in OKD's mines are to be extended until as late as 2030, as was announced publicly by the Czech prime minister.



#### Scrap price level

- The scrap market is unstable and it is difficult to predict how the prices will behave in the coming quarters.
- In Q2 2019, scrap prices decreased. In Q3, prices are likely to remain at their current levels due to the summer holiday period – for scrap recipients and steel mills, this is a period of technological breaks.
- Scrap prices translate directly into revenues from decommissioning of rolling stock by the Group.



#### Risk of changes to legal regulations

- Regulation on access to service facilities and rail-related services.
- Noise TSI.
- EU Emissions Trading Scheme (EU ETS).
- Amendment to the Rail Transport Act.
- Changes in the rules of train driver training programs and licenses.



#### Capital expenditure financing

- The Group will finance capital expenditures using partly external financing sources, such as investment loans or other forms of financing and also using its own funds.
- On 14 May 2019, the Company and Bank Polska Kasa Opieki S.A. entered into an investment loan agreement for the maximum total amount of PLN 250 million (WIBOR 1M + margin). On 20 May 2019, the Company and Bank Gospodarstwa Krajowego entered into an investment loan agreement for the maximum total amount of 250 million (WIBOR 1M + margin). The loans are available until 31 Dec 2019.



#### Foreign exchange rates

- The Parent Company and the Group companies are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies.



#### Social dialog

- The social dialog in PKP CARGO S.A. is based on the principles contemplated in the generally binding laws, the Company Collective Bargaining Agreement and the agreements defining the mutual obligations of the parties to the social dialog.
- The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's competitiveness and efficiency.



#### Internal employee compensation regulations

- On 19 June 2019, a memorandum of agreement was entered into between the Parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units, under which wage increases will be implemented on 1 August 2019. The Company has estimated that the cost of the increase till the end of 2019 will amount to approx. PLN 45 million.



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

As at the date of publication of the Interim Condensed Consolidated Financial Statements, the Parent Company's Management Board upholds its EBITDA forecast for the PKP CARGO Group published on 20 March 2019.

## 5.6 Information about production assets

### 5.6.1 Rolling stock

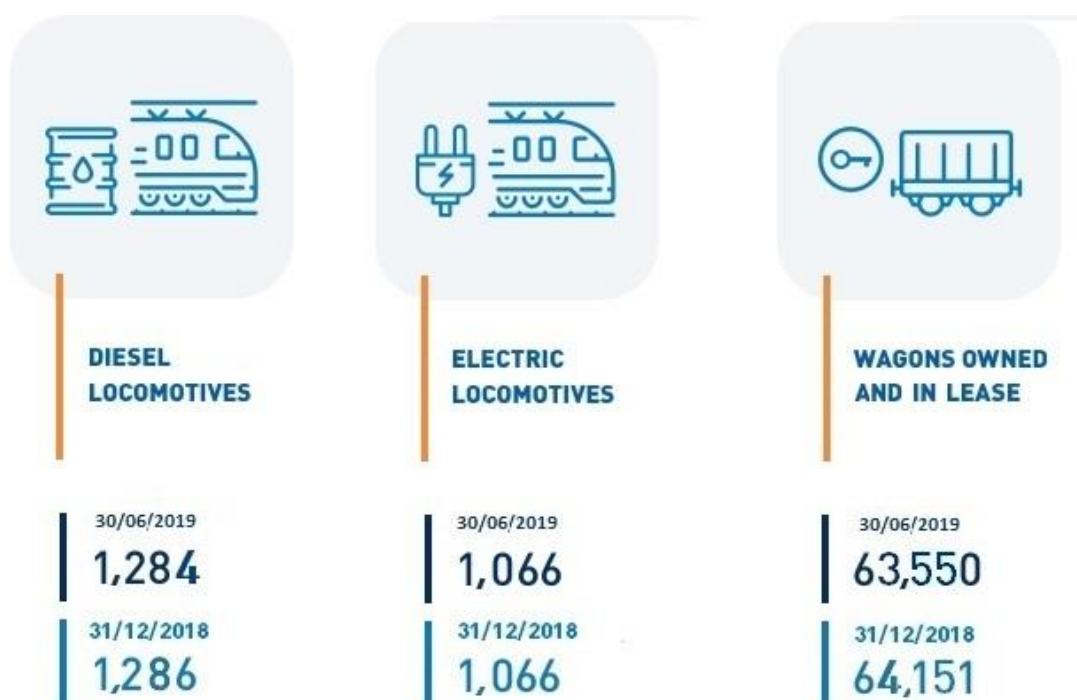
PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the 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 subassemblies 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 6M 2019, 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 24 Structure of rolling stock used by the PKP CARGO Group as at 30 June 2019 and 31 December 2018\*



\* In connection with the entry into force of IFRS 16, the manner of presentation of the number of wagons has changed: the number of wagons owned and leased is presented on a combined basis

### 5.6.2 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 6 months of 2019.

**Table 18 Real estate owned and used by PKP CARGO Group as at 30 June 2019 as compared to 31 December 2018**

| Item  | 30.06.2019 | 31.12.2018 | Change<br>2019-2018 |
|---|------------|------------|---------------------|
| Land - owned, in perpetual usufruct and leased from other entities [ha] | 1,460      | 1,479      | -19                 |
| Buildings - owned, leased and rented from other entities [sqm]          | 731,015    | 738,392    | -7,377              |

*Source: Proprietary material*

The decrease 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.





## 6. Other key information and events

### 6.1 Proceedings pending before courts, arbitration bodies or public administration authorities

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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](#)).

### 6.2 Information on transactions with related parties

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In H1 2019, no entity from the PKP CARGO Group entered into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

Detailed information on transactions with related parties is presented in [Note 7.1 to the CFS](#).

### 6.3 Information on granted guarantees and sureties of loans or credits

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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.

### 6.4 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

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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 Management Board Report on the Activity of the PKP CARGO Group has been prepared by the PKP CARGO S.A.  
Management Board.

#### Company's Management Board

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Czesław Warsewicz  
President of the Management Board

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Leszek Borowiec  
Management Board Member

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Grzegorz Fingas  
Management Board Member

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Witold Bawor  
Management Board Member

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Zenon Kozendra  
Management Board Member

Warsaw, 21 August 2019



**For more information on PKP CARGO please contact  
Development, Investor Relations & Marketing Department**

**PKP CARGO S.A.**

Development, Investor Relations & Marketing Department  
Grójecka 17  
02-021 Warsaw

Tel.: +48 22 391-47-09

Fax: +48 22 474-29-53

e-mail: [relacje.inwestorskie@pkp-cargo.eu](mailto:relacje.inwestorskie@pkp-cargo.eu)